

Annual governance report

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Shropshire & Wrekin Fire Authority

Audit 2010/11

Contents

- Key messages.....3**
- Before I complete my audit.....4**
- Financial statements5**
 - Opinion on the financial statements5
 - Misstatements in the financial statements.....5
- Value for money.....14**
- Appendix 1 – Draft audit report.....16**
- Appendix 2 – Amendments to the draft financial statements20**
- Appendix 3 – Unadjusted misstatements to the financial statements21**
- Appendix 4 – Draft letter of representation.....23**
- Appendix 5 – Glossary.....26**



Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

I plan to issue an unqualified opinion on the financial statements with an unqualified Value for Money Conclusion. The accounts were substantially free from error although there were significant changes to the disclosures required under the International Financial Reporting Standards.

	Traffic light
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I have substantially completed my audit work and anticipate issuing an unqualified opinion on your financial statements subject to the following outstanding areas:

- Receipt of assurance on the qualifications of the Valuer;
- Confirmation from the Authority that there are no issues from the NFI matches;
- Receipt of assurance on pension assets from the auditor of Shropshire Council;
- Clarification of the pension disclosures relating to the change from RPI to CPI to ensure consistency with Shropshire Council disclosures;
- Final verification of the financial statements for all amendments requested;
- Completion of the Whole Government Accounts audit.

Value for money

I have not identified any weaknesses in your arrangements for financial resilience of the Authority and its ability to secure economy, efficiency and effectiveness.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

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

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

I ask you to confirm to me

I ask the Audit and Performance Management Committee to:

- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
 - consider the appropriateness of the adjustments which, after consideration, management is not proposing to amend for (appendix 3); and
 - approve the letter of representation, provided in appendix 4, on behalf of the Authority before I issue my opinion and conclusion, making reference to why you support the non-adjustment of those issues identified in appendix 3.
-

Agreed future actions

There have been changes to the audit team in 2010/11, changes to the financial statements as the result of the introduction of the International Financial Reporting Standards and there will be further changes to the Authority's Finance Department in 2011/12 following the retirement of the Treasurer. As such, it has been agreed with the Authority that it is appropriate to undertake a 'wash-up' process to identify any areas of good practice and any areas where the audit process could be improved.

A wash-up will take place after the opinion is issued and an action plan developed to improve the process for 2011/12.

Financial statements

I plan to issue an unqualified opinion on the financial statements. The accounts were substantially free from error although there were significant changes to the disclosures required under the International Financial Reporting Standards.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Misstatements in the financial statements

Adjusted misstatements

Under auditing standards I am required to bring to the attention of the Authority any material misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work which have been amended. There was one material amendment in respect of a capital grant. In order to assist you further in fulfilling your governance responsibilities, which include reviewing the effectiveness of the system of internal control, I have also noted two non-material items in respect of revenue grants disclosure and valuations. These are listed in appendix 2.

There were also a number of disclosure issues relating to the change in International Financial Reporting Standards (IFRS) alongside some more minor adjustments and presentational issues were discussed with officers during the course of the audit and have been corrected. These presented no impact on the content of the financial statements.

Unadjusted misstatements

I am also required to bring to the attention of the Authority, misstatements, other than those that are clearly trifling, for which no adjustment has been made in the financial statements. My audit identified one misstatement which management, having given detailed consideration to, are proposing not to amend.

The issue relates to accounting for retentions. With all large capital projects, the valuation comes from contract administrator certificates. These include an estimation of the build cost due to the contractor at a point in time, but also set out a retention of 5 per cent, payable on completion of the contract. The Authority has not capitalised the enhanced asset at the full value, but currently at the 95 per cent of the value which means that there is not a provision within the balance sheet for the retained 5 per cent. The 5 per cent retention is held within reserves which supports the financial standing of the Authority and it is expecting to make this payment within 2011/12. However, this means that the Authority's balance sheet is currently understated by £94,191.

Your managers have considered this understatement. In their view it is not material and a reader of the accounts would not be misled. To amend the accounts would incur changes to most notes and take a considerable time which is not considered proportionate to the value involved.

I would therefore ask you to consider whether making adjustments for these misstatements is appropriate. If you concur with management and decide not to adjust, please tell me why in the representation letter.

My audit testing also identified an error of £3.5k on prepayments. This sum is trivial but leads to an extrapolated uncertainty of £22k. This is not material and it is not possible to adjust for an uncertainty. However, I bring it to your attention in order to assist you in fulfilling your governance responsibilities. There was also a difference identified between the Valuer's Report and the fixed asset register of £30k which presents a further uncertainty. All three items are set out in appendix 3.

Recommendation

R1 Consider the unadjusted misstatement, which management, having given detailed consideration to, are proposing not to amend, and either adjust the financial statements or provide representations on why you have decided not to.

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 Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

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

Key audit risks identified as part of fee planning and reported in our audit strategy with our action against these

Key audit risk	Action
1. Financial Reporting The requirement to now report under the International Financial Reporting Standards presents risks for the Authority.	I have: <ul style="list-style-type: none">■ liaised with relevant finance staff to ensure that key decisions that resulted in significant changes were discussed in advance, eg leases;■ reviewed the opening balances and previous year's statements restated under IFRS as a specific audit procedure; and■ worked with the finance department to ensure that all areas of the accounts comply with the more demanding disclosure requirements under the International Financial Reporting Standards.

Key audit risk

Action

2. Regional Control Centre

Recent Government announcements mean the Regional Control Centre will not go ahead. Fire & Rescue Authorities are being consulted on the use of the asset going forward. There has been uncertainty about how the relationship needs to be disclosed in the financial statements.

I have reviewed the Authority's disclosures in relation to the Regional Control Centre. The cancellation of this project was anticipated by the Authority and so had been budgeted for in the main with alternative operational plans in place. A bid has been made to CLG which is holding a pot of money obtained from the company who did not deliver the national project. The outcome of this bid is not known at this time. I have considered the accounting treatment of these costs and have no issues to report to you. Operational risks as a result of the changes in local Control Room arrangements will be considered as part of the 2011/12 audit.

3. Financial Resilience

Strong financial planning is crucial for the Authority to continue delivering its core services whilst improving customer service and the overall use of resources available. The announcement in the Comprehensive Spending Review was marginally less than you had been planning for with pressure falling on the later years as expected. Planning for reductions in the early years is therefore crucial to delivering the savings required which will have an impact on services in the immediate future.

I have:

- considered your financial resilience as part of the VFM conclusion and also your assessment of going concern;
- reviewed the medium term financial plans and the 2011/12 budgets to ensure that the Authority has taken appropriate account of their current financial position, the level of income from Central Government and that the plans are supported by detailed and robust assumptions; and
- reviewed the process for the monitoring and reporting of your financial position. The year end testing has focused on key estimations within the financial statements.

Specific risks identified following receipt of your financial statements and our findings

Key audit risk	Finding
<p>4. Back claims for retained Firefighters pensions</p> <p>In January 2006 the House of Lords granted a rehearing at the firefighters' employment tribunal which declared that retained firefighters were engaged in broadly similar work as wholetime firefighters. There is the potential for employer pension costs being due for retained firefighters employed between July 2000 and April 2006 wishing to backdate their membership.</p>	<p>I have considered your financial reserves for potential payments in relation to any back dated pension scheme contributions which are required to be matched by the Authority. Adequate reserves have been made in 2010/11 relating to estimations of future liabilities. It is anticipated that these payments will be made in 2011/12. There is still a level of uncertainty as to when payments will be made and to whom which indicates that the Authority is correct to account for these as earmarked reserves, rather than a provision.</p>

Financial statements

Significant weaknesses in internal control

My work has not identified any significant weaknesses in internal control.

The work completed at our interim audit on the effectiveness of the operation of key internal controls supports the assurance I gained for my audit opinion. Whilst there were no fundamental issues noted there were some areas where we identified that controls were not being operated consistently or effectively as reported to the last Audit & Performance Management Committee. This weakness in controls required us to undertake specific additional substantive testing around establishment listings for payroll and goods received to goods received notes in creditors. This has been reported to management and those charged with governance and appropriate actions have been agreed to rectify these issues for 2011/12.

This has not been a comprehensive statement of all weaknesses which may exist in internal control, or all of the improvements which may be made. I have reported only those matters which have come to my attention through the audit procedures I have performed. I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are some issues I wish to bring to your attention, but overall the quality of your draft financial statements was good.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p>1. Preparation of the financial statements</p> <p>The Authority is required to prepare draft financial statements by 30 June each year. This year also required additional work to comply with the International Financial Reporting Standards which required restatement of previous year's to support disclosures in 2010/11.</p>	<p>The Authority worked hard to provide comprehensive financial statements within the timescales set by CLG. I also acknowledge that the Authority provided draft statements ahead of this timetable to enable our audit to start on 20 June 2011.</p> <p>The draft statements were comprehensive and numerically sound in the main. A significant amount of work had been undertaken in relation to the International Financial Reporting Standards restatement exercise. The Authority had comprehensively considered all parts of the statements and the impact of the revised reporting standards on key areas such as leases, Government Grants etc.</p> <p>My audit identified a small number of numerical amendments to prime statements and key disclosures. There were also some changes to the asset valuations following consultation with the Valuer which impacted on the statements.</p> <p>However, I also identified a significant number of amendments to the disclosure notes, both numerically and to the text. The majority of these were as a result of the changes to the financial reporting regime, for example to the pension disclosures and Movement in Reserves note. There were also gaps in the financial instrument disclosures. Whilst this has increased the level of disclosure significantly, the statements now comply with the International Financial Reporting Standards.</p> <p>I have recommended that the Authority revisit their financial statements to potentially re-order the disclosure notes now they are complete which may make them a little clearer for the reader.</p>

2. Capacity within the Finance Department

As a small organisation, the Authority has to streamline its financial reporting to ensure maximum efficiency in the use of staffing resources. I consider that staffing levels are now at a minimum, but there is additional support at a Treasurer / s114 role.

The Authority has a limited level of resource to complete the financial statements and support the audit of these with the Financial Accountant taking responsibility for the process. Going forward, there are planned changes to the resources with the retirement of the Treasurer. An SLA has been signed with Shropshire Council to provide 33 days per year of Treasurer/s114 support. There is scope to acquire additional resource if required through this SLA. The current financial accountant will take on the day to day Treasurer responsibilities and have more involvement in strategic financial planning.

However, the Authority should assess the level of resource to deal with transactions on a day to day basis and back fill any gaps identified. There should also be a review of the resources available for our audit including more junior members of the team responding to queries and allowing the Head of Finance to fulfil her more challenging role. At the wash up we will discuss efficiencies to be gained in 2011/12 from both sides.

3. Componentisation of assets

There is a requirement under the International Financial Reporting Standards to record assets at a component level to enable depreciation to reflect the estimated useful life of the asset.

The Authority has not historically componentised assets as they have always held assets with engineering and structure at open market value and have therefore not incurred depreciation. When the St Michael Street Head Quarters is finalised, the valuer should be requested to confirm the most appropriate valuation methodology. If the building is considered to have an alternative use then it should be depreciated in line with the estimated life. There are elements of the building which may require replacement more often e.g. lifts, roof etc. These should be depreciated in line with their estimated asset life.

4. Disclosure of Asset Values

The Fixed Asset Register should reconcile to the Valuer's Report.

My audit identified a discrepancy of approximately £30,000 between the Valuer's Report and the Fixed Asset Register. This should be investigated and resolved at the earliest opportunity.

Recommendations

- R2** Revisit the financial statements for order and readability prior to preparing the 2011/12 financial statements.
 - R3** Ensure that individual elements of assets are identified separately to allow asset lives to be set appropriately and support a more meaningful annual depreciation charge.
-

Value for money

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

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

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

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial Governance</p> <p>There is appropriate capacity at a senior level to provide strong leadership to the Authority.</p> <p>The leadership team has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term.</p> <p>There is a strong link between the Corporate Plan and Integrated Risk Management Plan which is communicated to all employees through visits by members of the leadership team to each fire station.</p> <p>Financial Planning</p> <p>The Authority has a detailed Medium Term Financial Plan in place which has undergone scenario planning for uncertain aspects, eg future grant funding and other key sources of income.</p> <p>There is a culture of recognising liabilities as soon as known to ensure that reserves are sufficient to meet future expenditure.</p>

Criterion	Findings
	<p>Financial control</p> <p>Budgets are generally not exceeded with expenditure being controlled well. 2010/11 saw underspends which the Authority has detailed in its financial statements and rolled forward to support expenditure which had slipped for various reasons. This is not at a level which indicates weaknesses in financial control.</p> <p>The Authority uses financial ratios to identify areas of poor performance or where improvements or efficiencies could be made. Performance has been at a high standard with the majority of the performance indicators used improving year on year.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Prioritising resources</p> <p>Senior team provides clear leadership on spending priorities and demonstrates a hands on approach to understanding the latest resource requirements of the job.</p> <p>The Fire Authority has adopted a formal process of public value review through the Strategic Risk and Planning Group (STRaP) which is intended to deal with major changes to the way the service is delivered and whether existing services are considered a priority by the public.</p> <p>Performance management is strong and appropriately challenged by the Audit and Performance Management Committee, considering a range of indicators covering financial, service delivery and performance aspects.</p> <p>Appropriate cost benefit analysis has always been undertaken with many back office services being outsourced already. The Audit Commission VFM profiling tool has been used to identify other similar Authorities who provide services more efficiently where examples of better practice may be obtained.</p> <p>There is a good track record of working in partnership, both within the local County area and also with neighbouring Fire & Rescue Authorities.</p> <p>Improving efficiency and productivity</p> <p>The Authority understands its unit costs and has explanations for any outliers. Efficiencies are made where possible, but some higher unit costs are accepted due to having to provide services to a rural area with a relatively low population. No station closures or reductions in services are currently planned.</p> <p>The FiReControl project has required a root to branch review of the way the service is delivered and will be delivered in future. This has enabled the Authority to work more closely with Hereford & Worcester FRA and challenge its overall service delivery.</p>

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE & WREKIN FIRE AND RESCUE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

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

This report is made solely to the members of Shropshire & Wrekin 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 accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

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

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

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

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

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

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

Conclusion

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

Certificate

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

Grant Patterson

Officer of the Audit Commission

Audit Commission,
Opus House, Priestley Court,
Stafford Technology Park,
Beaconside,
Stafford, ST18 0LQ

Date

Appendix 2 – Amendments to the draft financial statements

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

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Disclosure of the capital grant	The capital grant was netted off expenditure but should have been shown below the cost of services – continuing operations, in government grants.	£690 Expenditure	(£690) Government Grants		
Disclosure of the revenue grant	The non ring-fenced grants had been shown gross in income but should have been shown below the cost of services – continuing operations, in government grants.	£146 Government Grants	(£146) Income		
Valuation of land and buildings	The Valuer initially provided transposed figures for some land and buildings that have now been corrected.			£90 Buildings £133 Capital Adjustment Account	(£223) Revaluation Reserve

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements / uncertainties during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Recognition of the retention relating to the capital project at St Michael's Street within the value of the enhanced asset.	The Authority has not capitalised the retention as part of the asset on the balance sheet. The money has been retained in reserves. The value of the building should be increased by the value of the retention with an equal and opposite creditor.			£94 Fixed Assets	(£94) Creditors

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted uncertainty	Nature of required uncertainty	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Overstatement of prepayments	Testing identified an overstatement of £3.5k on a prepayment. Extrapolating the potential error across the population provides an uncertainty of £22k.		(£22k) Expenditure	£22k Creditors	
Reconciliation of the fixed asset register	The fixed asset register is currently showing an asset value which is £30k lower than the Independent Valuation.			£30k Fixed Assets	(£30k) Revaluation Reserve

Appendix 4 – Draft letter of representation

To: Grant Patterson [Appointed Auditor/Engagement Lead]

Audit Commission,
Opus House,
Priestley Court,
Stafford Technology Park,
Beaconside,
Stafford, ST18 0LQ

Shropshire & Wrekin Fire Authority - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers of Shropshire & Wrekin Fire Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2011. All representations cover the Authority's Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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, United Kingdom Generally Accepted Accounting Practice and International Financial Reporting Standards which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2]

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements. Transactions and events have been carried out 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value. For asset valuation assumptions, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements.

Related party transactions

I confirm that I have disclosed the identity of Shropshire & Wrekin Fire Authority related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Shropshire & Wrekin Fire Authority

I confirm that this letter has been discussed and agreed by the Authority on 26 September 2011.

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

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

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

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

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

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

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

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

Weaknesses in internal control

A weakness in internal control exists when:

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

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

Value for money conclusion

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

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

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

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

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