

Annual governance report

Hampshire Fire & Rescue Authority

Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	4
Financial statements	5
Value for money	7
Fees	9
Appendix 1 – Draft independent auditor’s report	10
Opinion on the Authority and Pension Fund financial statements	10
Conclusion on Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources	12
Appendix 2 – Corrected errors and adjustments	14
Appendix 3 – Draft letter of management representation	15
Appendix 4 – Glossary	17

Key messages

This report summarises the findings from the 2011/12 audit, which is substantially complete. It includes messages arising from my audit of your financial statements and the results of my work on how you secure value for money in your use of resources.

Financial statements

As at 27 August we have substantially completed our work in support of our opinion on your financial statements.

Officers 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.

A draft of my audit report is attached at appendix 1.

Value for money (VFM)

I have concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources and I intend to issue an unqualified conclusion. I found that:

- 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 give my opinion and conclusion

My report includes only matters of governance interest which came to my attention during my audit. I have not designed my audit 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.

Auditing and ethical standards require me to report any relationships that might affect my independence and objectivity or those of my audit team. I am not aware of any.

The Audit Commission's Audit Practice has not undertaken any non-audit work during 2010/12.

I ask the Standards and Governance Committee to:

- note the adjustments to the financial statements (appendix 2);
- consider the letter of representation (appendix 3) for the Fire Authority before I issue my opinion and conclusion.

Financial statements

Your financial statements and annual governance statement are important to show how you account for your stewardship of public funds. As elected Members you have final responsibility for them. It is important for you to consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

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

Uncorrected errors

There are no material uncorrected errors in the financial statements

Corrected errors and agreed adjustments

We have agreed with officers one material amendment to the accounts to incorporate additional disclosure around contingent liabilities and contingent assets in respect of the Fire Fighters Pension Fund. This relates to complaints that have been made to the Pensions Ombudsman regarding the lack of a review by the Government Actuary of the FF Pension Scheme commutation factors between 1998 and 2006. There is currently no liability to pay higher commutation lump sums for members who retired in this period. It is conceivable that such a liability may emerge following any ruling from the Ombudsman and a need to apply revised commutation factors. As the Government funds the difference between the income and expenditure on the Fire Fighter Pension Fund account, an offsetting contingent asset is recorded for the income which would be receivable to cover any deficit.

A further 4 text amendments of a non-trivial nature were agreed and corrected for during the audit and these are listed at appendix 2

Significant risks and my findings

My March 2012 Audit Plan states I had identified no significant risks relevant to my audit of your financial statements.

Significant weaknesses in internal control

It is your responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their actual adequacy and effectiveness. My responsibility as your auditor is to consider whether you have adequate arrangements to satisfy yourselves that this is the case.

I have only tested your controls as far as necessary to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information I know about from my audit of the financial statements.

I have not identified any weaknesses in internal control during the course of my work that I need to bring to the attention of those charged with governance.

Other matters

I must communicate significant findings from the audit and other matters significant to your oversight of the financial reporting process. 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.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office (NAO) on your Whole of Government Accounts return. The NAO specifies both the extent of my review and the nature of my report. I have no matters to report.

Value for money

I must conclude whether you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. My March 2012 Audit Plan states I had identified no relevant significant risks. I have completed my work and I intend to issue an unqualified conclusion saying you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I include my draft conclusion in Appendix 1.

I assess your arrangements against the two criteria specified by the Commission. In my March 2012 Opinion Audit Plan I reported to you that I had not identified any significant risks that were relevant to my conclusion and that the scope of my work would be limited to updating my understanding of your arrangements in respect of the two specified criteria and reviewing your Annual Governance Statement.

I have set out my conclusions on the two criteria below:

Criteria 1 Financial Resilience

Predicted cuts of 25% in Government grant under the Comprehensive Spending Review 2010 period (CSR2010) from 2011/12 to 2014/15, back loaded to the final two years of the review period, mean the financial position for the Authority remains significantly constrained for the foreseeable future.

Financial governance is strong and the medium term financial plan (MTFP) sets out how savings can be managed over the CSR2010 period to achieve a balanced financial position. The Authority has established a Financial Challenge programme board which has oversight of the savings projects and maintains a medium term view of funding and spending. Risks to achieving the MTFP are regularly reported to Members along with current financial performance.

The MTFP has been modelled based on realistic assumptions and in line with the approved financial management strategy. Corporate planning processes are aligned with medium term financial plans and show a sound understanding of the links between financial and service planning.

Financial control is strong and a further significant under spend against the revised budget of £1.9m has been achieved in 2011/12. Savings achieved through recruitment freezes linked to the longer term objectives of the staff review, the efficient and flexible crewing project, and various efficiency measures have been added to reserves. These will be used to offset the transitional impact of grant reductions, facilitate the development of longer term savings and support future capital investment.

Joint working arrangements continue to develop. Work with the County Council and Police identified the opportunity to build on already strong strategic relationships, geographical synergies and a history of effective shared working. This is intended to help deliver service improvements, increase organisational resilience, reduce operating costs and develop wider community benefits.

The networked fire control project has received government grant to enable the partnership of four fire and rescue services to take advantage of the latest technology to improve resilience and management of operational information as well as to secure efficiencies in procurement and sharing of technical infrastructure.

Criteria 2 Economy; Efficiency and Effectiveness

There is a well developed risk intelligence unit and risk management strategy that ensures corporate priorities are based on an analysis of needs and risks. Performance standards are set and monitored regularly. Performance reporting is based on key performance indicators and performance management runs through all levels of the organisation. Benchmarking in performance reports demonstrates a cost effective and efficient service offering sound value for money to local taxpayers and savings targets have been achieved.

Overall costs compare well with others. For example, expenditure per head of population is in the lowest 30% of all Fire Authorities for 2010/11 at £36.02 compared to the fire average of £43.25 and demonstrates a further 3% reduction in year. While the FRA has seen a reducing trend in the number of accidental dwelling fires since 2009 and is in line with national norms, targets have not yet been achieved. There has also been an increase in the number of casualties from primary fires when compared to last year. Internal benchmarking shows the FRA are currently performing fifth out of the 18 fire and rescue services they compare with. These results have fed into planning proposals for the next service plan to refocus efforts to reduce accidental fires in the home through better targeting of resources to reduce the risk to those most vulnerable of having a fire in the home. Community Risk Intelligence is also working to determine whether there is any evidence to identify risk factors causing increases in fire related casualties.

There is a significant retained duty service in operation. This involves significantly more staff and stations in Hampshire in delivering services. Analysis indicates that this provides an efficient and effective use of resource to deliver corporate objectives.

Governance processes remain sound and fit for purpose and progress has been made against all key corporate objectives. Innovative solutions and partnerships continue to be developed to maintain high service quality while reducing costs in line with resource constraints. Opening the new Winchester Fire Station was a significant achievement this year. This facility contributes towards a number of corporate objectives and is the first completed UK fire station to be rated "excellent" against industry standards for its environmental impact.

I have reviewed your AGS and there are no matters I must report.

Fees

I reported my planned audit fee in the Audit Plan.

I will complete the audit within the planned fee.

Table 1: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	80,500	80,500
Total	80,500	80,500

Appendix 1 – Draft independent auditor’s report

Opinion on the Authority and Pension Fund financial statements

I have audited the financial statements and the firefighters’ pension fund financial statements of Hampshire Fire and Rescue Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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 firefighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Financial in the United Kingdom 2011/12.

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 firefighters’ pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Financial in the United Kingdom and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 financial estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Hampshire Fire and Rescue Authority's as at 31 March 2012 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, 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 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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 2012.

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 ended 31 March 2012.

Kate Handy.

District Auditor; Collins House, Bishopstoke Road, Eastleigh, Hampshire SO50 6AD.

21 September 2012

Appendix 2 – Corrected errors and adjustments

I identified the following errors and adjustments during the audit which management have addressed in the revised financial statements. These adjustments only affect the disclosures in notes to the accounts and do not impact on the entries in the statement of comprehensive income and expenditure or the balance sheet.

Item of account	Nature of error
Contingent Liabilities Note 32	While there is currently no liability to pay higher commutation lump sums for members who retired between 1998 and 2006. It is conceivable that such a liability may emerge following any ruling from the Ombudsman and a need to apply revised commutation factors.
Contingent Assets Note 33.9	As the Government funds the difference between the income and expenditure on the Fire Fighter Pension Fund account, an offsetting contingent asset is recorded for the income which would be receivable to cover any deficit arising from the contingent liability recorded above.
Note 25.5	£870k is shown as temporarily invested as at 31 March 2012. This was a preliminary figure which should have been changed to the correct figure which is £2,068k.
Note 20.1	Best Value Accounting Code of Practice Should read Service Reporting Code of Practice for Local Authorities
Note 1.27	Best Value Accounting Code of Practice Should read Service Reporting Code of Practice for Local Authorities

Appendix 3 – Draft letter of management representation

Hampshire Fire and Rescue Authority - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having enquired of other directors of Hampshire Fire and Rescue Authority, the following representations relating to your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities:

- for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom, which give a true and fair view of the financial position and performance of the Authority;
- for the completeness of the information provided to you; and
- for making accurate representations to you.

Supporting records

I have made available all relevant information and access to staff for the purpose of your audit. I have properly reflected and recorded in the financial statements all the Authority's transactions.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

Irregularities

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

I also confirm I have disclosed:

- my knowledge of fraud, or suspected fraud, involving management, employees who have significant roles in internal control, or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud or suspected fraud affecting the financial statements made by employees, former employees, analysts, regulators or others; and
- the results of risk assessment the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed all instances of non-compliance - known or suspected - with laws, regulations and codes of practice to be considered when preparing financial statements.

I have carried out transactions and events in accordance with law, regulation or other 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.

I have disclosed to you all known actual or possible litigation and claims to be considered when preparing the statements. I have accounted for and disclosed them in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the significant assumptions used in accounting estimates are reasonable, including those measured at fair value.

Related party transactions

I confirm I have disclosed the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed them in accordance with the Code.

Subsequent events

I have adjusted for, or disclosed in the financial statements, all relevant events after the date of the financial statements.

Signed on behalf of Hampshire Fire and Rescue Authority

I confirm that the Standards and Governance Committee has discussed and agreed this letter on 21 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter the auditor issues to the Authority after completing the audit; it summarises the audit work and significant issues arising.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before issuing the opinion and conclusion.

Annual Governance Statement

The annual report on the systems of internal control to support your policies, aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work an auditor does under the Code to meet his or her statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body where the Audit Commission appoints the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing to meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB containing basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB containing basic principles of independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply (except where otherwise stated in the standard concerned).

Financial statements

The annual statement of accounts the Authority must prepare. This reports its financial performance and position in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls (financial and other) to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission also have other responsibilities and duties under statute, which may not affect their opinion on the financial statements.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. It includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government based on its financial statements.

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

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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. Appointed auditors address reports to non-executive directors, members or officers. Reports 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.

