

# Annual Governance Report

North Yorkshire  
Fire and Rescue Authority

Audit 2007/08

October 2008



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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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# Summary

### Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

### Financial statements

- 3 Our work on the financial statements is substantially complete, and we expect to issue an unqualified opinion on the financial statements, subject to finalising a few outstanding issues. We have not identified any significant issues during our audit.
- 4 The financial statements were produced within deadlines, and were supported by working papers of a good standard.

### Value for Money

- 5 Our work on the Authority's arrangements to secure economy, efficiency, and effectiveness in its use of resources is substantially complete, and we expect to issue an unqualified value for money conclusion on 17 September.

### Next steps

- 6 We ask the Audit Performance and Resources Committee to:
  - consider the matters raised in the report;
  - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 7 The Authority's financial statements and Annual Governance Statement (AGS) are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for the financial statements and AGS, so it is important that you consider our findings before you adopt them.
- 8 In planning our audit we did not identify any specific risks or areas of judgement that required particular attention during our audit.
- 9 Auditing standards require us to report to you:
  - the draft representation letter which we are asking management to sign;
  - our views about the Authority's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Draft representation letter

- 10 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
  - you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;

## Financial statements and Annual Governance Statement

- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

11 Appendix 1 contains the draft of the letter of representation we seek from you.

### Accounting policies and financial reporting

12 We consider the qualitative aspects of your financial reporting. Table 2 contains one issue we want to raise with you.

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**Table 1      Accounting practice and financial reporting**

<b>Issue or risk</b>	<b>Finding</b>
Our comparison of the 2007/08 Income and Expenditure Account to the previous year identified an overstatement of £6m in the 2006/07 income and expenditure figures in relation to Fire Fighters pension costs and funding.	<p>The net effect of the error in the previous statement of accounts was nil, and does not affect the 2007/08 statement of accounts.</p> <p>The analytical review procedures carried out on the statement of accounts should be based on the gross, rather than net, figures, and would then have identified this error last year.</p>

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### Recommendation

**R1** Analytical review procedures should be based on gross income and expenditure, rather than net, in order to ensure that errors in the gross figures are identified.

### Amendments to the financial statements

13 The financial statements included an entry of £3.03m in relation to two-tier ill health retirements. This was treated as a net service gain in the Income and Expenditure Account, as per the report from the Government Actuaries Department (GAD). Subsequent Audit Commission technical guidance indicates that this should have been treated as an actuarial gain arising from a change in actuarial assumptions, and officers have amended the accounts accordingly.

- 14 We are bringing this to your attention as the total figure involved is material, and increases the deficit on the Income and Expenditure Account. There is no impact on the general fund balance.
- 15 We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

### The audit report

- 16 Subject to finalising our audit, and completing work on the Pension Fund accounts, we plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

### Material weaknesses in internal control

- 17 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 18 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Other matters

- 19 There are no other matters that auditing standards require me to report to you.

# Value for money

- 20 We are required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 21 We have substantially completed our work on the Authority's arrangements, and at this stage we have assessed the Authority's arrangements as adequate in all twelve areas, and we therefore propose to issue an unqualified conclusion.

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# Formal audit powers

22 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making an unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

23 We have not and do not propose to exercise these powers.

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# Independence

- 24 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 25 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 26 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Authority

- 27 We have not identified any relationships that might affect objectivity and independence.

## Audit fees

- 28 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

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**Table 2      Audit fees**

	<b>Plan 2007/08</b>	<b>Actual 2007/08</b>
Financial statements and Annual Governance Statement	41,470	41,470
Value for Money	17,880	17,880
National Fraud Initiative		
<b>Total Audit Fees</b>	<b>59,350</b>	<b>59,350</b>

- 
- 29 The analysis above shows that we contained our audit fee within the totals you have already agreed.

### Our arrangements to ensure independence and objectivity

- 30 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 3 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
Code of Conduct	The Code of Conduct forms part of the terms and conditions of all our employees. The Code states that staff must comply with ethical guidance issued by their relevant professional bodies.
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

# Appendix 1 – Draft letter of representation

To: John Prentice  
Audit Commission  
Kernel House  
Killingbeck Drive  
Killingbeck  
Leeds  
LS14 6UF

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## **North Yorkshire Fire and Rescue Authority - Audit for the year ended 31 March 2008.**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of North Yorkshire 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 31 March 2008.

### **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 2007 which present fairly 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 Authority and 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;
- 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

There are no 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 in note 17 to the financial statements. I confirm:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

## Appendix 1 – Draft letter of representation

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

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

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

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 the Audit Performance and Resources Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of North Yorkshire Fire and Rescue Authority

I confirm that the this letter has been discussed and agreed by the Authority on [date]

Signed

Name

Position

Date

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# Appendix 2 – Draft audit report

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## Independent auditor's report to the Members of North Yorkshire Fire and Rescue Authority

### Opinion on the financial statements

I have audited the accounting statements, the firefighters' pension fund accounting statements and related notes of North Yorkshire Fire and Rescue Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, 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 financial 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 North Yorkshire 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, 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 present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- 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.

## Appendix 2 – Draft audit report

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 financial 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.

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## Opinion

In my opinion:

- the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- the firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters' pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, 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.

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### 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. 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 December 2006, I am satisfied that, in all significant respects, North Yorkshire Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

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### 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.

John Prentice,  
District Auditor

Audit Commission  
Kernel House  
Killingbeck Drive  
Killingbeck  
Leeds  
LS14 6UF

[Date]

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## Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Analytical review procedures should be based on gross income and expenditure, rather than net, in order to ensure that errors in the gross figures are identified.	2				

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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