

Annual governance report

Greater Manchester Fire and Rescue Authority

Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	4
Financial statements	5
Value for money	8
Fees	11
Appendix 1 – Draft independent auditor’s report	12
Appendix 2 – Corrected errors	16
Appendix 3 – Draft letter of management representation	17
Appendix 4 – Glossary	19

Key messages

This report summarises the findings from the 2011/12 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.

Financial statements

As at 27 September 2012 I expect to issue an unqualified audit opinion.

The financial statements and associated working papers submitted for audit were of good quality. I found a small number of immaterial errors in the financial statements. I also recommended some improvements to narrative and disclosures. Management have adjusted the accounts adequately for each issue I raised. As in 2010/11, the number of errors I found was comparatively low. This indicates another strong performance by the Authority and I thank staff for their assistance during the course of my audit.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Authority has effective financial planning processes in place. The medium term financial plan (MTFP) is soundly based and has clear links to underlying efficiency plans. The Authority and the Service have continued to identify significant savings while keeping issues of safety and service quality to the fore. The Authority has developed an effective strategy to deliver the savings.

Looking ahead the Fire Authority faces a tough period, with further reductions in its budget. Meeting the challenges will require the continued effective leadership and close control of costs.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion.

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 elected 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.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

Management agreed to adjust the accounts for the errors I found from my audit.

Corrected errors

I have not found any material errors from my audit, and management has adjusted for the small number of immaterial errors I identified. These are set out in appendix 2. Adjusting for one of the errors resulted in a decrease in both debtors and creditors of £381k. This has resulted in a change to the face of the balance sheet – assets and liabilities have reduced by £381k but there has been no impact on net worth or on balances or reserves.

Other issues

The Authority presents a pension fund net asset statement in note 42 of the financial statements. This shows £10,811k of debtors and £195k of creditors. These are netted off to give a net debtor of £10,616k. This is the correct accounting treatment in the pension fund net assets statement according to the Accounting Code of Practice.

The £10,616k net debtor is also included in debtors in the Authority's balance sheet. The Code does not state whether the £10,811k debtor and £195k creditor should be netted off in the balance sheet. International accounting standards do not permit debtors and creditors to be netted off in balance sheets. The Code supersedes accounting standards, and management believe the Code intends the debtor and creditor to be shown net in the balance sheet.

I have reviewed this interpretation of the Code. As the Code is unclear and the £195k creditor is immaterial, I do not believe management's interpretation is unreasonable, and so do not recommend an adjustment to the accounts. The Authority should continue to monitor guidance on this issue to ensure their interpretation remains reasonable in future years.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In the table below I report to you my findings against each of these risks.

Risks and findings

Risk	Finding
<p>IAS 19 Pensions liability</p> <p>The Authority has to include entries in the accounts to reflect the future costs of pensions. This includes the liabilities relating to the firefighters' pensions and the extent to which the present value of liabilities exceeds the fair value of assets for the local government pension scheme (Greater Manchester Pension Fund.) This has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.</p> <p>The Government Actuary's Department (GAD) act for the firefighters' pension scheme. Independent actuaries Hymans Robertson act for GMPF. The estimated figures involve a high degree of subjectivity and small changes in the assumptions used can have a material impact on the financial statements.</p>	<p>I have reviewed controls in place to ensure the actuaries have sufficient and accurate information to make their estimates. I have undertaken procedures to rely on the work of the actuaries, including using the Audit Commission's appointed expert to review the work of pension fund actuaries. My tests of detail confirmed that the financial statements correctly reflect the actuarial estimates for both schemes.</p> <p>From my work I have not found any indication of mis-statement relating to this risk. I have completed sufficient work to assure myself that the pensions' liability is not materially mis-stated.</p>

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the Authority's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. There are no matters in relation to internal control that I need to draw to the Authority's attention.

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

Again there are no matters that I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my February 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the issues I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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>A comprehensive savings programme has been in progress since 2010-11, including the Authority's 'star chamber' efficiency reviews with detailed work being undertaken to reduce expenditure prior to the significant reductions in government grants expected for 2013/14 and 2014/15 and probably beyond.</p> <p>The Corporate Leadership Team (CLT) has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term. This includes scenario planning in relation to future grant funding levels and other key sources of income.</p> <p>There is a strong link between the Corporate Plan and the integrated risk management arrangements. Audit and Scrutiny Committee takes an active role in monitoring the corporate risk register, with appropriate constructive challenge.</p> <p>For 2011/12 you achieved an underspend of £5.5m on the original budget for the full year, and you increased your useable reserves by £14m, which are available</p>

Criteria	Findings
	<p>to:</p> <ul style="list-style-type: none"> • Support the new North West Fire Control Facility • Meet in the future expenditure which has slipped for various reasons • provide financial support for future spending decisions or uncertainties <p>This is as considered and reported in regular reports to the Fire and Rescue Authority</p> <p>The Authority now has a £13.6m reserve to help manage the significant reductions to forecast income. But it is important to bear in mind that while reserves are key to pump priming initiatives and meeting non recurrent costs, they cannot be relied upon to meet recurrent expenditure.</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 2011/12:</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>The CLT provides clear leadership on spending priorities and demonstrates a ‘hands on’ approach to understanding the latest resource requirements of current and future service delivery.</p> <p>The Authority carried out a wide and comprehensive consultation on its future corporate plan</p> <p>Performance management is strong and there is appropriate challenge by the Authority Members, who consider a range of indicators covering financial, service delivery and performance aspects.</p> <p>The Authority and senior management have applied cost benefit analysis as part of their wide ranging review of service areas to secure savings.</p> <p>Against a background of income reductions and cost savings, during 2011-12 the Authority has reported that it;</p> <ul style="list-style-type: none"> ■ continued to develop partnership working across Greater Manchester and further afield ■ completed a total of 66,688 Home Fire Safety Checks ■ completed a total of 6394 inspections of business premises, and ■ contributed to a achieving a reduction in deliberate fires and fire related

Criteria**Findings**

injuries.

Challenges remain in the medium term, and in December 2012 central Government will announce future grant allocations. Arrangements in place have helped deliver the corporate plan to date. There remain clear financial risks but the arrangements and the disciplined approach to them in practice provide a good platform to address successfully the challenges ahead.

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	88,320	88,320
Claims and returns [delete if not applicable]	0	0
Non-audit work	0	0
Total	88,320	88,320

Appendix 1 – Draft independent auditor’s report

Opinion on the Authority and Pension Fund financial statements

I have audited the financial statements and the firefighters’ pension fund financial statements of Greater Manchester Fire and Rescue Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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 financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFAS/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Greater Manchester 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, which includes the financial statements and the firefighters’ pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Treasurer; and the overall presentation of the financial statements. In addition, I read

all the financial and non-financial information in the explanatory foreword [*and the annual report*]ⁱ to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Greater Manchester Fire and Rescue Authority as at 31 March 2012 and of its expenditure and income 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

ⁱ Where the financial statements are published with an annual report, make reference to the actual title of that document. If an annual report is published which does not contain the financial statements, this reference should be deleted.

ⁱⁱ Where the financial statements are published with an annual report, make reference to the actual title of that document. If an annual report is published which does not contain the financial statements, this reference should be deleted.

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, I am satisfied that, in all significant respects, Greater Manchester Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

[Signature]

Mick Waite

District Auditor

The Audit Practice,
Second Floor,
Aspinall House
Aspinall Close,
Middlebrook,
Bolton,
BL6 6QQ

27 September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Collection fund debtors and creditors	Collection fund debtors and creditors are based on schedules provided to the Authority by the ten Greater Manchester Metropolitan Borough Councils. One Council made an error on their schedule which resulted in them assigning an extra £381k of debtors and creditors to the Authority. Management has now reduced debtors and creditors by this amount in the statements.	Creditors 381	Debtors 381
Financial instruments – financial assets	Financial assets within the financial instruments disclosure note should contain listings of all the Authority's financial assets at 31 March 2012. £108k of cash held by the Authority was excluded, and this has been amended in the financial instruments note.		
Cashflow statement	Entries on the face of the cashflow statement should represent cash received and paid. Interest paid and received was incorrectly presented on the accruals basis, with a corresponding error in the 'reversal of operating activity items' line.		

I recommended a small number of further amendments to other disclosures and narrative. This included ensuring the narrative disclosures on the senior officers' remuneration notes were in line with the Code requirements. These were minor issues which I am not required to report here. Management improved the disclosures and narrative notes in the accounts satisfactorily in response to the issues I raised. There are no remaining unadjusted errors in the financial statement.

Appendix 3 – Draft letter of management representation

Greater Manchester Fire and Rescue Authority - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members and senior officers of Greater Manchester 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 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 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.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

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 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.

Related party transactions

I confirm that I have disclosed the identity of the Authority's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Greater Manchester Fire and Rescue Authority

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012.

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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.

