

# Cheshire Fire and Rescue Authority Governance Report

Cheshire Fire and Rescue Authority

Audit 2008/09

September 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	5
Financial statements free from material error	No	5
Adequate internal control environment	Yes	6
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Arrangements to secure value for money	Yes	9

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## Audit opinion

- 1 My audit is substantially complete. There is an outstanding issue relating to the treatment of the pension costs which affects all Fire and Rescue Authorities. I cannot issue my opinion until this issue has been resolved. Once it has been resolved, and I have completed the outstanding work, I expect to issue an unqualified opinion on the financial statements.

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## Financial statements

- 2 Last year I reported that the Authority had made improvements in its accounting practice and quality of working papers that lead to improved financial reporting supported. This trend has continued and working papers and audit trails have again improved.
- 3 I identified a number of material errors in the financial statements submitted for audit which have all now been corrected. The majority of these related to disclosure and presentation of transactions and balances and had no impact on the reported deficit on the Income and Expenditure Account or net asset position. However, one error affecting a notional entry of £194,000 increased the reported deficit on the Income and Expenditure Account. There was no overall impact on the general fund balance because such charges are reversed out.
- 4 I have identified a small number of transactions and balances where accounting practice can be further improved.

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## Value for Money

- 5 I have reviewed how the Authority is managing and using its resources and determined that the Authority has adequate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

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## Next steps

- 6 This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. Consequently I ask the Authority to:
- consider the matters raised in the report before approving the financial statements (pages 5 to 7);
  - take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - I have identified one error that has not been amended which I require you to consider. The reasons for not amending are to be included in the letter of representation, (Appendix 3);
  - take note of the VFM Conclusion; and
  - approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 4).
- 7 Subject to the satisfactory resolution of the pensions issue as well as a final check of the revised financial statements, I plan to issue an unqualified opinion on the financial statements. Should any further matters arise in concluding the outstanding work I will discuss them with the Treasurer and the Chair of the Authority. Where necessary I will report them to a future meeting of the Policy Committee. Appendix 1 contains a copy of my draft audit report.

# Financial statements

**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 8** The Department for Communities and Local Government is yet to conclude on the application of a statutory override that permits the pension charges under FRS17 to be excluded from the charges to general fund. I cannot issue my opinion until this issue has been resolved.
- 

## Errors in the financial statements

- 9** During the course of my audit I identified a number of errors in the financial statements that were clearly not trivial in nature; these are listed in Appendices 2 and 3. Only one error has an impact on the reported deficit on the Income and Expenditure Account and that arose from a transposition error when updating asset values. The effect was to overstate the revaluation gain and the impairment charge on property assets (both notional entries) by £194,000. This error does not impact on the General Fund balance because these entries are reversed out under statutory and proper practices.
- 10** All other errors relate to the disclosure of transactions and balances; three were material but again had no overall impact on the reported deficit in the Income and Expenditure Account or the net worth of the Authority. These were:
- miss-classification of bank balances and creditors within the balance sheet £788,000;
  - miss-classification of specific grants within the Income and Expenditure Account £602,000; and
  - miss-classification of current year pension costs and employer contributions within the Income and Expenditure Account £4,257,000.
- 11** There were two further non material errors:
- incorrect notional entry on the revaluation reserve £26,000; and
  - netting of debit balances within the creditors ledger £88,000.
- 12** These errors have been corrected by officers in order to ensure that income and expenditure and assets and liabilities are properly reflected in the financial statements.
- 13** Within the Cash Flow Statement the figure for net cash flow from revenue activities was reconciled to the net movement on the general fund balance rather than the deficit for the year on the Income and Expenditure Account.
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14 I also identified one minor error that has not been corrected and this is shown in Appendix 3.

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**Internal Control**

15 I have reviewed the Authority’s system of internal control and found no material weaknesses. I reviewed the internal audit provision against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code) I have concluded that the Authority’s internal audit provision is compliant with the standards set out in the Code. A full report on the internal audit work will be presented to the Policy Committee in November.

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**Key areas of judgement and audit risk**

16 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

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**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Change in payroll provider: uncertainty about effectiveness of a new arrangement.	We have carried out substantive testing of a sample of pay records, no significant errors were found.
Revaluation of fixed assets; uncertainty about impact of the significant movements in property values.	We have reviewed the reports provided by the Authority’s appointed valuer and confirmed that except for the error noted above, the results of the valuation exercise have been properly reflected in the financial statements.
FRAML; uncertainty surrounding the legal status of FRAML.	The Authority has made a full disclosure of the amount of potential loss arising from the capital guarantee provided by the Authority to FRAML.
Pensions commutation payment; uncertainty about accounting treatment for an unusual transaction.	The Authority has correctly included the commutation payment in the pension fund account and in the pension fund net assets statement.

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### Accounting practice and financial reporting

17 I consider the qualitative aspects of your financial reporting and accounting practice. There are a number of specific items that I wish to bring to your attention.

#### Nil book value assets

- Issue: The asset register contains a number of items within plant and equipment that are being carried at nil book value. For number of these it is unlikely that the assets still exist or are useable, for example "P.C.s acquired in '97".
- Impact: Potential for loss of control of assets, ineffective or inefficient replacement programme.
- Mitigating action: A new asset tracking system is being procured and henceforward the Authority will be conducting a quarterly verification exercise.

#### Software assets in asset register

- Issue: A review of the asset records identified a number of entries that look like computer software.
- Impact: Where material, such assets should be disclosed in the separate category of Intangible Fixed Assets.
- Mitigating action: This should be considered along with the introduction of the new asset tracking system.

#### Variations to building contracts

- Issue: My review of fixed asset additions identified two cases where building projects were varied between the start and completion. In one case the variation amounted to £40k on a contract with an original contract for £98k. We found no evidence of breach of procurement rules.
- Impact: Major variations may cause the Authority to unintentionally breach its procurement rules.

#### Cut off procedures:

- Issue: My review identified a small number of transactions that were effectively accounted for in the wrong period; these were not of significant value and arose as a result of late information.
- Impact: There is a risk that a material transaction is omitted.

#### Further refinement of overhead allocation under BVACOP

- Issue: Overheads are allocated to the Service headings in proportion to the number of staff falling under that heading.
- Impact: Service costs for premises and capital charges can be allocated on a more specific basis.

### Balance Sheet valuation of the Head Quarters Building

- I note that the Winsford Head Quarters has been included in the accounts at its valuation at the 31 March 2009 and that a small section was subsequently demolished as part of the refurbishment programme. I am satisfied that the value of the building included in your financial statements is reasonable.

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### Letter of representation

- 18** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

# Use of resources

**I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.**

**I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion**

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## Use of resources judgements

- 19** In forming my scored use of resources judgements, I use the methodology set out in the [use of resources framework](#). Judgements are made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 20** I also take into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21** I will share the use of resources theme scores with officers in mid September. I expect to present my full report in this area to the Policy Committee in November.

## Value of Money Conclusion

- 22** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. The alignment of the KLOE scoring and VFM criteria enables an unqualified conclusion to be given where a score of at least level 2 has been achieved across all Use of Resources KLOE.
- 23** I have completed my use of resources work. I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report. Further details of my assessment will be included in my report to the November Policy Committee.

# Appendix 1 – Independent auditor’s report to Members of Cheshire Fire and Rescue Authority

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## Independent auditor’s report to the Members of Cheshire Fire and Rescue Authority

### **Opinion on the financial statements**

I have audited the accounting statements, the firefighters’ pension fund accounting statements and related notes of Cheshire Fire and Rescue Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account and the Net Assets Statement. The financial statements and firefighters’ pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Cheshire Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### ***Respective responsibilities of the Treasurer and auditor***

The Treasurer’s responsibilities for preparing the financial statements, including the firefighters’ pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

## Appendix 1 – Independent auditor’s report to Members of Cheshire Fire and Rescue Authority

I report to you my opinion as to whether the accounting statements, the firefighters’ pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its firefighters’ pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement 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, the firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the firefighters’ pension fund accounting statements and related notes. 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, the firefighters’ pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

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### ***Basis of audit opinion***

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission 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, the firefighters’ pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the firefighters’ pension fund accounting statements and related notes, 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, the firefighters’ pension fund accounting statements and related notes 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, the firefighters’ pension fund accounting statements and related notes.

## **Opinion**

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters’ pension fund during the year ended 31 March 2009 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### ***Authority’s Responsibilities***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### ***Auditor’s Responsibilities***

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for fire and rescue authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Cheshire Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

## Appendix 1 – Independent auditor’s report to Members of Cheshire Fire and Rescue Authority

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench  
(Officer of the Audit Commission)

First Floor Block 4 The Heath Technical and Business Park

The Heath

Runcorn WA7 4QF

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
to correct mis-posting of notional entry	revaluation reserve			26	
to correct mis-posting of notional entry	capital adjustment account				26
to correct transposition error in asset revaluations	revaluation reserve			194	
to correct transposition error in asset revaluations	impairments and depreciation		194		
to reverse out entries required by statute	Income and expenditure account	194			
to reverse out entries required by statute	Statement of movement on general fund		194		

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
to show properly effect of debit balance within the creditors ledger	debtors			88	
to show properly effect of debit balance within the creditors ledger	creditors				88
to show properly the year end position	bank balance			788	
to show properly the year end position	creditors				788
to show properly income from specific government grants	General Government Grants	602			
to show properly income from specific government grants	Service Income		602		
to show current pension costs at service level	non distributed costs	4,257			
	Service expenditure		4,257		

In addition to the above, within the Cash Flow Statement, the figure for Net cash flow from revenue activities was reconciled to the net movement on the general fund balance rather than the deficit for the year on the Income and Expenditure Account, as a consequence the cash flow statement has been re-drafted.

# Appendix 3 – Unadjusted misstatement in the accounts

The following misstatement was identified during the course of my audit and the financial statements have not been adjusted by Officers. I bring it to your attention to assist you in fulfilling your governance responsibilities. If you decide not to change the financial statements, please tell us why in the letter of representation. If you believe the effect of the uncorrected error is immaterial, please reflect this in the letter of representation. Please attach a schedule specifying the uncorrected error to the letter of representation.

**Table 3**

Description of error	Accounts effected	Value of error
Items relating to 2007/08 accounted for in 2008/09	Service expenditure	£18,000

# Appendix 4 – Draft letter of representation

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To: Judith Tench  
Appointed Auditor  
First Floor  
Block 4  
The Heath Technical and Business Park  
The Heath  
Runcorn  
WA7 4QF

## **Cheshire Fire and Rescue Authority Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Cheshire Fire and Rescue Authority the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2009.

### ***Compliance with the statutory authorities***

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

### ***Uncorrected misstatements***

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are as follows.

- Individually and collectively they are not material to the financial statements.
- Correcting the misstatements would not help improve a reader's understanding of the financial statements.

***Supporting records***

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

***Irregularities***

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

***Law, regulations, contractual arrangements and codes of practice***

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

## Appendix 4 – Draft letter of representation

### ***Fair Values***

I confirm the reasonableness of the significant assumptions within the financial statements. For financial liabilities assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### ***Assets***

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### ***Compensating arrangements***

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 18 to the financial statements we have no other lines of credit arrangements.

### ***Contingent liabilities***

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than those already disclosed in the financial statements.

### ***Related party transactions***

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

***Post balance sheet events***

Since the date of approval of the financial statements by Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

***Specific representation:***

- The Head Quarters Building has been included in the Accounts at its valuation as at 31 March. Before finalising the valuation full consideration was given to the effect of on-going building works at the Head Quarters and the subsequent demolition of parts of the building.

Signed on behalf of Cheshire Fire and Rescue

I confirm that the this letter has been discussed and agreed by the Authority on 16 September 2009

Signed

Darren Griffiths

Treasurer

## Appendix 4 – Draft letter of representation

### Schedule of unadjusted errors

Items of expenditure relating to 2007/08 accounted for in 2008/09 £18,000

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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