

# Annual Governance Report

Hampshire Fire & Rescue Authority DRAFT

Audit 2009/10

**September 2010**

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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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Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Fire Officer and Director of Corporate Services on 10 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Kate Handy  
District Auditor

September 2010

# Key messages

This report summarises the findings from the 2009/10 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.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7-9
Satisfactory operation of key financial controls	Yes	7
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	10

## Audit opinion

- 1 The work on Hampshire Fire & Rescue Authority Statement of Accounts is now substantially complete and I have not identified any material unadjusted errors. I expect to issue an unqualified audit opinion by 30 September 2010. If any further matters arise between the date of this report and the signing of the audit opinion that require to be reported to those charged with governance, I will communicate these directly to the Chairman of the Governance Committee.

## Financial statements

- 2 The Authority has prepared a good set of financial statements supported by comprehensive working papers. Our audit work has not identified any material errors. A number of more minor presentational errors 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.

## Value for money

- 3 The work on the Authority's arrangements to secure economy, efficiency, and effectiveness in its use of resources is now complete. Based on our audit work, we expect to issue an unqualified value for money conclusion by 30 September 2010.

## Key messages

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### Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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### Audit Fees

- 5 In my original audit plan, the fee for the code audit was based on my best estimate at the time and agreed at £81,750 and in line with the Audit Commission scale fee. We have now completed the work on the audit and have not identified any change in the level of risk in relation to the audit of the financial statements
- 6 I am satisfied that the original estimate remains appropriate and no adjustment is required to the fee.

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# Next steps

**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.**

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**7** I ask the Governance Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 3).

# 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 members of the Fire Authority 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** Our work on the financial statements is substantially complete. Subject to satisfactory clearance of outstanding work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

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## Errors in the financial statements

**9** There were no material errors identified through our audit work. There were some minor errors and presentational adjustments identified during my audit which have been agreed with management and adjusted for. Non trivial adjustments are shown in the appendix 2 to this report. Other adjustments agreed related only to narrative disclosures in the notes to the accounts that were either initiated by management or assessed as clearly trivial for the purposes of our opinion.

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## Important weaknesses in internal control

**10** There were no matters arising from our work on the operation of key financial controls that I wish to raise with you. Our testing of the operation of key controls confirmed that we were able to place the expected degree of reliance on the control environment in gaining assurance on the assertions over the financial statements.

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## Letter of representation

**11** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

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## Key areas of judgement and audit risk

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

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

Issue or risk	Finding
Key controls testing	Our cyclical programme of controls testing confirmed that key controls operated over the full period covered by the financial statements.
Regional Control Centres (RCC)	We considered the implication for RCC consolidation into group accounts as part of our testing on the SORP presentation of the accounts. We concluded there were no group accounts issues for 2009/10.
IFRIC 12	The requirements for accounting for PFI and service concessions and other contractual arrangements are now based on IFRIC 12. We confirmed this has been reviewed and does not present a material issue at the Fire Authority.
Accounting for local taxation	Accounting for local taxes is required for the first time under the 2009 SORP. We tested the apportionment and agreement of council tax debtors with billing authorities as part of our year-end substantive testing. No issues of concern were noted.
FRAML	We reviewed the accounting arrangements for winding up the FRAML and concluded that the reversal of entries made under FRS2 and FRS9 had been actioned correctly.
VAT - Changes in VAT rates	During 2009/10 there was a temporary change in VAT rates. We tested the application of the temporary rates and subsequent reinstatement of the full 17.5% rate from 1 January 2010. No issues identified
Other SORP matters	<p>There were some minor disclosure amendments within the SORP. We concluded that these had been considered and applied correctly covering:-</p> <ul style="list-style-type: none"> <li>• new requirement to disclose the numbers of staff earning more than £50,000 per annum, from 2009/10 in</li> </ul>

## Financial statements

Issue or risk	Finding
	<p>bands of £5,000 rather than £10,000, and a new senior employee remuneration statement.</p> <ul style="list-style-type: none"><li>• presenting the portion of long-term financial liabilities due to be settled within 12 months after the Balance Sheet date in current liabilities.</li><li>• removal of note disclosures for section 137 expenditure; expenditure on publicity; and income under LA Goods and Services Act.</li></ul>

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### Accounting practice and financial reporting

**13** I also consider the non-numeric content of your financial reporting. There were no issues, other than the one agreed non trivial adjustment already referred to and included in appendix 2, that I need to raise with you.

# Value for money

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

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## Value for money conclusion

- 14 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 15 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 my draft report.

# Glossary

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## Annual governance statement

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

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## Audit closure certificate

**17** 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 certificate.

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## Audit opinion

**18** On completion of the audit of the accounts, auditors must give their 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;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
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## Qualified

**19** The auditor has some reservations or concerns.

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## Unqualified

**20** The auditor does not have any reservations.

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## Value for money conclusion

**21** 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.

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

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## Opinion on the accounting statements

I have audited the accounting statements, the firefighters’ pension fund accounting statements and related notes of Hampshire Fire and Rescue Authority for the year ended 31 March 2010 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, the Net Assets Statement and the related notes. The accounting 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 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## Respective responsibilities of the Treasurer and auditor

The Treasurer’s responsibilities for preparing the accounting 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 2009: A Statement of Recommended Practice 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).

I report to you my opinion as to whether the accounting statements, the firefighters’ pension fund accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

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

- 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 accounting 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.

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

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### **Opinion**

In my opinion:

- The accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters’ pension fund during the year ended 31 March 2010 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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### **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 published in May 2008 and updated in October 2009. 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 October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Hampshire Fire and Rescue

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

Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### 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.

Kate Handy  
Officer of the Audit Commission

Collins House,  
Bishopstoke Road  
Eastleigh  
Hampshire

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# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 2**

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Revaluation Reserve	Correction of errors arising in recording the revaluation of four properties in the asset register			1,012	
Fixed assets : Other land and buildings	As above				1,012

**Table 3**

Adjusted misstatements	Nature of adjustment	Explanation
Various statements	Minor changes to statements presentation and to correct comparative figures.	Amendments were made to correct some prior year figures in the draft accounts that did not agree to the audited statements, correct some typographical errors and some arithmetic errors already identified by officers.
Post Balance Sheet Events.	Response to the Chancellors budget statement on future use of CPI rather than RPI for calculation of pension increases and impact on the calculation of future liabilities.	This change would have produced a reduced liability for future pensions under FRS17. This change was initiated by management in response to guidance. Based on advice from actuaries this has a potential impact of between £42,000 and £52,000 on the liability recorded on the balance sheet.

# Appendix 3 – Draft letter of representation

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To:  
Kate Handy  
Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

## **Hampshire Fire and Rescue Authority - Audit for the year ended 31st March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hampshire 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 31st March 2010.

### **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 presents a true and fair view of the financial position and financial performance of the Authority and for making accurate representations to you.

### **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 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;

### **Appendix 3 – Draft letter of representation**

- 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**

The Chief Officer and Monitoring Officer have not declared any 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.

#### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements relating to fair values.

#### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

#### **Contingent liabilities**

All contingent liabilities have been disclosed in the financial statements. In particular:

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

#### **Related party transactions**

Based on the disclosures made by Members and Directors I confirm the completeness of the information disclosed regarding the identification of related parties.

## Appendix 3 – Draft letter of representation

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, other than in respect of the disclosed changes to pension scheme estimated liabilities, no additional significant post balance sheet events have occurred which would require adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

I have reviewed the Authority's contracts with the private sector and confirm that there are no public to private service concession arrangements that meet the definition within IFRIC 12.

The system of internal control was in place for the duration of the financial year and remained so until the date of approval of the annual accounts

I confirm that this letter has been discussed and agreed on behalf of the Authority at a meeting of its Governance Committee held on 23 September 2010.

Signed on behalf of Hampshire Fire and Rescue Authority.

Treasurer

# Appendix 4 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
<b>Managing finances</b>	
Planning for financial health	<b>Yes</b>
Understanding costs and achieving efficiencies	<b>Yes</b>
Financial reporting	<b>Yes</b>
<b>Governing the business</b>	
Commissioning and procurement	<b>Yes</b>
Use of information	<b>Yes</b>
Good governance	<b>Yes</b>
Risk management and internal control	<b>Yes</b>
<b>Managing resources</b>	
Natural resources	<b>Yes</b>
Workforce	<b>Yes</b>