

Annual Governance Report

Lancashire Combined Fire Authority

Audit 2007/08

September 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, value for money conclusion and certificate on your 2007/08 accounts.
- 2 This report includes a copy of the letter of representation received from management. In accordance with International Standards on Auditing (UK&I) 580 only management need to sign the letter. However, those charged with governance must acknowledge their collective responsibility for the compilation of the financial statements and arguably this would include considering the adequacy of the letter of representation.
- 3 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

- 4 Our work on the financial statements is complete and we expect to issue an unqualified opinion by 30 September 2008. Arrangements for the production of the financial statements and associated working papers remain strong and we have not identified any weaknesses in internal control that could lead to a material error in your accounts.

Value for Money

- 5 We have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of your resources against 12 criteria specified by the Audit Commission. We have concluded your arrangements are adequate and propose issuing an unqualified conclusion on the Authority's value for money arrangements.

Next steps

- 6 We ask the Audit Committee to:
 - consider the matters raised in the report before approving the financial statements; and
 - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 7 The 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management to sign and you to approve;
 - 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.

Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The CIPFA Statement of Recommended Practice (SORP) for local accounting standards brought significant changes to the format of the financial statements	The Authority has correctly disclosed for the changes required by the 2007 SORP.
The new fire-fighters pension fund, introduced in 2006/07 is audited according to its own separate materiality and audit risks.	A number of amendments have been made to the fire-fighters pension fund to reflect statutory guidance received after the 30th June 2008. (See Appendix 3).

Financial statements and Annual Governance Statement

Draft representation letter

- 11** 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;
 - 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.
- 12** We need specific representations from you confirming the current position regarding the pension overpayment issue.
- 13** Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 14** We consider the qualitative aspects of your financial reporting. These cover;
- appropriateness of accounting policies (including non-compliance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice);
 - timing of transactions;

- appropriateness of accounting estimates and judgements, including consistency of assumptions and degree of prudence;
- potential effect of material risks and exposures, for example, litigation, disclosed in financial statements;
- any issues casting doubt on the ability to remain as a going concern;
- the extent to which the financial statements are affected by usual transactions;
- apparent misstatements in other information published with the financial statements;
- material inconsistencies between the financial statements and other information published with the financial statements;
- the balance and clarity of information contained in the financial report; and
- the accessibility of the financial statements and other documents published with financial statements.

15 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

16 We identified two errors in the financial statements (other than those of a trivial nature) and management has agreed to adjust the financial statements to correct these issues. In addition to these errors, management has amended a number of balances within the firefighters' pension fund account to reflect updated guidance received after the 30 June 2008, the deadline by which the draft accounts needed to be prepared and approved. The issue and balances affected are detailed within Appendix 3

17 Management has agreed to adjust the financial statements to include a disclosure note for the following issue.

- As at 30 June 2008, the Authority was aware that a number of firefighters who retired due to a service injury had received pension payments in excess of their entitlement which represent overpayments. However, there are no accounting entries or disclosures within the draft accounts to reflect this issue. The Authority position was that as negotiations with pensioners remain on going it was not possible to reliably estimate and establish a debtor figure within the 2007/08 statements. We have agreed with officers that a contingent asset disclosure be added within the draft statements setting out the basis of this issue and stating that potential recovery action will be undertaken. We recommend that a debtor figure be established in respect of these overpayments in future years along with any necessary provision for bad debts. We are satisfied that the total amount of estimated overpayments is not material to our opinion on the Authority's accounts.

Management have also amended the issue detailed below.

- Our review of the depreciation charge identified that the correct asset lives had been applied as at 30 June 2008. However a more up to date assessment of asset lives has subsequently been completed. The application of these revised asset lives confirms that the depreciation charge within the draft statements was understated by £379k. The accounts have now been amended to correct this error.

Financial statements and Annual Governance Statement

We have not identified any errors that management has declined to correct where we have asked them to do so.

The audit report

18 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

19 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.

20 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

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

Value for money

- 22** We are required to conclude whether the Authority has 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 Audit Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 23** We have assessed the arrangements of the Authority as adequate (under this assessment arrangements are either classified as adequate or inadequate) in all twelve areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

24 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 unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

25 We have not and do not propose to exercise these powers in relation to the 2007/08 audit.

Independence

- 26** 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.
- 27** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28** 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

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

Audit fees

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

Table 2 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements	39,924	39,924
Use of Resources (including BVPP)	21,083	21,083
National Fraud Initiative	350	350
Total Audit Fees	61,357	61,357
Relationship management Direction of Travel assessment (met by DCLG grant)	15,593	15,593

31 The analysis above shows that we expect to contain our audit fee within the totals you have already agreed.

Our arrangements to ensure independence and objectivity

32 We have comprehensive procedures to ensure independence and objectivity. These are outlined below.

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"> do not hold a financial interest in any of our audit clients; 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 may not enter into business relationships with UK audit clients or their affiliates.

Area	Arrangements
	<p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> ● the general requirement to carry out work independently and objectively; ● safeguarding against potential conflicts of interest; ● acceptance of additional (non-audit) work; ● rotation of key staff; ● other links with audited bodies; ● secondments; ● membership of audited bodies; ● employment by audited bodies; ● political activity; and ● gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 - Draft Letter of Representation

Mr C Portman
District Auditor
Audit Commission
2nd Floor
Aspinall House
Aspinall Way
Middlebrook
Bolton
BL6 6QQ

Lancashire Combined Fire 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 Lancashire Combined 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 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 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.

I am not aware of any:

- 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

I am not aware of any instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events [require/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.

Compensating arrangements

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

Appendix 1 - Draft Letter of Representation

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

Specific representations

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

The accounts include a contingent asset note, relating to a review of the level of pensions paid to fire-fighters who retired due to a service injury. The current position remains consistent with this note, in that the review is still on-going and we have not yet concluded negotiations with individuals regarding the repayment of over paid amounts.

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 September 2008

Signed on behalf of Lancashire Combined Fire Authority

Signed

Name	Keith Mattinson
Position	Director of Finance/Treasurer to Lancashire Combined Fire Authority
Date	25 September 2008

Appendix 1 - Draft Letter of Representation

Signed

Name John Shedwick
Position Councillor Lancashire Combined Fire Authority

Date 25 September 2008

Appendix 2 - Draft Audit Opinion

Independent auditor's report to the Members of Lancashire Combined Fire Authority

Opinion on the financial statements

I have audited the accounting statements, the firefighters' pension fund accounting statements and related notes of Lancashire Combined Fire Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The 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 Lancashire Combined Fire 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.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer'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.

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 and 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.

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'/police) 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.

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.

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

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for fire and rescue authorities. 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, Lancashire Combined Fire Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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.

Clive Portman
District Auditor
2nd Floor Aspinall House
Aspinall Close
Middlebrook
Bolton
BL66QQ
September 2008

Appendix 3 - Audit Issues

Table 4

Issue	Amendment
Adjusted Items	
<p>The Firefighters' pension fund</p> <p>A number of amendments have been applied to figures detailed within the firefighters pension fund account. This is a consequence of the issue of a CIPFA Local Authority Accounting Panel Bulletin 75 in July 2008 providing definitive guidance on how to account for commutation payments. The draft accounts were prepared in accordance with the relevant guidance available at the time.</p>	<p>The following balances have been affected</p> <p>Fund account</p> <ul style="list-style-type: none"> • Commutations of pensions and lump sum retirement benefits. • Total spending by the fund. • Net amount receivable for the year before top up grant receivable. • Top up grant receivable from the sponsoring department. <p>Net assets statement</p> <ul style="list-style-type: none"> • Pensions top up grant receivable from sponsoring department. • Other current assets and liabilities.
<p>Pension overpayments</p> <p>As at 30 June 2008, the Authority was aware that a number of firefighters who retired due to a service injury had received pension payments in excess of their entitlement which represent overpayments. However, there are no accounting entries or disclosures within the draft accounts to reflect this issue. The Authority position was that as negotiations with pensioners remain on going it was not possible to reliably estimate and establish a debtor figure within the 2007/08 statements.</p>	<p>We have agreed with management that a contingent asset disclosure be added within the draft statements setting out the basis of this issue and stating that potential recovery action will be undertaken.</p>

Depreciation charge

Our review of the depreciation charge identified that the correct asset lives had been applied as at 30th June 2008. However a more up to date assessment of asset lives has subsequently been completed. The application of these revised asset lives confirms that the deprecation charge within the draft statements is understated by £379K.

Management have amended the draft statements to correct this error. The main change is set out within Note 11 to the core financial statements and a number of other balances are also affected throughout the statements.

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.

Copies of this report

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