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Audit of Financial Statements – Report to Those Charged with Governance

Mid and West Fire Authority

It is my intention to issue an unqualified auditor's report on the financial statements.

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Status of this document

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Summary

1. Mid and West Wales Fire Authority (the Authority) is responsible for the preparation of financial statements that fairly present its financial position as at 31 March 2007, and its income and expenditure in the year then ended. I am required to give my opinion on the accuracy and fairness of these statements.
2. The Authority submitted draft financial statements to me in June and I have now substantially completed the audit of those statements. I do not seek to obtain absolute assurance that the Financial Statements fairly present your financial position, or assurance that they are accurate in every regard, but instead adopt a concept of materiality. In planning and conducting the Accounts Audit, I seek to identify material misstatements (ie, those which might result in a reader of the accounts being misled) in your Financial Statements. The quantitative levels at which I judge such misstatements to be material for the Authority are £447,000 for income and expenditure items, and £321,000 for Balance Sheet items. Whether an item is judged to be material is not only affected by quantitative issues but can also be affected by certain qualitative issues, such as legal and regulatory requirements, and political sensitivity.
3. Now that the audit is substantially complete, this report details the key matters arising from it. These matters must be communicated to those charged with governance, in accordance with International Standard on Auditing (ISA) 260, prior to giving an opinion on those Financial Statements. More detailed matters arising out of the audit will be discussed with officers.
4. International Standard on Auditing 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 the Regulatory Plan. This report has been prepared to discharge my responsibilities with regard to the third point. My findings on the audit of the Financial Statements are:
 - I have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - there are no uncorrected misstatements;
 - I do not expect to modify the standard auditor's report;
 - I did not find any material weaknesses in your internal control;

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- there are no other matters which I am required by other ISAs to report to you; and
 - there are no other audit matters of governance interest to report.
6. It is my intention to issue an unqualified auditor's report on the financial statements once the Authority has provided me with the Letter of Representation set out in Appendix 1.

I have no concerns about the qualitative aspects of your accounting practices and financial reporting

7. In the course of the audit I consider qualitative aspects of the Financial Reporting Process. I evaluate the information provided by the Financial Statements to determine if it is relevant, reliable, comparable, material and easy to understand.

Current position at the Authority

The audit found a number of errors/omissions which have all been corrected (Appendix 2). However, the reasons for these amendments should be reviewed to identify what changes should be made to prevent a reoccurrence in 2007/2008.

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 inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of the standard methodology, the financial limit for what I consider trivial has been calculated at £22,000 for income and expenditure items and working capital balances, and £16,000 for other balances.

Current position at the Authority

There are no uncorrected misstatements.

A number of errors were identified during the audit. Appropriate amendments have been made by management in all cases. The net effect of these amendments is to increase the deficit on the Income and Expenditure Account by £2,905,000. However none of these adjustments has affected the contribution required from the constituent authorities. A summary of these corrections is shown for information in Appendix 2. Additionally, there are a number of amendments made to the supporting notes to ensure compliance with the Statement of Recommended Practice (SoRP) for local authority accounts and consistency with the Financial Statements.

I do not expect to modify the standard auditor's report

9. The report comments on whether:
 - the statements fairly present the financial position as at 31 March 2007, and its income and expenditure for the year then ended; and
 - the Statement on Internal Control (SIC) is compliant with applicable guidance, and consistent with our knowledge and understanding of the Authority's arrangements.
10. 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.

Current position at the Authority

There are no modifications to the auditor's report.

On the basis of my audit work, no matters have been identified that would require any modification to the audit opinion. The proposed audit opinion is attached in Appendix 3 and I anticipate I will be able to issue a certificate formally closing the audit.

I did not find any material weaknesses in your internal control

11. 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'.
12. I do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
13. 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 my attention as a result of the audit procedures performed.

Current position at the Authority

There are no material internal control weaknesses identified.

The financial statements include a SIC which provides a summary assessment of the Authority's System on Internal Control. The SIC refers to some delays that have occurred in the completion of the Authority's bank reconciliations and the action being taken to address. This will need to be monitored in 2007/2008.

From the work completed, my audit has not identified any other issues or uncorrected errors relevant to your wider governance responsibilities that I need to draw to your attention.

There are no other matters which I am required by other ISAs to report to you

14. Other auditing standards require me to communicate with you in other specific circumstances including where:
- I suspect or detect fraud, even if the potential effect is not material to our audit of the Financial Statements; and
 - information is presented within documents containing the audited financial statements which is misstated, or is materially inconsistent with the audited accounts.

Current position at the Authority

No weaknesses identified.

The Financial Statements include a SIC which provides a summary assessment of the Authority's System on Internal Control.

From the work completed, my audit has not identified any material weaknesses in internal control or corrected errors relevant to your wider governance responsibilities that I need to draw to your attention.

There are no other audit matters of governance interest to report

Current position at the Authority

No weaknesses identified.

From the work completed, my audit has not identified any material weaknesses in internal control or corrected errors relevant to your wider governance responsibilities that I need to draw to your attention.

Appendix 1

Final Letter of Representation

[Authority Letterhead]

Ceri Stradling
Appointed Auditor
Wales Audit Office
2-4 Park Grove
Cardiff
CF10 3PA

[Date]

**2006/2007 financial statements for Mid and West Wales
Fire Authority**

This letter is provided in connection with your audit of the Financial Statements of the Authority for the year ended 31 March 2007 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 2007, and of 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 Local Government SoRP 2006 (the LG SoRP).

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 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.

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.

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 the deminimis level are capitalised. They are revalued (every five years via a Rolling Programme). 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 has 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 Financial Reporting Standard (FRS) 17 figures included in the Financial Statements.

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 the Financial Statements, 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

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 have been approved by the Authority.

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.

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.

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 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

Date:

Leading Member

Date:

Appendix 2

Summary of corrections to draft financial statements

Nature of correction	Reason for correction
Amendments to the Income and Expenditure Account	
Expenditure and creditors were increased by £30,000.	To ensure the Statement of Accounts agreed to the ledger.
Expenditure and creditors were increased by £150,000.	To correctly reflect an invoice paid in 2007/2008, but which related to 2006/2007 financial year.
Expenditure and creditors were increased by £15,000.	To accrue for PWLB Interest for the period 10 March 2007 to 31 March 2007.
Expenditure and creditors were increased by £55,000	To reflect an accrual that had been omitted at the year end.
Pension interest costs and expected return on pension assets were increased by £140,000.	To ensure that the Statement of Account's figures agreed to the Actuary Report.
Debtors and income were reduced by £2,000.	To adjust for a payment in advance that had been incorrectly recorded.
Debtors was reduced and creditors increased by £6,000 – the net effect being to increase expenditure by £12,000.	To ensure debtors and creditors are correctly stated
Net cost of services expenditure was increased by £2,810,000 and the statement of movement on the general fund balance reduced by £2,810,00	To ensure that the Statement of Accounts figures agreed to the Actuary report.
Government grants deferred and expenditure were reduced by £54,000.	To reflect the correct rate of amortisation on government grants deferred.
Provisions and expenditure were reduced by £255,000.	To ensure provisions are correctly stated as per FRS 12.
The net effect is to increase the deficit by £2,905,000	
Amendments to the Balance Sheet	
Fixed assets and fixed asset restatement account were reduced by £3,000.	To reflect the correct figure for disposals.
Fixed assets and fixed asset restatement account were increased by £43,000.	To ensure that the revaluation of fixed assets to market value as at the date of disposal were correctly reflected in accordance with new SoRP requirements.
Government grants deferred and debtors were reduced by £450,000.	To ensure that the Statement of Accounts agreed to the ledger.
Government grants deferred was reduced and creditors increased by £340,000.	To ensure correct treatment of government grants received, but not yet spent.

Nature of correction	Reason for correction
Debtors and creditors were increased by £170,000.	To ensure that debtors and creditors are shown gross within the balance sheet.
Debtors and creditors were reduced by £19,000.	To adjust for a creditor included in 2006/2007 but which related to 2007/2008 and where the cash had been received in 2007/2008.
Pensions liability and pensions reserve were increased by £2,810,000.	To ensure the Statement of Accounts agreed to the Actuary report.
The Elective Pensioner Reserve was reduced by £32,000. This was to reflect adjustments affecting the Income and Expenditure Account.	To reflect usage of the pension reserve.
Other amendments	
A number of narrative/presentational changes were made to the statement of accounts and supporting notes.	To ensure the statement of accounts is compliant with SoRP and that there is consistency between the accounts and supporting notes
Additionally, where required the Statement of Total Recognised Gains and Losses, and Cash Flow Statement have been amended to reflect these adjustments.	To ensure consistency within the statement of accounts.

Appendix 3

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

I have audited the accounting statements of the Authority for the year ended 31 March 2007 under the Public Audit (Wales) Act 2004 (the 2004 Act). The accounting statements comprise the Income and Expenditure Account, Statement of Movement on General Fund Balance, Statement of Recognised Gains and Losses, Balance Sheet, Cash Flow Statement 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 the Authority in accordance with Part 2 of the 2004 Act 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 (the Auditor General).

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 SoRP on Local Authority Accounting in the United Kingdom 2006, are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements, and ISAs (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly the financial position of the Authority in accordance with relevant legal and regulatory requirements, and the SoRP on Local Authority Accounting in the United Kingdom 2006.

I review whether the SIC reflects compliance with CIPFA's guidance. I report if it does not comply with proper practices specified by CIPFA, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounts. I am not required to consider, nor have I considered, whether the SIC 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, and consider whether it is consistent with the audited accounting statements. 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.

My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the 2004 Act, the Code of Audit and Inspection Practice issued by the Auditor General, and ISAs (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 Authority in the preparation of the accounting statements, 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 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.

Opinion


In my opinion the accounting statements present fairly, in accordance with relevant legal and regulatory requirements, and the SoRP on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007, and its income and expenditure for the year then ended.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the 2004 Act, and the Code of Audit and Inspection Practice issued by the Auditor General.

My conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007 will be reported separately in the published Relationship Manager Audit Letter.

Ceri Stradling
Appointed Auditor
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[Date]



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