

Annual governance report

Hampshire Fire and Rescue Authority

Audit 2010/11



Contents

Key messages	3
Audit opinion and financial statements	3
Value for money	3
Before I complete my audit	4
Financial statements	5
Opinion on the financial statements	5
Errors in the financial statements	5
Value for money	8
Appendix 1 – Draft audit report	10
Appendix 2 – Amendments to the draft financial statements	13
Appendix 3 – Glossary	14

Key messages

This report summarises the findings from the 2010/11 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 your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

The Authority prepared a good set of financial statements supported by comprehensive working papers. Our audit work has not identified any material errors. Some presentational issues were noted during our testing and these have been agreed with management and adjusted. I plan to issue an audit report including an unqualified opinion on the financial statements.

Value for money

I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources:

- there are proper arrangements in place to secure financial resilience
- there are effective arrangements for challenging value for money and prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Fire Authority during 2010/11.

I ask you to confirm to me

I ask the governance committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report, on behalf of the Fire Authority before I issue my opinion and conclusion;
-

Financial statements

The Authority prepared a good set of financial statements supported by comprehensive working papers. Our audit work has not identified any material errors.

Opinion on the financial statements

Our work is now substantially complete and I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

There are no unadjusted errors in the financial statements.

There were two areas where material adjustments have been made to the draft statements. These related to the presentation of pensions past service cost adjustments and the transfer of new dimensions assets as set out in appendix 2. These reasoning for these adjustments was as follows:

- **Pensions past service cost:** Relates to the Government's announcement that the basis for calculating future pension liabilities would change with effect from 1 April 2011 to using the Consumer Price Index (CPI) to up-rate pensions rather than the retail price index RPI. This has been recognised as a past service gain. Initially the past service gain was included within the non-distributed costs line of the Comprehensive Income and Expenditure Statement (CIES), however, in our view, in line with the requirements of IAS8 this exceptional and material item should be disclosed separately on the face of the CIES as it is relevant to an understanding of financial performance.
- **New Dimensions Assets:** Title to these assets is being transferred from CLG to the FRA at nil cost. In line with CLG accounting guidance issued in June 2011 the draft financial statements were prepared accounting for the transfer as a machinery of government change. This view effectively considers the change in legal title to be a transfer of a function. However, subsequent advice from the Audit Commission in August 2011 challenged this view as the FRA has not gained any new functions; and were already using these assets to carry out their responsibilities before the transfer of legal title. In line with the IFRS Code assets transferred at nil value should be recognised as donated assets at fair value.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Fire Authority accounts for its stewardship of public funds. As Fire 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.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. IFRS IFRS restatements - the change to IFRS is complicated and there are significant risks of material misstatement in the financial statements if errors occur.	We worked with your staff throughout the process to consider emerging IFRS issues and carried out early substantive testing of restated balances. We concluded that the restatement of the prior period financial statements to IFRS basis has been actioned correctly and adjustments are in line with the IFRS Code and adequately supported.
2. Service Analysis Analysis of Service Expenditure. The ledger is maintained on a subjective analysis basis whereas the accounts classify expenditure on a service basis.	Our work on testing general ledger controls covered coding and classification of transactions to support the service analysis required for the accounts. No issues of concern were noted.

Financial statements

Quality of your financial statements

The financial statements were presented for audit, supported by a comprehensive set of workings by the required deadline. This was the first year of presentation of the financial statements under IFRS. This required a significant change to the number and nature of the notes. The draft statements were found to be comprehensive and in compliance with guidance in CIPFA's IFRS based code of practice.

Audit work completed to date has not identified any material errors, significant weaknesses in internal control, accounting practice or financial reporting issues that need to be brought to the attention of those charged with governance under ISA260. Some presentational issues were noted during our testing and these have been agreed with management and have been adjusted. Non trivial adjustments are shown in the appendix 2 to this report.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are no matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have enclosed a draft letter with this report for guidance.

Value for money

I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Fire Authority:</p> <ul style="list-style-type: none">• has a strong track record of sound financial management;• has established a Financial Challenge Programme Board to oversee the response to the current economic climate and expected grant reductions;• has engaged with members, staff and other stakeholders on the financial challenges it faces;• has re-visited its medium term financial plans and scenarios accordingly;• has increased general fund and earmarked reserve balances to ensure there are funds to meet unexpected costs and deliver key priorities;• is exploring opportunities for greater partnership working and shared services

Criterion	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Fire Authority:</p> <ul style="list-style-type: none"> • has clearly set out and consulted upon the prioritisation of services within tighter budgets in the coming years to achieve more targeted services at lower cost; • has recognised that difficult decisions about priorities and services still lie ahead and has established a grant reduction reserve to facilitate schemes for future savings; • has reviewed strategic priorities and the cost-effectiveness of activities. It is adopting a strategic approach to identifying cost reductions and challenging spending and investment decisions; • has overall costs which compare well with others. For example, expenditure per head of population was £37.25 in 2009/10 compared to the combined fire average of £41.53; • is working with other fire authorities and the Chief Fire Officers' Association to ensure benchmarking information is available for the future following abolition of national indicators; • has a strong history of developing innovative solutions (e.g. insurance procurement consortium and efficient and flexible crewing projects) which are delivering significant savings. It is also a leading partner looking at options for developing a networked control systems with neighbouring FRAs in response to the abolition of Regional Control Centres; • A staff review process started in October 2010 to identify options to realise efficiencies and streamline work within all directorates. This has been linked to corporate and medium term financial planning and identified efficiency savings in the order of £2.5M (15%) that can be secured from reduced staffing over the period 2011/12 to 2014/15.

Although the Authority has already identified significant savings and increased reserves to act as a buffer in the tightening financial situation it recognises that the lead-in time to secure efficiency savings is a potential risk to financial resilience in the coming years. Financial planning continues to assume a worst case reduction of 12.5% in both 2013/2014 and 2014/2015, meaning further savings in region of £7 million from across the service will be needed.

In response, work has been undertaken to identify and agree further efficiencies in 2011/12 to get an early start and reduce the risks associated with the timing required for savings to be delivered. Eight further efficiency Proposals developed from ideas put forward from Project Engage were agreed in May 2011 to achieve another £2.5million of savings.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE FIRE AND RESCUE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the firefighters' pension fund accounting statements of Hampshire Fire and Rescue Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The fire-fighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hampshire 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the fire-fighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Hampshire Fire and Rescue Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the fire-fighters' pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Hampshire Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts, including the firefighters' pension fund accounting statements, of Hampshire Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kate Handy; District Auditor

Audit Commission; Collins House; Bishopstoke Road; Eastleigh; Hampshire SO50 6AD

24 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Non Distributed Costs – pensions change from RPI to CPI	Separate disclosure of the impact on past service costs from the change to RPI from CPI in calculating pension liabilities.		60,950		
Non Distributed Costs - Other	Separate disclosure of pension adjustment.	60,950			
Capital Adjustment Accounts Unusable reserves	Correction of accounting treatment for New Dimension Assets transferred from CLG to that of a donated asset.			2,396	
Donated Asset Account Unusable reserves	As above. Note: this adjustment does not affect face of the balance sheet. Changes analysis of unusable reserves in the notes.				2,396

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the

addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

