



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Audit 2005/2006

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Audit of the Financial Statements –  
reporting to those charged with governance

## **Mid and West Wales Fire Authority**

**This document is a draft version pending further discussions with the audited body. Information may not yet have been fully verified and therefore this document should not be widely distributed at this stage.**

**It is my intention to issue an unqualified auditor's report on the Financial Statements.**

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## Status of this report

This report has been prepared for the internal use of the named body. Our reports are prepared:

- In relation to audit, under the relevant enabling legislation and the responsibilities detailed in the Code of Audit and Inspection Practice, and in the context of the 'Statement of Responsibilities', issued by the Auditor General for Wales.
- In relation to inspection, following inspection work carried out under the Local Government Act 1999, as amended by the Public Audit (Wales) Act 2004, and in accordance with guidance issued by the National Assembly for Wales.

Reports are prepared by the staff of the Wales Audit Office and appointed auditors, and addressed to non-officer members/members or officers including those designated as accounting or accountable officers. They are prepared for the sole use of the named body, and no responsibility is taken by the Wales Audit Office or appointed auditors to any director or officer in their individual capacity, or to any third party.

## Summary

- 1 Mid and West Wales Fire Authority (the Authority) is responsible for the preparation of financial statements that present fairly its financial position as at 31 March 2006 and its income and expenditure in the year then ended. I am responsible for undertaking an audit and reporting whether in my opinion the financial statements present fairly the financial position at the year end, and income and expenditure for the year then ended.
- 2 The Authority submitted draft financial statements to me in August 2006 and I have now substantially completed the audit of those statements. The audit does not seek to obtain absolute assurance that the financial statements show a true and fair view of your financial position, or assurance that they are accurate in every regard, but instead a concept of materiality is adopted. In planning and conducting the accounts audit, we seek to identify material errors, (ie, those which might be misleading to a reader) in your financial statements.
- 3 Now that the audit is substantially complete, this report details the key matters arising that must be communicated to those charged with governance, in accordance with International Standards on Auditing (ISA260), prior to giving an opinion on those financial statements. More detailed matters arising and recommendations will be agreed with officers.
- 4 ISA 260 requires auditors to report to those charged with governance the following matters before they give an opinion on the financial statements:
  - relationships that may bear on the auditor's independence;
  - audit planning information; and
  - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.
- 5 The first two matters were reported to you in our Audit Plan. This report has been prepared to discharge our responsibilities with regard to the third point. The findings on the audit of the financial statements are:
  - there are no concerns with the qualitative aspects of your accounting practices and financial reporting;
  - there are no uncorrected misstatements;
  - there are no expected modifications to the standard auditor's report;
  - the audit did not identify any material weaknesses in internal control;
  - there are no other matters which need to be reported to you as required by other ISAs; and
  - there are no other audit matters of governance interest to report.

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- 6 It is my intention to issue an unqualified auditor's report on the Financial Statements once the Authority has responded to our final letter of representation set out in Appendix 1.

## There are no concerns with the qualitative aspects of your accounting practices and financial reporting

- 7 In the course of the audit, qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements are considered.

### Current position at the Authority

No matters have come to my attention that I wish to draw to your attention.

## There are no uncorrected misstatements

- 8 I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of our standard methodology, trivial limit has been calculated for the Authority at £22,000 for the revenue account and working capital balances and £17,000 for other balance sheet items

### Current position at the Authority

A number of trivial amendments were identified in the course of the audit. Appropriate amendments have been made by management in all cases (see Appendix 2 )

## There are no expected modifications to the standard auditor's report

- 9 I report any proposed modifications to the auditor's report on the financial statements to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification. The report comments on whether:
- the statements present fairly the financial position as at 31 March 2006 and its income and expenditure for the year then ended; and
  - the statement on internal control is compliant with applicable guidance and consistent with our knowledge and understanding of the Authority's arrangements.

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**Current position at the Authority**

On the basis of our audit work, no matters have been identified that would require any modification to the audit opinion. The standard audit opinion is attached in Appendix 3.

## **The audit did not identify any material weaknesses in internal control**

- 10 A material weakness in internal control is defined by ISA 260 as ‘a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements’.
- 11 I do not, however, normally report information to you concerning a material weakness of which you are aware, and in respect of which, in our opinion, appropriate corrective action has been taken, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
- 12 You should be aware that I do not provide a comprehensive statement of all weaknesses that may exist in the internal controls or of all improvements that may be made, but have addressed only those matters that have come to our attention as a result of the audit procedures performed.

**Current position at the Authority**

The audit did not identify any weaknesses in internal control or corrected errors relevant to your wider governance responsibilities that we need to report to you.

## **There are no other matters which need to be reported to you as required by other ISAs**

- 13 Other auditing standards require us to communicate with you in other specific circumstances including where:
  - we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements; and
  - there is inconsistency between the Authority's financial statements and other information in documents containing the financial statements.

**Current position at the Authority**

I have identified no such matters in the course of our audit.

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**There are no other audit matters of governance interest to report**

**Current position at the Authority**

There are no other matters that I wish to draw to your attention.

## Final Letter of Representation

Mid and West Wales Fire Authority

To Wales Audit Office

(Date)

### Representations regarding the 2005/2006 Financial Statements

This representation letter is provided in connection with your audit of the financial statements of the Mid and West Wales Fire Authority for the year ended 31 March 2006. It is required for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Authority as at 31 March 2006. This includes the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005 and the 2005 Local Government Statement of Recommended Practice (the LG SORP).

### **Representations made by Management**

#### **Overall Representations**

All the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Authority has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the financial statements.

The financial statements are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Authority and the Cabinet and Scrutiny Committees have been made available to you.

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.

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The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

The effects of those uncorrected financial statements misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items are shown below:

## **ASSETS**

### **General**

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Authority.

### **Fixed Assets**

All assets over £ xxxxxx are capitalised. They are revalued (every five years/ via a rolling programme) using [basis of revaluation]. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Authority's operations.

### **Current Assets**

On realisation in the ordinary course of the Authority's operations the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

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

## **LIABILITIES**

### **General**

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Authority, and which have not been disclosed in the financial statements, either as current or contingent liabilities.

All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.

All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS17 figures included in the financial statements.

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## Results

Except as disclosed in the financial statements, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Authority, or circumstances of an exceptional or non-recurring nature.

## Internal Control

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

There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

## Post Balance Sheet Events

Except as disclosed in note Y, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should have been brought to the notice of the auditor.

## Representations by those charged with governance

**(Also include any representations unique to the Authority that are required)**

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the financial statements, which were approved by Authority on.....

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the financial statements (where applicable include the actual or contingent consequences arising from the non-compliance).

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There are no other material transactions with related parties (as defined by FRS 8 and the LG SORP), other than those recorded and disclosed in the financial statements.

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We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated to the Authority by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have not corrected the misstatements shown below, to which you brought our attention, for the following reasons:

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We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Signed by

S.151 Officer Chair of meeting considering this letter

Date

## Summary of corrections to draft financial statements

Nature of correction	Reason for correction
<p><b>Note 12 to the Balance Sheet (Pensions Liability)</b></p> <ul style="list-style-type: none"> <li>An additional disclosure was inserted in Note 12 to state an actuarial assumption used in their calculations. This then complied with LAAP Bulletin 65.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure the accounts include the required disclosures set out in LAAP Bulletin 65.</li> </ul>
<p><b>Note 8 to the Revenue Account</b></p> <ul style="list-style-type: none"> <li>Note 8 to the revenue account was amended to ensure that it agreed with the underlying supporting working papers. As this is a disclosure note only, the amendments had no effect on the overall revenue account total.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure the accounts are accurate.</li> </ul>
<p><b>Narrative/Presentational changes for the Authority accounts</b></p> <ul style="list-style-type: none"> <li>A small number of narrative/presentational changes were made to the accounts and notes in order for them show presentational accuracy.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure the accounts have presentational accuracy.</li> </ul>

## **Independent auditor's report to Mid and West Wales Fire Authority**

I/We have audited the accounting statements of (AIB) [and its Group] for the year ended (insert date) under the Public Audit (Wales) Act 2004. The accounting statements comprise the [Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Accounts] and the related notes. The accounting statements have been prepared under the accounting policies set out in the statement of accounts.

This report is made solely to (AIB) in accordance with Part 2 of the Public Audit (Wales) Act 2004 and for no other purpose, as set out in paragraph 42 of the Statement of Responsibilities of Appointed Auditors, and Inspectors, and of Audited and Inspected Bodies (2005) prepared by the Auditor General for Wales.

### **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the Statement of Accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I/We report to you my/our opinion as to whether the accounting statements present fairly the financial position of the Council in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I/We review whether the statement on internal control reflects compliance with CIPFA's guidance (insert title and date). I/We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I/we are aware of from my/our audit of the accounts. I am/We are not required to consider, nor have I/we considered, whether the statement on internal control covers all risks and controls. Neither am I/are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I/We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword [and XX]. I/We consider the implications for my/our report if I/we become aware of any apparent

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misstatements or material inconsistencies with the accounting statements.  
My/Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

I/We conducted my/our audit in accordance with the Public Audit (Wales) Act 2004, the Code of Audit and Inspection Practice issued by the Auditor General for Wales, 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. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I/We planned and performed my/our audit so as to obtain all the information and explanations which I/we considered necessary in order to provide me/us with sufficient evidence to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my/our opinion I/we also evaluated the overall adequacy of the presentation of information in the accounting statements.

### **Opinion**

In my/our opinion the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 200X, the financial position of the (AIB) [and its Group] as at 31 March 2006 and its income and expenditure for the year then ended.

### **Certificate**

I/We certify that I/we have completed the audit of the accounts in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice issued by the Auditor General for Wales.

My/Our [un]qualified conclusion whether [name of AIB] has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources will be / has been reported separately in the Annual Audit Letter.

Ceri Stradling - Appointed Auditor  
Wales Audit Office  
Unit 4  
Evolution  
Lakeside Business Park

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St David's Park  
Ewloe  
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Date

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