

**Meeting:** Combined Fire Authority

**Date:** 24<sup>th</sup> September 2015

**Subject:** Statement of Accounts and Annual Governance Statement 2014/15

**Report By:** The Treasurer

**Author:** Adam Stretton (Deputy Treasurer)

**For:** Decision

## **1. Purpose**

The purpose of this report is to present the External Auditor's opinion on the Combined Fire Authority's (CFA) financial statements and submit the 2014/15 Statement of Accounts for approval and to present the Annual Governance Statement for approval and publication with the final Statement of Accounts.

## **2. Recommendations**

The CFA is asked to:

- a) Note the ISA 260 report presented by PricewaterhouseCoopers.
- b) Approve the Letter of Representation.
- c) Agree the Statement of Accounts 2014/15.
- d) Approve the Annual Governance Statement 2014/15.

## **3. Executive Summary**

- 3.1. The CFA's External Auditors, PricewaterhouseCoopers (PwC), have completed the audit of the CFA accounts in line with the Code of Audit Practice and Auditing Standards. They plan to issue an unqualified opinion on both the financial statements and Value for Money (VFM) conclusion.
- 3.2. PwC are required to report to the CFA all uncorrected misstatements which they have identified during the course of their audit, other than those of a trivial nature. A projected misstatement is included within their ISA 260 report.
- 3.3. PwC identified a number of minor errors which have been corrected by management. The correction of these errors has been included in the Statement of Accounts 2014/15.
- 3.4. Approval and ownership of the AGS is required at a corporate level. The AGS is

published with the final Statement of Accounts.

#### 4. Report Detail

##### **Statement of Accounts**

- 4.1. The Account and Audit Regulations 2011 state that the accounts must be published with the audit opinion and certificate and be approved by Members by 30<sup>th</sup> September.
- 4.2. The External Auditors opinion contained in the ISA 260 report (attached as **Appendix 1**) covers the issues arising from the audit of the financial statements and those issues which are formally required to be reported under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I)) 260 – "Communication of audit matters with those charged with governance". The report includes a draft letter of representation that needs to be agreed by the CFA and signed by the Deputy Treasurer.
- 4.3. The report outlines the results of the work undertaken under the Code of Audit Practice in forming an external opinion on the adequacy of the CFA's arrangements for economy, efficiency and effectiveness in its "Use of Resources". The findings of the External Auditor are detailed within the ISA 260 report.
- 4.4. **Systems of internal control** - The External Auditors are required to report to the CFA any material weaknesses in the accounting and internal control systems identified during the audit. A control issue is identified and detailed within the ISA 260 report.
- 4.5. **Accounting practices** - They are also required to report to the CFA their view on qualitative aspects of the CFA's accounting practices and financial reporting and the ISA 260 sets out their observations on key issues affecting the CFA.
- 4.6. **Value for Money Conclusion** - The External Auditors are required to issue a conclusion as to whether the CFA is financially resilient and has adequate arrangements in place to achieve economy, efficiency and effectiveness in the use of its resources.
- 4.7. **Annual Governance Statement** - Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS is included in this report for approval. Internal Audit reviewed it as part of the annual assurance requirements to look at the broader governance arrangements of the organisation (covering governance, risk management procedures and internal control). External Audit reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it was misleading or inconsistent with other information known to them from their audit work.
- 4.8. At the time of this report, there remained some outstanding matters where the auditors' work is not yet finalised. These are noted in the ISA 260 report and an

update will be received at the meeting.

- 4.9. The CFA noted at its meeting of 9<sup>th</sup> July 2015 a revenue underspend of £1,688,043 and capital expenditure of £3,969,275. It was agreed that the revenue underspend supported carry forwards of £307,680 into 2015/16, and a net transfer to specific reserves of £1,380,363. The draft Statement of Accounts was delivered to PwC on 30<sup>th</sup> June 2015.
- 4.10. During the external audit minimal technical adjustments have been undertaken and none of these affect the revenue outturn position. The Statement of Accounts for 2014/15 attached at **Appendix 2** reports that the final revenue outturn is an underspend of £1,688,043. This maintains the position reported to the CFA at its meeting of 9<sup>th</sup> July 2015.
- 4.11. The capital expenditure outturn has remained unchanged at £3,969,275.

### **Annual Governance Statement**

- 4.12. The Framework “Delivering Good Governance in Local Government” was launched in June 2007 at the Chartered Institute of Public Finance’s (CIPFA) annual conference. The Framework which was produced by CIPFA and the Society of Local Authority Chief Executives (SOLACE) set the standard for local authority governance in the UK and introduced the requirement from the 2007/08 Statement of Accounts to produce an AGS to replace the Statement of Internal Control. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remained “fit for purpose” and issued revised guidance.
- 4.13. The Framework urges Local Authorities to review and report on the effectiveness of their governance arrangements, with an increased emphasis on a strategic approach focusing on outcomes and value for money, driven by the significant change being experienced in Local Government and the introduction of other key legislation. The AGS is an important statutory requirement which enhances public reporting of governance matters.
- 4.14. The Solicitor and Monitoring Officer presented the final annual review of governance arrangements to the CFA on 22<sup>nd</sup> June 2011. Historically, this would have included the annual self-assessment of the CFA’s performance against the six principles of good governance described in the CIPFA / SOLACE Framework. However, he recommended and the CFA approved the cessation of the practice of producing an annual review of governance arrangements, and the adoption of a Local Code of Governance.
- 4.15. Following analysis of the CFA’s governance arrangements, the AGS has been produced in accordance with the guidance in the CIPFA / SOLACE Framework and provides a self-assessment of the CFA’s performance across all of its activities. It is attached as **Appendix 3**. Other sources of evidence included corporate assessments, external inspections and internal and external audit reports. It is being presented to the CFA to comply with CIPFA guidance, which requires high level input in order to ensure that the AGS reasonably reflects their knowledge and experience of the CFA’s governance and control framework and that suggested areas for improvement are appropriate. Any comments by the

CFA will be duly considered and incorporated as appropriate.

- 4.16. Guidance states that the 'Significant Governance Issues' are those that:
- Seriously prejudice or prevent achievement of a principal objective of the CFA.
  - Have resulted in the need to seek additional funding to allow these issues to be resolved, or has resulted in the significant diversion of resources from another aspect of the business.
  - Have led to a material impact on the accounts.
  - The Overview and Scrutiny Committee (Corporate Governance Committee) advises should be considered significant for this purpose.
  - The Head of the Internal Audit Service reports on as significant in the annual opinion on the internal control environment.
  - Have attracted significant public interest or have seriously damaged the reputation of the organisation.
  - Have resulted in formal action being undertaken by the Treasurer and/or the Monitoring Officer.
- 4.17. For the AGS to have its intended benefit it is important to be open and honest about the areas for improvement but also to give a balanced view of the organisation. The assurance gathering process identified key corporate areas of improvement and implementing actions to address. These will ensure that identified gaps within the CFA's current control environment will be filled and will further enhance the CFA's overall governance arrangements. The 2014/15 review of the Governance Framework has identified a number of minor issues that required attention. Outstanding actions identified in the AGS will be assigned to the appropriate managers.
- 4.18. The Code of Practice in Local Authority Accounting states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. The AGS has been updated to reflect the revised constitutional arrangements for 2015/16.
- 4.19. The Head of the Internal Audit Service has produced his annual opinion on the overall adequacy and effectiveness of the control environment 2014/15 operated by the CFA and this is attached as **Appendix 4**. The assurances contained in this opinion are incorporated into the AGS. The Head of Internal Audit Service Annual report is to be presented to the Corporate Governance Committee when it first meets in November 2015.
- 4.20. Approval and ownership of the AGS will be reflected at corporate level by the Executive Advisory Board (EAB) and Area Manager Forum (AMF). The statement will be signed on behalf of the CFA by the Chief Fire and Rescue Officer and the Chair of the CFA.

## **5. Report Implications / Impact**

### **5.1. Legal (including crime and disorder)**

- a) The Accounts and Audit Regulations 2011 require that the responsible financial officer (the Treasurer) certifies the initial Statement of Accounts within three months of the financial year end i.e. by 30<sup>th</sup> June. The Accounting Code of Practice on Local Authority Accounts largely dictates the format of the Statement of Accounts. The Statement of Accounts 2014/15 meets this statutory obligation. During the external audit a number of alterations were agreed to the Statement and these are included in Appendix 2. The Statement of Accounts must be published by 30<sup>th</sup> September preferably with an auditor's certificate or opinion.
- b) There is a statutory requirement in England under the revised Accounts and Audit (England) Regulations 2011, for a Local Authority to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the CFA relies on, to be brought together and reviewed, from both a departmental and corporate view.

### **5.2. Financial (including value for money, benefits and efficiencies)**

The annual budget for 2015/16 contains a provision of £48,340 for the costs incurred for external audit. KPMG as our new External Auditors from 2015/16 are currently anticipating charging a total audit fee of £29,247. The actual fee charged and associated costs will be taken into consideration in financial monitoring during 2015/16.

### **5.3. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)**

- a) The initial Statement of Accounts was prepared based on the final Revenue and Capital Outturn 2014/15 report. PwC commenced their audit on the accounts in mid-July to try and ensure that any changes necessary prior to the final publication of the Statement of Accounts could be reported and completed on time.
- b) The revised Accounts and Audit (England) Regulations 2011 require the approved AGS to accompany the Statement of Accounts. The change in wording emphasises that the statement is separate from the accounts for the purposes of external audit.

### **5.4. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)**

- a) The External Auditors have commented that for the fourth consecutive year both the quality and timeliness of the draft financial statements presented for audit has improved. This is due to a concerted effort on the part of the Area Manager Finance and the Accountant to improve the accuracy and quality of the accounts presented for audit.

- b) The post of the Director of Finance and Corporate Services (The Treasurer) has been disestablished. The Director as the Treasurer was responsible for authorising the Accounts for submission to the external auditors at the 30<sup>th</sup> June 2015. It needs to be acknowledged that external audit review work on the value for money conclusion, the Annual Governance Statement and pensions normally undertaken by the Director has been completed by the Area Manager Finance as Deputy Treasurer with the assistance of the Accountant.

#### 5.5. ***Environmental***

Hard copies of the Annual Report (which will include the Statement of Accounts) are only produced on request. An electronic copy is available on the CFA's website.

#### 5.6. ***Impact upon Our Plan Objectives***

- a) It is important to ensure that the budget set by the CFA reflects and enables progress to be made against the CFA's corporate objectives. The Medium Term Financial Plan for 2015/20 reflects the CFA's strategic plan, "Our Plan". It also reflects national and regional strategies and policies at the time of issue.
- b) One of the CFA's corporate aims is achieving excellence in managing our Service. This is underpinned by the objective of efficiency and provision of a Value For Money service. The production of the AGS supports both the aim and objective.

### 6. **Background Papers**

- a) External Audit Plan 2014/15 (Overview and Scrutiny Committee Report – 28<sup>th</sup> January 2015)
- b) Final Outturn 2014/15 (CFA Report - 9<sup>th</sup> July 2015)
- c) Annual Review of Governance Arrangements (CFA Report – 22<sup>nd</sup> June 2011)
- d) Annual Governance Statement 2013/14 (Policy Committee Report – 7<sup>th</sup> August 2014)

### 7. **Appendices**

- 1. Draft ISA 260
- 2. Combined Fire Authority 2014/15 Statement of Accounts
- 3. Draft Annual Governance Statement 2014/15
- 4. Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of the control environment 2014/15

**DRAFT - ANNUAL GOVERNANCE STATEMENT 2014/15**

**1. INTRODUCTION**

Leicester, Leicestershire and Rutland Combined Fire Authority (the CFA) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those working for and with the Authority. This ensures that the services provided to the residents of Leicester, Leicestershire and Rutland are properly accounted for and delivered economically, efficiently and effectively.

The CFA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The CFA publicises all agenda, meeting papers and minutes on our website. We also publish an Annual Report which includes information on outcomes, achievements, satisfaction and progress against key priorities and plans. We have extended our communication to social media, which includes a Facebook Page and an increase in the use of Twitter both corporately and at Station level.

In discharging this overall responsibility, the CFA is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

**2. WHAT IS GOVERNANCE?**

Corporate Governance is defined as how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The CFA's governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled. It enables the CFA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CFA has approved and adopted a local Code of Corporate Governance, which is consistent with the six core principles of the Chartered Institute of Public Finance and Accountancy's (CIPFA) / the Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website [www.leicestershire-](http://www.leicestershire-)

[fire.gov.uk](http://fire.gov.uk) and this statement explains how the CFA has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare and publish an Annual Governance Statement (AGS).

### **3. WHAT THE AGS TELLS YOU**

The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Authority has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

### **4. HOW THIS STATEMENT HAS BEEN PREPARED**

There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Authority relies on, to be brought together and reviewed. The governance framework has been in place at the CFA for the year ended the 31st March 2015 and up to the date of approval of the Annual Report and Statement of Accounts.

### **5. THE CFA's GOVERNANCE FRAMEWORK**

The Authority's Constitution provides the framework for its decision making processes and sets out the detailed procedures and codes of conduct by which Members and Officers operate to achieve the Authority's objectives. It defines the CFA's political structure, roles and responsibilities of the CFA, its Committees, Members and Officers and the rules under which they operate.

The CFA currently promotes its purpose and vision through "Our Plan" (which incorporates the Integrated Risk Management Plan as a separate appendix). It is available to view at: [www.leicestershire-fire.gov.uk](http://www.leicestershire-fire.gov.uk) . This needs to be considered in conjunction with the Medium Term Financial Plan (MTFP) which was agreed by the CFA in April 2015. This highlights the current financial risks facing the Authority. An updated MTFP was noted by the CFA in July 2015.



Members of the CFA also need to satisfy themselves that the Authority's Statement of Accounts have been prepared in accordance with best practice. This is achieved through receiving the annual External Audit Report which also gives an opinion on how the CFA is achieving Value for Money.

The Authority's visions and its implications are reviewed during the annual review of its Strategy, which creates a new version of "Our Plan". This annual plan will set out how the visions will be achieved and any changes to governance requirements.

A Policy Committee and an Overview and Scrutiny Committee were established in 2005. This change was intended to streamline and improve member decision-making by devolving much of this to the Policy Committee but providing a check on the exercise of that power by giving OSC a right to call-in decisions. The Policy Committee also monitors the financial and non-financial performance of the organisation.

The Overview and Scrutiny Committee was given the role of being the CFA's Audit Committee with responsibility for monitoring the adequacy of the risk management framework and the associated control environment.

In July 2015 the CFA reviewed the governance further and dispensed with both Committee replacing them with a Corporate Governance Committee and an Employment Committee. The CFA has also established a Pension Board for the Firefighters' Pension Schemes as required by legislation.

To ensure quality of service and efficient use of resources, and furthermore to ensure the information needed to review service quality effectively and regularly, the Authority has established a Performance Management Framework, which requires each Directorate to produce annual service plans, setting out their objectives and targets in relation to the Authority's policy priorities. These plans, with "Our Plan", form the basis of the Authority's Annual Report, which summarises progress against targets and sets out proposed improvements in performance and service standards. Progress against the Authority's priorities and budgets is monitored and reported to Members on a regular basis.

To ensure effective leadership throughout the Authority, Members and Officers work together to deliver a common purpose with clearly defined functions and roles. The CFA's Constitution includes details of the role and responsibilities of the Committees, the full Authority and Officers and the rules under which they operate. The Constitution is subject to annual review and is revised as necessary during the intervening period. The Authority's Solicitor (the Head of Corporate Services) is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Authority,

its Committees and Officers, providing support and advice on the maintenance of ethical standards.

As Chief Financial Officer, the Director of Finance and Corporate Services is responsible for the proper administration of the Authority's financial affairs. The Authority's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance and Corporate Services is a key member of the Senior Management Team and leads a fully resourced and suitably qualified Finance function. The Director of Finance and Corporate Services is actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFP. The Chief Fire and Rescue Officer and the Director of Finance and Corporate Services are Directors of Forge Health Limited, a wholly owned subsidiary of the CFA.

The post of Director of Finance and Corporate Services is to be dis-established from 1<sup>st</sup> November 2015. The Director of Finance at Leicester City Council will take on the role of Treasurer to the CFA under section 112 of the Local Government Finance Act 1988. The Director's other functions will be distributed to other managers.

The success of the CFA's services relies substantially on the contribution of staff to the planning, development and delivery of services. The CFA recognises that the value of staff contributions will be enhanced through: clear communication of the Authority's expectations; nurturing and developing staff skills and abilities; encouraging, celebrating and rewarding achievements; providing a safe, healthy, supportive and inclusive working environment and by treating all people fairly and with respect. The Chief Fire and Rescue Officer is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice.

The People Strategy priorities have been established to promote an organisational culture that delivers excellent services. It is focused on providing the Authority's workforce with opportunities and experiences to maximise their full potential and enables managers to recruit, manage, develop, reward and retain the right people with the right skills and attributes. Engagement of the workforce is a key strand of the People Strategy and the CFA uses various well established means of communicating and consulting with staff to ensure understanding and, to secure commitment in terms of delivering services and managing change. A process of identifying individual employee targets and development needs has been established and implemented. Within this process, every employee must receive an annual

Personal Development Review with an optional six monthly review if requested. A staff survey was undertaken in 2012/13 and the findings were presented to the Senior Management Team. Performance information is made available to the public through the Authority's website, primarily through the production of the annual report.

The importance of a strong ethical framework and culture has always been recognised by the CFA. As part of the Constitution both the Member's and Officer's Codes of Conduct have been agreed. Members have attended briefings and training. The values embedded in the Codes of Conduct define the standards of behaviour for all Members and staff. The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, contract procedure rules, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability.

The Authority's scheme of members' allowances was developed after consultation with the Independent Remuneration Panels of our constituent Authorities. Reports on member's allowances are public and the CFA publicises information in accordance with Members' Allowance Regulations together with details of allowances received by every member. Declarations of personal and prejudicial interests are recorded in minutes of meetings which are available on the CFA's website as is the member's Register of Interests including gifts and hospitality which is also made available for public inspection. Members receive induction and training is offered regularly. The CFA's political groups monitor the performance of their membership.

The Authority actively recognises the necessity of compliance with relevant laws, regulations, internal policies and procedures. The Monitoring Officer monitors reports to ensure probity of decision making and that legal advice is included where necessary and appropriate and is fully involved in policy development and the Scrutiny process. The Authority's whistle-blowing policy is available to all staff. The CFA's constitution states that it is the policy of the CFA to take seriously all complaints and concerns made by members of the public and to thoroughly investigate them. A summary of the current complaints, concerns and compliments procedure is available on the Authority's website.

A review and refresh of the Authority's Anti-Fraud and Corruption Strategy was completed in 2014/15. The principles contained in the strategy are in line with CIPFA Code of Practice on Managing the risk of fraud and corruption, issued in October 2014. An updated Anti-Fraud and Corruption Statement has been incorporated into the Constitution.

All Officers receive an Induction Pack on commencement of employment at the Authority which includes information on Conditions of Service and other various personnel subjects. Officers declare all gifts and hospitality over £25 and this is also made available for public inspection on the CFA's website.

The CFA takes account of feedback to review outcomes so they reflect progress and wider changes. The complaints procedure has been revised and agreed by Senior Management Team in 2014/15. Procedures are in place to identify trends and to follow up and report on the outcomes of complaints. This will inform and improve service delivery.

We work in partnership where it is beneficial to do so and ensure appropriate arrangements are in place to safeguard us against unacceptable levels of risk. The Authority's significant partnerships have been identified and a high level review was undertaken in 2012 to ensure that appropriate partnerships and governance arrangements were in place. The Authority's significant partnerships are underpinned by Partnership Agreements and governance frameworks to ensure there is a common vision for their work. As part of the Authority's governance arrangements, guidance has been provided on assessing partnership risks. It is the Authority's aim to ensure that all future and new agreements and partnerships continue to include a section on Governance and risk management arrangements.

The CFA already makes available a large amount of information through several means, but is also committed to meeting its obligations to give rights of public access to information held by Local Authorities, through the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. This legislation helps the Authority to create a climate of openness and dialogue with all its stakeholders, which in turn will help to increase public confidence in the way that the Authority is operating. The CFA fully complies with all transparency requirements of the Department for Communities and Local Government (DCLG) and the Localism Act 2011. The Authority's Pay Policy Statement ensures the Authority manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way.

## **6. REVIEW OF EFFECTIVENESS**

The CIPFA Governance Framework details the key sources of typical systems and processes that an Authority can adopt to ensure it has an effective system of internal control. Using this guidance, the CFA can provide assurance that it has effective governance arrangements which includes:

- Providing effective internal audit
- Effective risk management arrangements
- An Overview and Scrutiny Committee
- Independent External Audit review

The responsibility for proving such assurance will lie with the Corporate Governance Committee in the future.

The CFA has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

The Monitoring Officer has a duty to monitor and review the operation of the Constitution and to report to the Authority on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer ensures compliance with the local Code of Corporate Governance.

Formal assurance is provided by Directors that the policies and procedures are being applied in the initiation, development and delivery of service plans. Where gaps have been identified, action plans have been drafted and responsibility for implementation assigned. A full review of project governance arrangements was undertaken in 2013 and reported to the Senior Management Team.

The effectiveness of the Authority's key financial and ICT controls and parts of its wider internal control environment are examined through the work of our Internal Audit provider, Leicestershire County Council's Internal Audit Service (LCCIAS). The annual plan is based on an assessment process that focuses resources on higher risk areas. The plan for 2014/15 was produced from a risk assessment and consultation with the Director of Finance and Corporate Services. It was agreed and reported to the Overview and Scrutiny Committee. Internal Audit findings are reported to the Senior Management Team, together with recommendations for improvement and agreed action plans. Specific follow up checks are undertaken by LCCIAS to ensure that all agreed high importance recommendations have been implemented. All Internal Audit findings are reported to the Overview and Scrutiny Committee. The Committee last received a presentation on the role and responsibility of Internal Audit in April 2012.

The CFA's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The Head of Internal Audit Service (HoIAS) at LCCIAS works with the Director of Finance and Corporate Services to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the

Internal Audit Service so that it makes a contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the CFA's control environment.

LCCIAS has adopted the principles of the Public Sector Internal Audit Standards (PSIAS) introduced from April 2013. An Internal Audit Charter, formally defining the purpose, authority and responsibility of the internal audit activity, was presented to the Overview and Scrutiny Committee in March 2015. The Committee noted the report and recommended that the CFA approve the Charter. Final approval of the Charter will reside with those charged with governance.

During the year, the HoIAS conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that whilst current practices mostly conform to the PSIAS, a few specific areas were identified where action is needed before the HoIAS can claim to fully conform. Whilst these are not significant deviations to the PSIAS, it is considered that reference to implementing actions should be recorded in the areas for improvement. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

The PSIAS require the HoIAS to complete an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Authority. Based on evidence from planned audits and any special investigations, the HoIAS reports each year to the Director of Finance and Corporate Services and to Members of the Authority on any major weaknesses that have been identified in the internal controls examined, and highlights where high importance improvements are considered necessary. Detailed information is contained in the HoIAS Annual Opinion on the overall adequacy and effectiveness of the control environment 2014/15 (**Appendix 4**) and the following conclusions have been drawn:

- a) On governance, nothing of such significance, adverse nature or character has come to the HoIAS' attention, and as such reasonable assurance is given that the CFA's governance arrangements during 2014-15 were robust.
- b) On risk management, whilst no specific opinion was reached, management agreed to implement audit recommendations, which will mitigate risk. Therefore reasonable assurance is given that risk is managed.
- c) On financial (and ICT) controls, reasonable assurance can be given that the CFA's core financial practices remain strong. However, the

procurement cards recommendations need reviewing and implementing where accepted.

The Director of Finance and Corporate Services reviews this information along with other relevant information such as budget monitoring reports in compiling this statement. The work of LCCIAS and the wider financial aspects of corporate governance and performance management are examined each year by the Authority's External Auditors. Further assurance is provided by regular reports produced by independent review bodies such as the Audit Commission and the National Audit Office. We assess ourselves against the Audit Commission's 'Protecting the Public Purse' to gain better knowledge of fraud exposure and direct potential improvement. We have a 'zero tolerance' approach to fraud or corruption perpetrated against us.

The CFA's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Service's Corporate Risk Management Guidance provides the framework within which these risks can be managed.

Risk management is undertaken as part of the normal service planning and project management process. The Risk Management Group, which includes the lead CFA Member for Risk, through the Director of Community Services, reports progress on mitigating the risks in the corporate risk register to the Policy Committee. This register captures strategic risk, which by its nature has a long time span. Regular performance monitoring reports are also brought to the Policy Committee and Overview and Scrutiny Committee showing progress against 'Our Plan'.

There has been a review of the risk management system, which is shortly to be implemented and will be presented to the Corporate Governance Committee in Spring 2016.

The Overview and Scrutiny Committee supports the work of the Authority, by producing reports and recommendations, which advise the Authority on its policies, budget and service delivery. Decisions by the Policy Committee are monitored by this Committee who have the facility to examine them in detail. They are able to call-in any decision which would mean that implementation is delayed to enable the Overview and Scrutiny Committee's views to be considered by the Policy Committee. This right has not been exercised in 2014/15 although the Committee has followed an agreed work plan for the year. This includes monitoring the effectiveness of Officer arrangements for ensuring an adequate internal control environment and combating fraud and corruption and ensuring that an adequate risk management framework and

associated control environment is in place. The Committee also considers the findings of the annual internal audit report. The Committee produces and publishes a report to the CFA on the activities of the Committee over the municipal year.

The Policy Committee plays a key role in monitoring and reviewing the effectiveness of the system of internal control by promoting and maintaining high standards within the Authority. Under the new governance arrangements, this role will be performed by the Corporate Governance Committee. The Policy Committee also considers the Annual Governance Statement.

The CFA's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Authority which contribute to the production of the Annual Statement of Accounts. The CFA's external auditors PricewaterhouseCoopers (PwC) review these arrangements and detail findings from their planned audit work to those charged with governance.

Under International Auditing Standards, PwC are required to report to those charged with governance (the CFA) on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. Their last report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion. The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts are sufficient to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or error. For 2013/14, the CFA's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulations.

The CFA 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 regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, PwC are satisfied that, in all significant respects, the CFA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended the 31<sup>st</sup> March 2014.



As Chief Fire and Rescue Officer and the Chair of the CFA we have been advised on the implications arising from the review of the effectiveness of the governance framework by the Director of Finance and Corporate Services (the Treasurer) and Monitoring Officer, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## **7. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT**

The reviews of effectiveness undertaken by both Internal and External Audit have advised that the Authority's overall financial management and corporate governance arrangements during 2014/15 are sound. The review of the Authority's governance arrangements has been undertaken in order to produce this statement and has highlighted a number of governance issues (detailed below) that require attention and action is being taken to address these issues: -

- The pressure on public spending will continue to present new pressures for the CFA. The Authority will be proactive in addressing the impact of the reductions in Government funding on the Authority and the services it provides to the people of Leicester, Leicestershire and Rutland. In particular emphasis will be placed on continuing to minimise the community risk whilst maintaining an appropriate level of Council Tax. We will undertake extensive public consultation and involvement on proposed changes and will continue to communicate with, and publish results of our consultations with stakeholders on future plans and proposals.
- Whilst both Corporate Risk Management Guidance and Corporate and Project Risk Registers are in place, there is a constant need to further develop risk management processes to ensure risk management principles are embedded and applied consistently throughout the Authority's operations.
- Information risk is a growing risk area with the potential for fines for loss of personal data and damages to an organisation's reputation. The CFA will continue to review and strengthen its data protection where necessary to prevent such loss and damage.
- Collaboration between the three regional CFAs on both the Agresso Financial System and the Tri-Service Control project has led to different project structures being created. The CFA will ensure that these enable good governance and collective responsibility.

- To improve the service's external website as this is outdated, difficult to navigate and does not provide a satisfactory end user experience. To publish new pages which are innovative, dynamic and easy to navigate, contain all required relevant and legislative information and include social media integration.
- Full conformance to the Public Sector Internal Audit Standards will strengthen the governance arrangements in relation to internal audit activity.

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 7. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Richard Chandler  
Chief Fire and Rescue Officer/  
Chief Executive Officer

Nicholas Rushton CC  
Chairman of the CFA

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## **Combined Fire Authority 2014/15 Statement of Accounts**

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Copies of the Statement of Accounts and a large print version are available from the Service Headquarters at 12 Geoff Monk Way, Birstall, Leicester, LE4 3BU.  
Tel; Leicester (0116) 2872241 or on our website.

## **EXPLANATORY FOREWORD**

The accounting statements contained in this booklet represent the Combined Fire Authority's (CFA's) accounts for the year ended the 31<sup>st</sup> March 2015. The accounts have been presented in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

The accounts comprise the core financial statements, the names and purposes of which are described below:

### **Movement in Reserves Statement**

This statement shows the movement in year on the different reserves held by the CFA, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the CFA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the CFA.

### **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement (MIRS). The deficit on the provision of services is £11,412k (£17,752k in 2013/14).

### **Balance Sheet**

This sets out the value of assets and liabilities of the CFA as at the 31<sup>st</sup> March 2015. The net assets of the CFA (assets less liabilities) are matched by the reserves held by the CFA. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the CFA may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the CFA is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The net worth of the CFA is £31,317k (£28,667k 2013/14) excluding pensions (a deficit of £370,572k including pensions) - (£333,780k 2013/14).

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the CFA during the reporting year. The statement shows how the CFA generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the CFA are funded by way of taxation and grant income or from the recipients of services provided by the CFA. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the CFA's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the CFA.

### **Comparison of Income and Expenditure Spend to Budget**

The table below provides a comparison of actual expenditure for the financial year ending the 31<sup>st</sup> March 2015 with the revised budget.

	<b>Revised Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Employees	27,644	26,897	(747)
Indirect Employee Expenses	693	501	(192)
Fire Pensions	808	839	31
Premises	2,123	2,040	(83)
Transport	1,258	1,089	(169)
Supplies and Services	3,351	2,937	(414)
Other Local Authorities	50	21	(29)
Support Services	72	73	1
Capital Financing	2,687	2,623	(64)
Gross Expenditure	38,686	37,020	(1,666)
Income	(38,305)	(38,327)	(22)
Net Expenditure	381	(1,307)	(1,688)
Contribution (from)/to Specific Reserves	(39)	1,342	1,381
Net Expenditure after Specific Reserves	342	35	(307)
Contribution (from)/to General Fund	(342)	(35)	307
<b>Total Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

The accounts for 2014/15 show an underspend of £1,688k compared to the revised budget, before adjustments relating to reserves. The main areas contributing to the underspend are as follows:

Firefighters pay (£479k), Support Staff pay (£69k), Retained pay (£201k), Training (£179k), Energy Costs, (£97k), Fleet Maintenance and fuel (£83k), Leasing costs (£43k), Car allowances (£42k), Operational Equipment (£42k), Clothing and Uniforms (£72k), Communications and Computing (£108k), Government Grants (£44k), and External Interest payments (£64k).

The main items of income (excluding funding income) are:

Contributions received for the Princes Trust Scheme £476k (£504k 2013/14), interest income £47k (£30k 2013/14), dividend from the subsidiary, Forge Health Limited £37k (£64k 2013/14) and radio mast income £60k (£49k 2013/14).

### Comparison of Capital Spend to Revised Programme

The table below provides a comparison of actual payments for the financial year ending the 31<sup>st</sup> March 2015 with the most recent updated capital programme.

	<b>Updated Programme £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Appliances/ Vehicles	647	597	(50)
Property	3,309	2,753	(556)
Equipment	111	110	(1)
IT and Communications	1,439	509	(930)
Other	100	0	(100)
<b>Total Expenditure</b>	<b>5,606</b>	<b>3,969</b>	<b>(1,637)</b>

The Capital Programme underspend mainly relates to ongoing projects that did not complete in 2014/15 but are scheduled for completion in 2015/16 (£1,196k). This is mainly due to the continuing development of a fire station at Castle Donington (£298k), the Tri-Service Fire Control Project where the implementation of the system is presently planned for August 2015 (£720k) and the implementation of a Wide Area Network (£56k). The remaining £441k is mainly due to underspends on the Birstall new station and headquarters project (£240k); Fire Control Enabling works at Southern Station (£69k) and a reduced requirement to meet the capitalisation costs of a new Fire and Rescue Indemnity Consortium Company (£100k).

As a consequence of both the underspend on the capital projects and the deliberate delay in borrowing to keep interest costs down, interest paid on borrowings for 2014/15 was £64k less than the revised budget.

The majority of the expenditure in year relates to the purchase and refurbishment work for a new fire station at Castle Donington (£1,152k) and for the completion of major refurbishment projects at Hinckley Fire Station (£341k) and at Coalville Fire Station (£1,077k). Vehicle expenditure of £597k relates to the procurement and purchase of a new Aerial Ladder Platform (ALP).

## **Annual Performance**

The Annual Report for 2014/15 highlights the work that the Service has undertaken over the year and provides a full review of the CFA's performance against Key Corporate Indicators (KCI's). The KCI's include the performance on sickness absence for both operational and support staff and environmental data on the CFA's energy usage. The Annual Report 2014/15 provides a direct link to these accounts.

## **Pensions Accounting**

The Balance Sheet shows liabilities in respect of four pensions schemes provided for our staff:

The £15,899k liability (£11,317k in 2013/14) on the Local Government Pension Scheme (LGPS) is expected to be covered by increased levels of employer contributions.

The Firefighters' schemes are statutory unfunded schemes and the significant total liability of £385,990k (£351,130k in 2013/14) is a result of this position. There is no requirement, or legal powers, for the CFA to fund this deficit, and any costs not financed by future levels of employee or employer contributions will be met by a Department of Communities and Local Government (DCLG) grant. More details on pensions can be found in note 32.

## **Borrowing**

Public Works Loans Board (PWLB) borrowing has decreased to £15,728k (£16,728k in 2013/14), with no new PWLB borrowing in 2014/15. Temporary borrowing of £1,500k in 2014/15 was sourced from the North Yorkshire County Council. Total borrowing is less than originally anticipated in the 2014/17 Medium Term Financial Plan when an authorised debt limit of £21,853k was set. There were no finance leases commenced during 2014/15 and repayments made of £912k decreases the outstanding borrowing to £5,703k (£6,615k 2013/14) against an authorised lease limit of £7,234k.

Financing of capital expenditure is primarily undertaken by procuring loans from PWLB, from finance leases available in the market, by capital grants from DCLG, by using proceeds from sales of surplus capital assets or by using one-off excess funds such as underspends.

## **Significant Provisions, Contingencies or Write Offs**

There were no significant write-offs in 2014/15. The property revaluation undertaken on the 31<sup>st</sup> March 2015 resulted in £875k negative revaluations which were not covered by positive values held in the revaluation reserve from previous revaluations.

## **Events After the Reporting Period.**

Note 34 of the accounts provides details of an event which happened after the 31<sup>st</sup> March 2015, but referred to conditions existing at that date.

## **Impact of Current Economic Climate on the CFA's Services**

The property revaluation as at the 31<sup>st</sup> March 2015 identified £944k revaluation increases and £885k revaluation losses. The net increase of £59k is 0.13% of the value of the entire property portfolio (excluding property assets in construction). The repairs and maintenance budget and the refurbishment plan in the capital programme help keep the value of the portfolio as high as the economy permits.

In order to address the impact of the current economic climate, the following actions have been identified;

The Medium Term Financial Plan (MTFP) 2014-17 identified that efficiency savings to an estimated value of £7,500k were required by 2019/20. To tackle the budget shortfall an Organisational Change Project was established that was tasked to identify ways in which the deficit would be addressed. Following completion of the Project and a public consultation period, a number of options were agreed by the CFA at its meetings of the 11th February 2015 and the 8th April 2015. These savings have been included in the MTFP 2015-20. It is acknowledged that it is not possible to achieve the required savings without reductions in staffing levels and it is likely that a number of voluntary and/or compulsory redundancies will be required. Earmarked reserves have been identified to support future redundancy and over-establishment costs in this transitional period. However, the MTFP 2015-20 shows that on current financial planning assumptions, additional efficiency savings of £2,100k by 2019/20 need to be found. The MTFP 2015-20 shows that a balanced budget cannot be achieved in 2017/18 without further action.

The CFA has agreed to hold 5% of its revenue budget as a General Reserve. Consideration is being given to recent advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) that this could be reduced to 4% in the future. Any excess balances will support Earmarked Reserves to meet redundancy and over-establishment costs.

The CFA continues to work closely with all major precepting authorities within Leicester, Leicestershire and Rutland, to determine and monitor the impact of government funding policy with regards to Business Rates and Council Tax Benefits.

The CFA agreed along with all the major precepting authorities not to operate a pooling agreement for business rates levies and safety net payments for 2014/15. This was due to uncertainties around both business rate policy and regulation, and the probability of future change to business rate liabilities. The uncertainties mean that all members of the pool were unwilling to take the risks associated with continuing the pool. After receiving clarification around the implications of the financial settlement, all previous pool members have indicated to the Department for Communities and Local Government (DCLG) that they are happy to renew the pool again for the 2015/16 financial year.

## **STATEMENT OF RESPONSIBILITIES**

### **THE CFA'S RESPONSIBILITIES**

The CFA is required to;

- (i) make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the CFA that officer is the Treasurer.
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets,
- (iii) approve the Statement of Accounts.

These accounts were approved by the Treasurer to the CFA on the 24<sup>th</sup> September 2015.

**Nicholas Rushton**

### **CHAIR OF THE COMBINED FIRE AUTHORITY**

### **THE TREASURER'S RESPONSIBILITIES**

The Treasurer is responsible for the preparation of the CFA's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the Treasurer has:

- (i) selected suitable accounting policies and then applied them consistently,
- (ii) made judgements and estimates that were reasonable and prudent,
- (iii) complied with the local authority Code,
- (iv) kept proper accounting records which were up to date,
- (v) taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Combined Fire Authority as at the reporting date and of its income and expenditure for the year ended the 31<sup>st</sup> March 2015.

### **DEPUTY TREASURER OF THE COMBINED FIRE AUTHORITY**

24<sup>th</sup> September 2015



# ***Independent Auditors' Report to the Members of the Leicester, Leicestershire and Rutland Combined Fire Authority (the "Authority")***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Leicester, Leicestershire and Rutland Combined Fire Authority's financial statements (the "financial statements"):

- give a true and fair view of the state of the Leicester, Leicestershire and Rutland Combined Fire Authority's affairs as at 31 March 2015 and of the Leicester, Leicestershire and Rutland Combined Fire Authority's income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

### **What we have audited**

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The financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Comprehensive Income and Expenditure Statement for the year then ended;
- the Movement in Reserves Statement for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

In applying the financial reporting framework, the Treasurer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## **Opinion on other matter prescribed by the Code of Audit Practice**

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In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Other matters on which we are required to report by exception**

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We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Leicester, Leicestershire and Rutland Combined Fire Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

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# Responsibilities for the financial statements and the audit

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## Our responsibilities and those of the Treasurer

As explained more fully in the Statement of Responsibilities set out on page 5 the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Leicester, Leicestershire and Rutland Combined Fire Authority's members as a body 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 of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Leicester, Leicestershire and Rutland Combined Fire Authority'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.

We primarily focus our work in these areas by assessing the Treasurer's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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# Report on the pension fund accounts

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## Our opinion

In our opinion, the firefighters' pension fund accounts contained within the Statement of Accounts of Leicester, Leicestershire and Rutland Combined Fire Authority (the "pension fund accounts"):

- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2015, and the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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## What we have audited

The pension fund accounts comprise:

- the Firefighters' Pension Fund Net Assets Statement as at 31 March 2015;
- the firefighters' Fund Account for the year then ended; and
- the notes to the Firefighters' Pension Fund statement, which include explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In applying the financial reporting framework, the Treasurer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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## **Opinion on other matter prescribed by the Code of Audit Practice**

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In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund accounts are prepared is consistent with the pension fund accounts.

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## **Responsibilities for the pension fund accounts and the audit**

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### **Our responsibilities and those of the Treasurer**

As explained more fully in the Statement of Responsibilities set out on page 5 the Treasurer is responsible for the preparation of the pension fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Leicester, Leicestershire and Rutland Combined Fire Authority's members as a body 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 of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **What an audit of pension fund accounts involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounts sufficient to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the firefighters' 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 pension fund accounts.

We primarily focus our work in these areas by assessing the Treasurer's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited pension fund accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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## **Conclusion on the Leicester, Leicestershire and Rutland Combined Fire Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

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### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 13 October 2014, we are satisfied that, in all significant respects, Leicester, Leicestershire and Rutland Combined Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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## What a review of the arrangements for securing economy, efficiency and effectiveness in the use of resources involves

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 13 October 2014, as to whether the Leicester, Leicestershire and Rutland Combined Fire 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 us to consider under the Code of Audit Practice in satisfying ourselves whether the Leicester, Leicestershire and Rutland Combined Fire Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

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## Our responsibilities and those of the Leicester, Leicestershire and Rutland Combined Fire Authority

The Leicester, Leicestershire and Rutland Combined Fire 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Leicester, Leicestershire and Rutland Combined Fire 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Leicester, Leicestershire and Rutland Combined Fire Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Leicester, Leicestershire and Rutland Combined Fire Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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## Certificate

We certify that we have completed the audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority in accordance with the requirements of Part II of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Alison Breadon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Donington Court  
Pegasus Business Park  
East Midlands  
DE74 2UZ

Date:

- (a) The maintenance and integrity of the Leicester, Leicestershire and Rutland Combined Fire Authority website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters

and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.

- (b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

**MOVEMENT IN RESERVES STATEMENT**

This statement shows the movement in year on the different reserves held by the CFA, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the CFA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the CFA.

	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total CFA Reserves £000
<b>Balance as at the 31<sup>st</sup> March 2013</b>		4,432	906	5,338	(340,943)	(335,605)
Deficit on the provision of services		(17,752)	0	(17,752)	0	(17,752)
Surplus on revaluation of Property, Plant and Equipment assets	23	0	0	0	3,627	3,627
Actuarial gain on pension assets/liabilities	23	0	0	0	15,950	15,950
<b>Other Comprehensive Income and Expenditure:</b>		0	0	0	19,577	19,577
<b>Total Comprehensive Income and Expenditure</b>		(17,752)	0	(17,752)	19,577	1,825
Adjustments between accounting basis and funding basis under regulations	5	18,037	0	18,037	(18,037)	0
<b>Net Increase before Transfers to Earmarked Reserves</b>		285	0	285	1,540	1,825
Transfers to or from Earmarked Reserves	6	(586)	586	0	0	0
<b>(Decrease)/Increase in 2013/14</b>		(301)	586	285	1,540	1,825
<b>Balance as at the 31<sup>st</sup> March 2014</b>		4,131	1,492	5,623	(339,403)	(333,780)
Deficit on the provision of services		(11,412)	0	(11,412)	0	(11,412)
Surplus on revaluation of Property, Plant and Equipment assets	23	0	0	0	725	725
Actuarial loss on pension assets/liabilities	23	0	0	0	(26,105)	(26,105)
<b>Other Comprehensive Income and Expenditure</b>		0	0	0	(25,380)	(25,380)
<b>Total Comprehensive Income and Expenditure</b>		(11,412)	0	(11,412)	(25,380)	(36,792)
Adjustments between accounting basis and funding basis under regulations	5	12,758	0	12,758	(12,758)	0
<b>Net Decrease before Transfers to Earmarked Reserves</b>		1,346	0	1,346	(38,138)	(36,792)
Transfers to or from Earmarked Reserves	6	(1,374)	1,374	0	0	0
<b>(Decrease)/Increase in 2014/15</b>		(28)	1,374	1,346	(38,138)	(36,792)
<b>Balance as at the 31<sup>st</sup> March 2015</b>		4,103	2,866	6,969	(377,541)	(370,572)

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement (MIRS).

	Note	2013/14		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
<b>Community Fire Safety</b>		4,771	(292)	4,479
Firefighting and Rescue Operations		35,755	(1,948)	33,807
Fire Service Emergency Planning and Civil		568	(34)	534
Corporate and democratic core		774	(36)	738
Non distributed costs		6	0	6
<b>Cost of services</b>		<b>41,874</b>	<b>(2,310)</b>	<b>39,564</b>
Other operating expenditure	7	0	(82)	(82)
Financing and investment income and expenditure	8	16,334	(94)	16,240
Taxation and non-specific grant income and expenditure	9	93	(38,063)	(37,970)
Deficit on the provision of services				<b>17,752</b>
<b>Items that will not be reclassified to the Deficit on the Provision of Services</b>				
Surplus on revaluation of Property, Plant and Equipment assets	23			(3,627)
Remeasurement of the net defined benefit liability	23			(15,950)
<b>Other Comprehensive Income and Expenditure</b>				<b>(19,577)</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>(1,825)</b>

	Note	2014/15		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
<b>Community Fire Safety</b>		4,757	(315)	4,442
Firefighting and Rescue Operations		31,063	(4,859)	26,204
Fire Service Emergency Planning and Civil		690	(22)	668
Corporate and democratic core		763	(38)	725
Non distributed costs		6	0	6
<b>Cost of services</b>		<b>37,279</b>	<b>(5,234)</b>	<b>32,045</b>
Other operating expenditure	7	0	(99)	(99)
Financing and investment income and expenditure	8	16,747	(85)	16,662
Taxation and non-specific grant income and expenditure	9	0	(37,196)	(37,196)
Deficit on the provision of services				<b>11,412</b>
<b>Items that will not be reclassified to the Deficit on the Provision of Services</b>				
Surplus on revaluation of Property, Plant and Equipment assets	23			(725)
Remeasurement of the net defined benefit liability	23			26,105
<b>Other Comprehensive Income and Expenditure</b>				<b>25,380</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>36,792</b>

**BALANCE SHEET**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the CFA. The net assets of the CFA (assets less liabilities) are matched by the reserves held by the CFA. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the CFA may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the CFA is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Property, Plant and Equipment	10	45,624	47,058
Intangible Assets	11	18	5
<b>Long Term Assets</b>		<b>45,642</b>	<b>47,063</b>
Short Term Investments	15	4,385	4,327
Assets Held for Sale	19	0	349
Inventories	16	255	266
Short Term Debtors	17	5,933	6,152
Cash and Cash Equivalents	15	1,086	441
<b>Current Assets</b>		<b>11,659</b>	<b>11,535</b>
Short Term Borrowing	15	(1,925)	(3,726)
Short Term Creditors	20	(5,191)	(4,000)
<b>Current Liabilities</b>		<b>(7,116)</b>	<b>(7,726)</b>
Long Term Borrowing	15	(21,418)	(19,206)
Net Pensions Liability	32	(362,447)	(401,889)
Provisions	21	(100)	(349)
<b>Long Term Liabilities</b>		<b>(383,965)</b>	<b>(421,444)</b>
<b>Net Liabilities</b>		<b>(333,780)</b>	<b>(370,572)</b>
General Fund		4,131	4,103
Earmarked General Fund Reserves	6	1,492	2,866
<b>Total Usable Reserves</b>		<b>5,623</b>	<b>6,969</b>
Pension Reserve	23	(362,447)	(401,889)
Revaluation Reserve	23	7,815	8,540
Capital Adjustment Account	23	15,232	15,706
Collection Fund Adjustment Account	23	195	196
Accumulated Absences Account	23	(198)	(94)
<b>Total Unusable Reserves</b>		<b>(339,403)</b>	<b>(377,541)</b>
<b>Total Reserves</b>		<b>(333,780)</b>	<b>(370,572)</b>

The notes on pages 14 to 42 form part of the financial statements.

The financial statements on pages 10 to 42 were authorised for issue on the 24<sup>th</sup> September 2015 by the Treasurer of the Combined Fire Authority.



**CASH FLOW STATEMENT**

The Cash Flow Statement shows the changes in cash and cash equivalents of the CFA during the year. The statement shows how the CFA generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the CFA are funded by way of taxation and grant income or from the recipients of services provided by the CFA. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the CFA's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the CFA.

	Note	2013/14		2014/15	
		£000	£000	£000	£000
Net deficit on the provision of services		17,752		11,412	
Adjustment to the net deficit on the provision of services for non-cash movement	35	(22,104)		(15,435)	
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	35	1,049		1,495	
<b>Net cash flows from Operating Activities</b>			<b>(3,303)</b>		<b>(2,528)</b>
Investing Activities	37		8,222		2,768
Financing Activities	38		(6,004)		405
Net (increase)/decrease in cash and cash equivalents			<b>(1,085)</b>		<b>645</b>
<b>Cash and cash equivalents at the beginning of the year</b>			<b>1</b>		<b>1,086</b>
<b>Cash and cash equivalents at the end of the year</b>	18		<b>1,086</b>		<b>441</b>

## NOTES TO THE ACCOUNTS

### 1 Accounting Policies

#### 1.1 General principles

The Statement of Accounts summarises the CFA's transactions for the 2014/15 financial year and its position at the year-end of the 31<sup>st</sup> March 2015. The CFA is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 which require to be prepared in accordance with proper accounting practices. The practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, as applicable to Fire Authorities and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.  
In particular:

Revenue from the sale of goods is recognised when the CFA transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the CFA.

Revenue from the provision of services is recognised when the CFA can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the CFA.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### 1.3 Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on demand and where earning interest is not the prime consideration.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the CFA's cash management.

#### 1.4 Prior Year Adjustments, Changes on Accounting Policies and Estimates and Errors

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the CFA's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### 1.5 Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- ~ depreciation attributable to the assets used
- ~ revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- ~ amortisation of intangible assets.

The CFA is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the CFA in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP) or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

## 1.6 Employee Benefits

### (i) Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. provided cars) for current employees and are recognised as an expense for services in the year in which the employees render service to the CFA. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is based on wage and salary rates applicable in the following financial year, being the year in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out in the MIRS so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### (ii) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the CFA to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the CIES at the earlier of when the CFA can no longer withdraw the offer of those benefits or when the CFA recognises costs for a restructuring.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the CFA to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### (iii) Post-employment Benefits

Employees of the CFA are members of one of four pension schemes, all of which are accounted for as defined benefits schemes.

- The Local Government Pension Scheme (LGPS), for which Hymans Robertson calculate the liability as at the 31st March 2015 and which Leicestershire County Council administer.
- Three Firefighters' pension schemes, for which the Government Actuary's Department (GAD) calculate the liability. These schemes do not have the usual type of pension fund found in the private sector which uses investments to help meet scheme liabilities. The CFA is required to maintain a Firefighters' pension fund which:
  - ~ receives employee and employer contributions and transfer values from other schemes, and
  - ~ pays out benefits and transfer values to other schemes.

The CFA does not have the power to invest assets in the Firefighters' pension scheme as would normally be the case with a pension fund. If the fund has insufficient money to meet all of its pension liabilities, the Secretary of State will make up the shortfall; if the fund is in surplus, the Secretary of State will take the excess to cover any shortfall in the funds of other Authorities. A fourth Firefighters' Pension Scheme (The 2015 scheme) comes into effect from the 1st April 2015.

IAS19 - Employee Benefits, requires the recognition of the CFA's share of assets and liabilities in the three Firefighters' pension schemes and the LGPS as well as requiring recognition in the CIES of the full costs of providing for future retirement benefits earned by existing employees.

The liabilities attributable to the CFA are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.2% for the LGPS and 3.3% for the Firefighter's schemes.

The Firefighter's schemes are unfunded and therefore have no assets. In respect of LGPS, in accordance with IAS 19, quoted securities are valued at bid price rather than mid-market value.

Actuarial losses and gains are recognised within Other Comprehensive Income and Expenditure in the CIES. They are then reversed out of the General Fund to the Pensions Reserve within the MIRS, to ensure they do not impact on the council tax payer.

The change in the pensions asset/liability is analysed into the following components:

Service cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CIES to the services for which the employees worked
- past service costs - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset) - i.e. net interest expense for the CFA - the change during the year in the net defined liability (asset) that arises for the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the year - taking into account any changes into the net defined benefit liability (asset) during the year as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets - excluding amounts included in the net interest on the net defined benefit liability/(asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions
- charged to the Pensions Reserve as other Comprehensive Income and Expenditure

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the CFA to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

(iv) Discretionary Benefits

The CFA also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the pension scheme.

**1.7 Events After the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the year and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

**1.8 Financial Instruments**

Financial liabilities are recognised on the Balance Sheet when the CFA becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the CFA has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CIES is the amount payable for the year according to the loan agreement.

**1.9 Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the CFA when there is reasonable assurance that; the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the CFA are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied, income is recognised within the CIES on the relevant service line (attributable revenue grants and contributions) or in Taxation and Non-specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants).

Where capital grants are recognised in this way they are then reversed out of the General Fund in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is transferred to the Capital Adjustment Account (CAA) and reported in the MIRS.

**1.10 Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the CFA as a result of past events, e.g. software licences, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the CFA.

Intangible assets with an original cost in excess of £10k are measured initially at cost. The assets continue to be carried at amortised cost over its useful life to the relevant service line in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MIRS and posted to the CAA and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

**1.11 Interests in Companies and Other Entities**

The CFA has an interest in other companies and other entities that have the status of a wholly owned subsidiary. There are no interests in associates and jointly controlled entities. An annual review in accordance with paragraph 9.1.1.6 of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 has been undertaken and it is considered that this interest is not material.

**1.12 Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in, first out (FIFO) costing formula.

**1.13 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the CFA at the end of the lease period).

The CFA is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the CAA in the MIRS for the difference between the two.

#### Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from the use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### 1.14 **Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principal is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- The direct costs of members and their support, which are disclosed separately in the CIES within Corporate and Democratic Core.
- The cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are accounted as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

### 1.15 **Property, Plant and Equipment**

Assets that have a physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used for more than one financial year are classified as Property, Plant and Equipment. All expenditure on the acquisition, creation or improvement of Property, Plant and Equipment is capitalised on an accruals basis, provided that future economic benefits or service potential associated with the item will flow to the CFA for a period of more than a year and is over a £5k de-minimus limit.

There is no depreciation or amortisation charged in the year of addition, unless the value is deemed material to the accounts, but a full year's depreciation or amortisation is charged in year of disposal.

Non-current assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

The bases of valuation of the various categories of assets are as follows:

#### (i) **Land and Buildings**

This category of asset is included in the Balance Sheet at open market value for existing use, or where, due to the specialised nature of the asset this could not be assessed, at depreciated replacement cost. The remaining average life of all buildings as at the 31<sup>st</sup> March 2015 is 30 years. Valuation is carried out every year. The latest valuation exercise was carried out by Cameron Butler BLE (Hons) MRICS of FHP Property Consultants.

The asset values used in the accounts are based on a certificate issued by FHP Property Consultants on all properties as at the 31<sup>st</sup> March 2015. Additions which are still under construction are included in the accounts at cost.

#### (ii) **Vehicles, Plant and Equipment**

Measurement is based upon actual cost depreciated over the individual assets' useful economic lives.

### 1.16 **Provisions, Contingent Liabilities and Contingent Assets**

#### (i) **Provisions**

Provisions are made when an event has taken place that gives the CFA a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the CFA becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less probable that the situation will occur (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The CFA holds an insurance provision to cover the cost of known or likely claims relating to past events where it is anticipated that payment is likely to be made.

(ii) Contingent liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the CFA's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Where either of these circumstances are present, no provision is made in the Balance Sheet, but the circumstances are explained as a note to the accounts.

(iii) Contingent Assets

A contingent asset arises where an event has taken place that gives the CFA a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the entity's control.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 1.17 Reserves

The CFA sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the MIRS so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the CFA – these reserves are explained in note 23.

### 1.18 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## 2 Accounting Standards that have been Issued but not yet Adopted

For 2014/15 the following accounting policy changes that need to be reported relate to:

~ IFRS 13 Fair Value Measurement (May 2011)

~ IFRIC 21 levies

The issues included in the Annual Improvements to IFRSs 2011 - 2013 cycle are:

~ IFRS 1 Meaning of effective IFRSs

~ IFRS 3 Scope exceptions for joint ventures

~ IFRS 13 Scope of paragraph 52 (portfolio exception)

~ IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property

## 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in these accounts, the CFA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the accounts are:

- a) that despite a high degree of uncertainty about future funding levels for local government, the CFA has determined that at present, this is not sufficient to prevent the CFA continuing as a going concern
- b) impairment of investments will not be material
- c) the relationship with Forge Health Limited is treated as a wholly owned subsidiary in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. As the interests are not considered material, group accounts are not presented.
- d) that no contracts held by the CFA hold embedded leases
- e) that no major legal claims are in progress which could result in claims of a material value by or from the CFA.

**4 Assumptions Made about the Future and other Major Sources of Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the CFA about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the CFA's Balance Sheet at the 31<sup>st</sup> March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Heading	Description of uncertainty	Potential effect if results differ from assumption
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant on them being repaired and maintained sufficient to keep them in a usable condition for this period. The current economic climate makes it uncertain that the CFA will be able to sustain its current spending on repairs and maintenance, which may impact the significant assumptions applied by the valuer in estimating the fair value and remaining useful lives of land and buildings.	If the useful lives of assets is reduced, depreciation increases and the carrying value of assets falls. It is estimated that the annual depreciation charge for buildings would increase by £28k for every year of reduction if applied to useful lives of the entire portfolio. 1% variation in the valuation would result in a difference of £366k to the value of land and buildings.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements by the actuary relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement rates, mortality rates and expected returns on pension fund assets. On behalf of the CFA, the Local Government Pension Scheme employs the Actuary, Hymans Robertson, and the Firefighter's Pension Schemes are valued by Government Actuary's Department (GAD). These actuaries provide expert advice on assumptions to be applied.	The effects in the net pensions liability of changes in the individual assumptions can be measured. A 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £48,500k (£4,800k LGPS and £43,700k Firefighters schemes).
Arrears	At the 31 <sup>st</sup> March 2015, the CFA had a balance of trade debtors of £143k. A review of all balances over 121 days outstanding found no evidence to conclude that any unrecoverable debts were material. For this reason, no impairment of doubtful debts is proposed at this time.	If all outstanding debt over 121 days became irrecoverable, a charge of £2k would be made to the revenue budget.

**5 Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the CFA in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the CFA to meet future capital and revenue expenditure.

	2013/14		2014/15	
	Usable Reserves - General Fund Balance	Movement in Unusable Reserves	Usable Reserves - General Fund Balance	Movement in Unusable Reserves
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Reversal of items debited or credited to the CIES</u>				
Charges for depreciation of non-current assets	(2,014)	2,014	(2,199)	2,199
Difference between fair value and historical cost depreciation	110	(110)	209	(209)
Revaluation Gains/(Losses) of Property, Plant and Equipment	(4,408)	4,408	(875)	875
Amortisation of Intangible assets	(13)	13	(13)	13
Capital grants and contributions applied	1,552	(1,552)	1,495	(1,495)
Capital Receipts applied	1,313	(1,313)	145	(145)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,069)	1,069	(46)	46
Amounts of current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(162)	162	0	0
<u>Insertion of items not debited or credited to the CIES</u>				
Statutory provision for the financing of capital investment	1,414	(1,414)	1,516	(1,516)
Capital expenditure charged against the General Fund	1,265	(1,265)	242	(242)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to CIES	(15,606)	15,606	(15,882)	15,882
Employer's pensions contributions and direct payments to pensioners payable in the year	(440)	440	2,545	(2,545)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax and non-domestic rating income credited to the CIES is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	124	(124)	1	(1)
<b>Adjustments primarily involving the Accumulating Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	(103)	103	104	(104)
<b>Total Adjustments</b>	<b>(18,037)</b>	<b>18,037</b>	<b>(12,758)</b>	<b>12,758</b>



**6 Transfers to/ from Earmarked General Fund Reserves**

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

The CFA maintains a number of earmarked reserves to finance future expenditure as detailed below:

- (i) **Insurance reserve**  
The CFA's insurance policies require a degree of self-insurance. The insurance reserve has been established to meet future claims.
- (ii) **Occupational Health reserve**  
To support the proposed relocation of the Occupational Health and Fitness Unit and Forge Health Limited in 2015/16.
- (iii) **Arson reserve**  
Created to support work on arson reduction over a 3 year period from 2010/11 from a one-off City Reward grant. This is now fully used.
- (iv) **IRMP Redundancy reserve**  
Created to help with any redundancy costs arising from the implementation of the Integrated Risk Management Plan (IRMP) and Organisational Change Project.
- (v) **Ill health retirement reserve**  
Created to help finance any DCLG imposed penalties for early retirements caused through ill health.
- (vi) **Relocation reserve**  
Created to meet any costs associated with the employment of new employees where relocation expenses are appropriate.
- (vii) **Part time workers reserve**  
Created to meet costs to be paid under the part time workers (Prevention of Less Favourable Treatment) Regulations 2000. Final agreement has been reached and the majority was paid in 2012/13.
- (viii) **Mutual insurance reserve**  
These funds have been maintained to cover possible costs incurred as a consequence of belonging to an insurance consortium.
- (ix) **Purchased vehicle reserve**  
A replacement fund for 5 officers' cars which are purchased and not leased.
- (x) **Princes Trust reserve**  
This was created to meet the future potential redundancy and notice costs of the Prince's Trust Team should it lose its income streams.
- (xi) **Motor Insurance reserve**  
This was created to meet the uninsured excess elements of the CFA's motor insurance.
- (xii) **Training rig reserve**  
This was created to provide a capital contribution towards the Urban Search and Rescue (USAR) Training Rig. The fund was fully used to support the 2014/15 Capital Programme.
- (xiii) **Emergency Services Mobile Communications Programme (ESMCP) reserve**  
This has been created to provide a contingency for the mobile communications programme.
- (xiv) **Over-establishment reserve**  
This has been created to pay for operational salaries whilst staffing levels reduce to the required level.

Movements in these reserves for the year 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2015 are as follows:

	Balance at 1 <sup>st</sup> April 2013 £000	Transfers out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 <sup>st</sup> March 2014 £000
Insurance reserve	11	48	110	73
Occupational Health reserve	40	0	0	40
Arson reserve	18	18	0	0
IRMP redundancy reserve	415	0	0	415
Ill health retirement reserve	172	0	0	172
Relocation reserve	26	0	0	26
Part time workers reserve	70	0	0	70
Mutual insurance reserve	75	0	126	201
Purchased vehicle reserve	40	0	42	82
Princes Trust reserve	0	0	149	149
Motor Insurance reserve	0	0	75	75
Training rig reserve	39	0	0	39
ESMCP reserve	0	0	150	150
<b>TOTAL</b>	<b>906</b>	<b>66</b>	<b>652</b>	<b>1,492</b>
Net Movement				(586)

	Balance at 1 <sup>st</sup> April 2014 £000	Transfers out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 <sup>st</sup> March 2015 £000
Insurance reserve	73	0	32	105
Occupational Health reserve	40	0	0	40
IRMP redundancy reserve	415	0	663	1,078
Ill health retirement reserve	172	20	0	152
Relocation reserve	26	7	0	19
Part time workers reserve	70	0	0	70
Mutual insurance reserve	201	0	0	201
Purchased vehicle reserve	82	0	0	82
Princes Trust reserve	149	0	2	151
Motor insurance reserve	75	0	0	75
Training rig reserve	39	39	0	0
ESMCP reserve	150	0	0	150
Over-establishment reserve	0	0	743	743
<b>TOTAL</b>	<b>1,492</b>	<b>66</b>	<b>1,440</b>	<b>2,866</b>
Net Movement				(1,374)

**7 Other Operating Expenditure**

	2013/14 £000	2014/15 £000
Gains on the disposal of non-current assets	(82)	(99)

**8 Financing and Investment Income and Expenditure**

	2013/14 £000	2014/15 £000
Interest payable and similar charges	728	865
Net interest on the defined benefit liability	15,606	15,882
Dividend received	(64)	(38)
Interest receivable	(30)	(47)
<b>TOTAL</b>	<b>16,240</b>	<b>16,662</b>

**9 Taxation and Non Specific Grant Income and Expenditure**

	2013/14 £000	2014/15 £000
Council tax income	(16,786)	(17,391)
Non domestic rates income and expenditure	(7,804)	(8,120)
Non-ring fenced government grants	(11,828)	(10,190)
Capital grants and contributions	(1,552)	(1,495)
<b>TOTAL</b>	<b>(37,970)</b>	<b>(37,196)</b>

**10 Property, Plant and Equipment**

## Movement on Balances

Movements in 2013/14	Land and Buildings £000	Vehicles, Plant and Equipment £000	Assets under Construction £000	Total Property, Plant and Equipment £000
<u>Cost or Valuation</u>				
As at 1 <sup>st</sup> April 2013	18,721	17,757	14,569	51,047
Additions	2,385	1,812	4,119	8,316
Revaluation increases recognised in the Revaluation Reserve	3,202	0	0	3,202
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(4,408)	0	0	(4,408)
Derecognition - disposals	(1,050)	(259)	0	(1,309)
Transfers	12,635	897	(13,532)	0
<b>As at 31<sup>st</sup> March 2014</b>	<b>31,485</b>	<b>20,207</b>	<b>5,156</b>	<b>56,848</b>
<u>Accumulated Depreciation and Impairment</u>				
As at 1 <sup>st</sup> April 2013	0	10,013	1	10,014
Depreciation credited to the Revaluation Reserve	(559)	0	0	(559)
Depreciation charged to the Surplus/Deficit on the Provision of Services	607	1,402	0	2,009
Derecognition - disposals	(26)	(214)	0	(240)
Transfers	0	1	(1)	0
<b>As at 31<sup>st</sup> March 2014</b>	<b>22</b>	<b>11,202</b>	<b>0</b>	<b>11,224</b>

Movements in 2014/15	Land and Buildings £000	Vehicles, Plant and Equipment £000	Assets under Construction £000	Total Property, Plant and Equipment £000
<u>Cost or Valuation</u>				
As at 1 <sup>st</sup> April 2014	31,485	20,207	5,156	56,848
Additions	1,601	1,216	1,152	3,969
Revaluation increases recognised in the Revaluation Reserve	49	0	0	49
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(875)	0	0	(875)
Derecognition - disposals	0	(994)	0	(994)
Transfers	2,288	0	(2,499)	(211)
<b>As at 31<sup>st</sup> March 2015</b>	<b>34,548</b>	<b>20,429</b>	<b>3,809</b>	<b>58,786</b>
<u>Accumulated Depreciation and Impairment</u>				
As at 1 <sup>st</sup> April 2014	22	11,202	0	11,224
Depreciation credited to the Revaluation Reserve	(739)	0	0	(739)
Depreciation charged to the Surplus/Deficit on the Provision of Services	740	1,459	0	2,199
Derecognition - disposals	0	(948)	0	(948)
Transfers	(23)	15	0	(8)
<b>As at 31<sup>st</sup> March 2015</b>	<b>0</b>	<b>11,728</b>	<b>0</b>	<b>11,728</b>
Net Book value:				
As at 31 <sup>st</sup> March 2014	31,463	9,005	5,156	45,624
As at 31 <sup>st</sup> March 2015	34,548	8,701	3,809	47,058

Asset remaining lives have been reviewed and no alterations have been considered necessary for these accounts.

A total amount of £1,196k is currently contracted and is mainly related to the development of Castle Donington Fire Station, the procurement of an Aerial Ladder Platform and the Tri-Service Fire Control Project. These projects are expected to be paid in 2015/16.

**11 Movement of Intangible Assets**

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
<u>Cost or Valuation</u>		
As at 1 <sup>st</sup> April	136	136
<b>As at 31<sup>st</sup> March</b>	<b>136</b>	<b>136</b>
<u>Accumulated Depreciation and Impairment</u>		
As at 1 <sup>st</sup> April	105	118
<u>Amortisation Charge for Year:</u> Amortisation charged to the surplus/deficit on the provision of services	13	13
<b>As at 31<sup>st</sup> March</b>	<b>118</b>	<b>131</b>
<b>Net Book value</b>	<b>18</b>	<b>5</b>

As at the 31<sup>st</sup> March 2015 there are no contractual commitments for the acquisition of intangible assets.

**12 Details of Capital Expenditure**

Details of capital expenditure incurred during the year are as follows:

	2013/14 £000	2014/15 £000
Land and buildings	2,385	1,601
Vehicles, plant and equipment	1,812	1,216
Assets in construction	4,119	1,152
<b>TOTAL</b>	<b>8,316</b>	<b>3,969</b>

This includes property, plant and equipment and intangible assets (Notes 10 and 11).

**13 Financing of Capital Expenditure**

Capital expenditure was financed as follows:

	2013/14 £000	2014/15 £000
Prudential Borrowing	2,794	1,491
Capital receipts	1,261	145
General fund	1,265	242
Finance lease	1,442	0
Finance lease not commenced in year	2	596
Grant	1,552	1,495
<b>TOTAL</b>	<b>8,316</b>	<b>3,969</b>

A capital grant of £186k was received in 2008/09 for New Dimensions accommodation, however no expenditure was incurred in 2008/09 or 2009/10, £1k in 2010/11 and none since. A feasibility study is being conducted in early 2015/16 to make a recommendation on any future local provision of a training rig. Discussions on retaining the grant are on-going with the Department for Communities and Local Government. The remainder of the grant funding is carried over into 2015/16 and is shown as a creditor in the accounts.

The CFA had an opening capital financing requirement of £22,594k at the 1<sup>st</sup> April 2014 and a closing capital financing requirement of £23,171k at the 31<sup>st</sup> March 2015.

**14 Leases**

Finance lease rentals paid to lessors relating to 2014/15 totalled £1,171k (£1,197k 2013/14) of which £259k was interest and £912k was principal. All finance leases relate to Vehicles, Plant and Equipment and the net book value of these assets at the 31<sup>st</sup> March 2015 is £5,136k.

<b>Finance lease liabilities:</b>	<b>Not later than 1 year £000</b>	<b>Later than 1 year and not later than 5 years £000</b>	<b>Later than 5 years £000</b>
<b>2013/14</b>			
Minimum lease payments	1,184	4,012	1,966
Difference due to timing of cash flows	(42)	(463)	(460)
Present value	1,142	3,549	1,506
<b>2014/15</b>			
Minimum lease payments	1,134	3,471	1,282
Difference due to timing of cash flows	(40)	(394)	(286)
Present value	1,094	3,077	996

Operating lease rentals paid to lessors in the year totalled £172k (2013/14 £195k). As at the 31<sup>st</sup> March 2015 the CFA has a commitment to meet the following future minimum lease payments for operating leases, all of which relate to cars and light vehicles:

Operating lease liabilities:	Not later than 1 year £000	Later than 1 year and not later than 5 years £000	Later than 5 years £000
2013/14 Minimum lease payments	98	152	26
2014/15 Minimum lease payments	154	422	6

## 15 Financial Instruments

### a) Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

Included in:	31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
<b>- Investments</b>				
Loans and receivables at fair value	0	4,385	0	4,327
<b>- Cash and Cash Equivalents</b>				
Bank balance	0	1,086	0	441
<b>- Debtors</b>				
Financial assets carried at contract cost	0	2,920	0	3,562
<b>TOTAL ASSETS</b>	<b>0</b>	<b>8,391</b>	<b>0</b>	<b>8,330</b>
<b>- Borrowings</b>				
Financial liabilities (i.e. borrowings) at amortised cost	(15,728)	(1,000)	(14,478)	(2,750)
<b>- Creditors</b>				
Financial liabilities carried at contract amount	0	(3,010)	0	(2,491)
<b>- Other Liabilities</b>				
Finance leases	(5,690)	(925)	(4,728)	(976)
<b>TOTAL LIABILITIES</b>	<b>(21,418)</b>	<b>(4,935)</b>	<b>(19,206)</b>	<b>(6,217)</b>
<b>NET TOTAL</b>	<b>(21,418)</b>	<b>3,456</b>	<b>(19,206)</b>	<b>2,113</b>

### b) Maturity of Long-Term Borrowings and Other Liabilities

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Between 1 and 2 years	(3,091)	(1,724)
Between 2 and 5 years	(2,793)	(2,504)
Between 5 and 10 years	(4,306)	(4,772)
Over 10 years	(11,228)	(10,206)
<b>TOTAL</b>	<b>(21,418)</b>	<b>(19,206)</b>

PWLB interest of £129k (2013/14 £136k) has been accrued in the accounts but not included in short term borrowing.

Any surplus or overdrawn cash balances remaining on a daily basis are included in the CFA's treasury management activities. Funds are currently invested in short-term deposits with a limited range of banks in accordance with the CFA's Treasury Management policy. Investments are carried at the lower of cost and net realisable value. A cash deposit is considered to be an investment, rather than cash and cash equivalent, where the interest rate achieved is above the bank base rate and the deposit is placed primarily for the purposes of earning interest income.

Financial liabilities and financial assets represented by borrowings and investments are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- ~ PWLB debt; estimated interest rates at the 31<sup>st</sup> March 2015 for new debt with the same maturity date from comparable lenders.
- ~ Investments; short term - carrying amounts in the Balance Sheet approximate to fair value.
- ~ For finance leases, the fair value is not significantly different from the carrying amount, because most of the loans commenced in the recent past and interest rates at the Balance Sheet date for these types of investments were not materially different.

The fair values calculated are as follows:

	31 <sup>st</sup> March 2014		31 <sup>st</sup> March 2015	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	26,353	26,815	25,422	28,239
Financial Assets	8,391	8,833	8,330	8,330

The fair value for financial liabilities as at the 31<sup>st</sup> March 2015 is more than the carrying amount because the CFA's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the CFA would have to pay if the lender requested or agreed to early repayments of the loans. The difference on the financial assets in 2014 relates to accrued interest which was due after the 31<sup>st</sup> March 2014.

### c) Exposure to Risk

The CFA's activities expose it to a variety of financial risks:

- ~ Credit risk - the possibility that other parties might fail to pay amounts due to the CFA
- ~ Liquidity risk - the possibility that the CFA might not have funds available to meet its commitments to make payments
- ~ Market risk - the possibility that financial loss might arise as a result of changes in, for example, interest rates

The CIPFA Code of Practice on Treasury Management has been adopted by the CFA and a Treasury Management Strategy is approved by the CFA each year. In addition, half yearly and annual reports are presented to CFA which highlight investment and borrowing progress and explain departures from the strategy. In this way, the risks are actively managed.

#### Credit Risk

Credit risk arises from deposits with financial institutions and from providing chargeable services to customers. The CFA publishes criteria for lending surplus cash in the Medium Term Financial Strategy. The details for this financial year are:

	Minimum Credit Criteria / Sector Colour Band	Max % of total investments/ £ limit per institution	Max. Maturity Period
Debt Management Account Deposit Facility – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	100%	1 year
UK Government Treasury bills	UK sovereign rating	100%	1 year
Bonds issued by multilateral development banks	UK sovereign rating	100%	6 months
Money market funds	AAA	100%	Liquid
Local authorities	N/a	100%	1 year
Term deposits with banks and building societies	Blue Orange Red Green	£5m	Up to 1 year Up to 1 year Up to 6 Months Up to 3 months
Certificates of deposit or corporate bonds with banks and building societies	Blue Orange Red Green	£1m	Up to 1 year Up to 1 year Up to 6 Months Up to 3 months

Institutions will be removed from the list where there are any doubts about their security.

Invoices to customers for chargeable services are of relatively low value. The CFA actively pursues outstanding debt through the in-house legal services department.

The following analysis summarises the CFA's potential maximum exposure to credit risk based on actual experience in terms of deposits and percentage of debt which has been written off as unrecoverable over the last three years in terms of debtors. All deposits shown on the Balance Sheet as at the 31<sup>st</sup> March 2015 were repaid to the CFA before the date the Statement of Accounts was authorised for issue (30<sup>th</sup> June 2015) where repayment was due in this period. There is no reason to doubt the credit quality of any of the customers amounts, whether current or past due for payment.

Loans and Receivables	1 <sup>st</sup> April 2014 £000	31 <sup>st</sup> March 2015 £000	Est. Maximum Exposure to Credit Risk £000	Historical Experience of Default %
Deposits with banks and financial institutions	5,471	4,768	0	0.00
Trade debtors:				
- not yet due for payment	177	108	0	0.00
- past due date for payment	3	35	0	0.02
TOTAL	5,651	4,911	0	

The past due amount is analysed by age as follows:

	1 <sup>st</sup> April 2014 £000	31 <sup>st</sup> March 2015 £000
Less than 1 month overdue	0	33
1-2 months overdue	1	0
Over 1 year overdue	2	2
<b>TOTAL</b>	<b>3</b>	<b>35</b>

#### Liquidity Risk

The CFA is able to access borrowings from the PWLB so there is no significant risk that it will be unable to raise funds in order to meet its commitments relating to financial liabilities. The risk the CFA is exposed to is that it will need to replenish its borrowings when interest rates are unfavourable. The CFA's strategy is to place limits on the percentage of borrowings due to mature at intervals as follows:

#### Maturity of Borrowing:

Maturity Structure of fixed interest rate borrowing 2014/15		
	Lower Limit	Upper Limit
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years and above	25%	100%

This strategy allows the CFA time to restructure debt when interest rates are favourable.

The CFA's strategy is to maintain sufficient cash balances to meet daily revenue requirements without recourse to borrowing other than short term borrowing in exceptional circumstances.

All trade and other payables are due to be repaid within one year.

#### Market Risk

The CFA is exposed to risk in terms of its exposure to interest rate movements on its borrowing and investments. Movements in interest rates have a complex impact. For instance, a rise in interest rates would have the following effects:

- ~ borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- ~ investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- ~ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The CFA has a number of strategies for managing interest rate risk. Policy is to aim to no borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The team responsible for Treasury Management has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to revise the budget during the year. This allows any adverse changes to be accommodated.

According to this assessment strategy, at the 31<sup>st</sup> March 2015, if interest rates had been 1% higher with all other variables held constant, the financial effects would be:

	£000
Additional interest receivable on variable rate investments (has a positive impact on the Surplus or Deficit on the Provision of Services)	78
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(157)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

#### **16 Inventories**

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Operational equipment	109	136
Vehicle parts	61	62
Other	85	68
<b>TOTAL</b>	<b>255</b>	<b>266</b>

Inventory valued at £350k (£367k 2013/14) was utilised in 2014/15.

**17 Debtors**

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Short-Term Debtors:		
- Central government bodies	3,013	3,069
- Other local authorities	765	977
- All other	2,155	2,106
<b>TOTAL</b>	<b>5,933</b>	<b>6,152</b>

**18 Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
- Cash held by the CFA	0	4
- Bank current accounts	3	14
- Short-term investments	1,083	423
<b>TOTAL</b>	<b>1,086</b>	<b>441</b>

**19 Assets Held for Sale**

Syston fire station was sold in 2013/14 and a capital receipt of £250k was received in December 2013. A gain on disposal of £88k was realised. Moira fire station was put on the market for sale in 2014/15 and a sale subsequently happened in June 2015. This is shown as an asset held for sale for the purposes of these accounts.

	2013/14 £000	2014/15 £000
<u>Cost or Valuation</u>		
As at 1 <sup>st</sup> April	167	0
Transfers	0	210
Revaluation increase	0	139
Disposals	(167)	0
<b>As at 31<sup>st</sup> March</b>	<b>0</b>	<b>349</b>
<u>Accumulated Depreciation and Impairment</u>		
As at 1 <sup>st</sup> April	0	0
Depreciation	5	8
Write back of accumulated depreciation	(5)	(8)
<b>As at 31<sup>st</sup> March</b>	<b>0</b>	<b>0</b>
<b>Net Book value as at 31<sup>st</sup> March</b>	<b>0</b>	<b>349</b>

**20 Creditors**

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Central government bodies	2,181	1,995
Other local authorities	1,241	810
All other	1,769	1,195
<b>TOTAL</b>	<b>5,191</b>	<b>4,000</b>

Trade and other creditors are shown at amortised cost. There is no fair value adjustment to be made.



**21 Provisions**

The CFA holds an insurance provision for claims in progress. Timing of payment of these claims is difficult to predict as they may be subject to legal process. The amounts put aside are decided upon by reviewing the current level of claims and assessing the likelihood of their success. There are currently no material unfunded risks.

Income to this provision is from a reserve currently held for this purpose, so has no impact on the CIES.

A provision is also made for the CFA's share of any defaults on business rates. This is calculated by the district councils based on their experience.

Movements in provisions are as follows:

	Balance as at 1 <sup>st</sup> April 2014 £000	Reduced provision in 2014/15 £000	Increased provision in 2014/15 £000	Amounts used in 2014/15 £000	Balance as at 31 <sup>st</sup> March 2015 £000
Insurance provision	100	(31)	0	0	69
Business Rates provision	0	0	280	0	280
<b>TOTAL</b>	<b>100</b>	<b>(31)</b>	<b>280</b>	<b>0</b>	<b>349</b>

**22 Usable Reserves**

Movement in the CFA's usable reserves are detailed in the MIRS.

**23 Unusable Reserves**

	31 <sup>st</sup> March 2014 £000	31 <sup>st</sup> March 2015 £000
Pensions Reserve	(362,447)	(401,889)
Revaluation Reserve	7,815	8,540
Capital Adjustment Account	15,232	15,706
Collection Fund Adjustment Account	195	196
Accumulated Absences Account	(198)	(94)
<b>TOTAL</b>	<b>(339,403)</b>	<b>(377,541)</b>

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The CFA accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the CFA makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the CFA has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>Pensions Reserve</b>	2013/14 £000	2014/15 £000
<b>Balance at 1<sup>st</sup> April</b>	(362,351)	(362,447)
Remeasurements of the net defined benefit liability	15,950	(26,105)
Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(15,606)	(15,882)
Employer's pensions contributions and direct payments to pensioners payable in the year	(440)	2,545
<b>Balance at 31<sup>st</sup> March</b>	<b>(362,447)</b>	<b>(401,889)</b>

**CAPITAL RESERVES**

In accordance with standard accounting practice, two non cash-backed capital reserves exist as part of the system of capital accounting. These are:

**Revaluation Reserve**

The Revaluation Reserve contains the gains made by the CFA arising from increases in the value of its Property, Plant, and Equipment.

The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used on the provision of service and the gains are consumed through depreciations, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since the 1st April 2007, the date that a Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the CAA.

<b>Revaluation Reserve</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	4,188	7,815
Upward revaluation of assets	3,874	944
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(113)	(10)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	3,761	934
Accumulated gains on assets sold or scrapped	(24)	0
Difference between fair value depreciation and historical cost depreciation	(110)	(209)
Amount written off to the Capital Adjustment Account	3,627	725
<b>Balance at 31<sup>st</sup> March</b>	<b>7,815</b>	<b>8,540</b>

**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the CFA as finance for the costs of acquisition, construction and subsequent costs.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before the 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Balances as at the 31<sup>st</sup> March 2015 represent the combined balances of the Capital Financing Account and Fixed Asset Restatement Account. This account represents amounts set aside from revenue resources or capital receipts, which have been used to finance expenditure on non-current assets, or for the repayment of external loans and other capital financing transactions. Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

<b>Capital Adjustment Account</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	17,244	15,232
<b><i>Reversal of items relating to capital expenditure debited or credited to the CIES</i></b>		
Charges for depreciation of non-current assets	(2,014)	(2,199)
Difference between fair value and historical cost depreciation	110	209
Charges for amortisation of intangible assets	(13)	(13)
Net revaluation differences in surplus/deficit on the provision of services	(4,408)	(875)
Disposal of non-current asset	(1,069)	(46)
Disposal of asset held for sale	(162)	0
Capital financing applied in year:		
Capital grants credited to CIES that have been applied to capital financing	1,552	1,495
Statutory provision for the financing of capital investment charged against the general fund	1,414	1,516
Use of Capital Receipt	1,313	145
Capital expenditure charged against the general fund balance	1,265	242
<b>Balance at 31<sup>st</sup> March</b>	<b>15,232</b>	<b>15,706</b>

**Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates (NDR) income in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

<b>Collection Fund Adjustment Account</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	71	195
Amount by which council tax and NDR income credited to the CIES is different from council tax and NDR income calculated for the year in accordance with statutory requirements	124	1
<b>Balance at 31<sup>st</sup> March</b>	<b>195</b>	<b>196</b>

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward as at the 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

<b>Accumulated Absences Account</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	(95)	(198)
Amount by which the officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(103)	104
<b>Balance at 31<sup>st</sup> March</b>	(198)	(94)

**24 Members' Allowances**

The CFA paid the following amounts to its members during the year.

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Salaries	49	51
Allowances	15	15
Expenses	3	2
<b>TOTAL</b>	<b>67</b>	<b>68</b>

**25 Officers' Remuneration**

The following table sets out the remuneration disclosures for senior employees whose salary is less than £150k but equal to or more than £50k per year.

<b>2013/14</b>	<b>Chief Officer £000</b>	<b>Director of Community Safety £000</b>	<b>Director of Finance and Corporate Services (Section 112 officer) £000</b>	<b>Deputy Fire and Rescue Officer (part year) £000</b>	<b>Deputy Fire and Rescue Officer (part year) £000</b>
Salary	87	92	84	59	40
Benefits in Kind	0	0	6	0	0
Total Remuneration excluding pensions contribution	87	92	90	59	40
Pension contribution	0	16	7	10	7
<b>TOTAL</b>	<b>87</b>	<b>108</b>	<b>97</b>	<b>69</b>	<b>47</b>

<b>2014/15</b>	<b>Chief Officer £000</b>	<b>Director of Community Safety £000</b>	<b>Director of Finance and Corporate Services (Section 112 officer) £000</b>	<b>Deputy Fire and Rescue Officer £000</b>
Salary	81	92	83	96
Benefits in Kind	0	0	6	1
Total Remuneration excluding pensions contribution	81	92	89	97
Pension contribution	0	18	10	19
<b>TOTAL</b>	<b>81</b>	<b>110</b>	<b>99</b>	<b>116</b>

The CFA's other employees receiving more than £50k remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

<b>Salary Bands</b>	<b>Number of Employees 2013/14</b>	<b>Number of Employees 2014/15</b>
£50,000 - £54,999	18	15
£55,000 - £59,999	8	12
£60,000 - £64,999	5	3
£65,000 - £69,999	1	4
£70,000 - £74,999	0	1
£75,000 - £79,999	3	1
£80,000 - £84,999	0	1
	<b>35</b>	<b>37</b>

**26 Exit Packages**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table

	Number of Packages 2013/14 £000	Total Amount 2013/14 £000	Number of Packages 2014/15 £000	Total Amount 2014/15 £000
<b>Compulsory</b>				
£0 - £20,000	0	0	19	94
£20,001 - £40,000	0	0	5	139
<b>Voluntary</b>				
£0 - £20,000	0	0	3	38
£20,001 - £40,000	0	0	1	24

**27 External Audit Costs**

The CFA incurred the following costs in relation to the audit of the Statement of Accounts, statutory inspection and other non-audit services provided by the CFA's external auditors:

	2013/14 £000	2014/15 £000
Fees payable to PricewaterhouseCoopers LLP with regard to external audit services carried out by the appointed auditor for the year	39	39
<u>Fees in respect of other services provided by PricewaterhouseCoopers LLP during the year</u>		
VAT helpline	2	2
VAT training	4	1
Employment tax services	22	1
Tax modeller	0	3
Organisational change project review	0	5
<b>TOTAL</b>	<b>67</b>	<b>51</b>

**28 Grant Income**

The CFA credited the following grants to the CIES:

	2013/14 £000	2014/15 £000
Fire Revenue Grant	1,231	1,272
Section 31 Grants	187	252
Capital Grant	1,049	1,049
<b>TOTAL</b>	<b>2,467</b>	<b>2,573</b>

Section 31 grants include grants relating to business rates and transparency code set-up.

Capital grant received from the DCLG was utilised fully in the financial year. A grant of £1,800k which was brought forward from 2011/12 in respect of the replacement of fire control systems was paid to the lead authority, Derbyshire Fire and Rescue Service, in August 2012. £633k of this was spent by Derbyshire up to 2013/14, and a further £446k in 2014/15. The remaining £721k has been treated as a creditor due to being returnable to DCLG if unspent. The cost of this work and the use of the grant, has been incorporated into these accounts.

**29 Related Party Disclosures**

The CFA is required to disclose material transactions with related parties - bodies or individuals that have the potential to control, or to be controlled or influenced by the CFA. Disclosures of these transactions assesses the extent to which the CFA might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the CFA.

**Central Government**

DCLG has significant influence of the general operations of the CFA - it is responsible for providing the statutory framework within which the CFA operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the CFA has with other parties (e.g. council tax). Grants received from government departments are set out in the subjective analysis in Note 39 on reporting for resources allocation decisions.

**Members**

Members of the CFA have direct control over the CFA's financial and operating policies. The total of member' allowances paid in 2014/15 is shown in note 24. During 2014/15, no works and services were commissioned from companies in which members declared an interest.

**Officers**

Officers of the CFA have significant influence over the CFA's financial and operating policies. During 2014/15, no works and services were commissioned from companies in which officers declared an interest.

**Other Public Bodies**

Leicester City Council, Leicestershire County Council and Rutland County Council are local partners who also supply services to the CFA. All transaction with these bodies are set out below:

**Entities Controlled or Significantly Influenced by the CFA**

The CFA has control of Forge Health Limited, a wholly owned subsidiary. Dividends received due to this relationship are shown below.

	2013/14 £000	2014/15 £000
<u>Due to:</u>		
Leicestershire County Council - Local partner/Supplier of service	100	133
Leicester City Council - Local partner/Supplier of service	0	12
DCLG - Pensions overpayments	0	230
DCLG - Firelink	67	66
<u>Due from:</u>		
Forge Health Limited - Wholly owned subsidiary	(64)	(38)
DCLG :-		
Pensions reimbursement	(1,048)	(2,038)
Funding	(10)	0
<b>Net balance with related parties at 31<sup>st</sup> March</b>	<b>(955)</b>	<b>(1,635)</b>

	2013/14 £000	2014/15 £000
<b>Expenditure</b>		
<u>Local Partners</u>		
Leicestershire County Council	419	374
Leicester City Council	10	14
Rutland County Council	1	0
<u>Firelink provider</u>		
DCLG	390	448
<b>Income</b>		
<u>Local Partners</u>		
Leicester City Council	0	19
<u>Wholly owned subsidiary</u>		
Forge Health Limited	(64)	(38)
<u>Government Grant</u>		
DCLG		
Specific Grants	(1,418)	(1,524)
<u>Funding</u>		
Pensions reimbursement	(6,800)	(6,619)
<b>Net transactions with related parties for year</b>	<b>(7,462)</b>	<b>(7,326)</b>

**30 Provisions for Repayment for External Loans**

The CFA is required by statute to set aside a minimum revenue provision for the redemption of debt. In its Medium Term Financial Plan 2014/17 the CFA has stated its intention to provide 4% of the capital financing requirement as a minimum revenue provision. In addition, in respect of any unsupported borrowing the asset life method will be used, basing an MRP provision on the estimated life of assets in accordance with DCLG guidance. The total amount of this provision is detailed below:

	2013/14 £000	2014/15 £000
Minimum Revenue Provision	1,414	1,516

**31 Forge Health Limited**

The CFA operates a trading company 'Forge Health Limited' as a wholly owned subsidiary. Its main activity is the provision of occupational health services to the private and public sectors. The Company employs no members of staff but instead uses the CFA's staff (for which it pays a fee) and independent contractors to deliver its services. There is no Non-current or Intangible assets owned by the Company for the year ending 31<sup>st</sup> March 2015. For the year 2014/15, Forge Health Limited reported turnover of £188k and a post tax profit of £38k (£64k in 2013/14) and this sum is proposed by the Company to be wholly paid as dividend to the CFA. Note 29 of these accounts discloses the total transactions with Forge Health Limited and amounts due from/to at the year end. The accounts of the Company are completed on the same financial year basis as the CFA and accounting policies are aligned. The accounts of the Company are available from the Company Secretary, Forge Health Limited, Leicestershire Fire and Rescue Service Headquarters, 12 Geoff Monk Way, Birstall, Leicester, LE4 3BU. It is considered that the interests in Forge Health Limited are not material therefore group accounts are not presented.

**32 Defined Benefit Pensions Schemes****Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers and other employees, the CFA makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the CFA has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The four pension schemes provide members with defined benefits related to pay and service and are detailed below:

**(i) Uniformed Firefighters**

This is made up of three unfunded schemes which means that there are no investment assets to match with the liability thus cash has to be generated to meet actual pension payments as they fall due.

**(ii) Control and Support Staff**

Employees, subject to certain qualifying criteria are eligible to join the LGPS administered by Leicestershire County Council. This is a funded defined benefit scheme meaning that the CFA and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

**Transactions Relating to Post-employment Benefits**

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/ retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the CIES and the general fund balance via the MIRS during the year:

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme	
	2013/14 £000	2014/15 £000
<b>Cost of Services</b>		
~ current service cost	942	910
~ past service cost	0	233
<b>Financing and Investment Income and Expenditure</b>		
~ net interest expense	376	491
<b>Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>1,318</b>	<b>1,634</b>
<b>Other Post-employment Benefit Charged to the CIES</b>		
Remeasurement of the net defined benefit liability comprising:		
~ Return on plan assets (excluding the amount included in the net interest expense)	270	(2,038)
~ actuarial gains and losses arising on changes in demographic assumptions	672	0
~ actuarial gains and losses arising on changes in financial assumptions	557	6,065
~ other	911	(162)
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>2,410</b>	<b>3,865</b>
<b>Movement in Reserves Statement</b>		
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(1,318)	(1,634)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
~ employers contributions payable to scheme	(632)	(918)

2013/14	Firefighters' 1992 Pension Scheme £000	Injury Benefit Scheme £000	Firefighters' 2006 Pension Scheme £000
Comprehensive Income and Expenditure Statement			
<b>Cost of Services</b>			
~ current service costs	7,520	810	2,490
~ past service costs	0	10	0
<b>Financing and Investment Income and Expenditure</b>			
~ net interest expense	13,930	800	500
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>21,450</b>	<b>1,620</b>	<b>2,990</b>
<b>Other Post-employment Benefit Charged to the CIES</b>			
Remeasurement of the net defined benefit liability comprising:			
~ actuarial gains arising on changes in demographic assumptions	(7,710)	(2,130)	(1,020)
~ actuarial gains arising on changes in financial assumptions	(180)	0	(20)
~ other	(5,820)	(1,390)	(90)
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>(13,710)</b>	<b>(3,520)</b>	<b>(1,130)</b>
<b>Movement in Reserves Statement</b>			
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(21,450)	(1,620)	(2,990)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
~ employers contributions payable to scheme	(2,295)	0	(512)

2014/15	Firefighters' 1992 Pension Scheme £000	Injury Benefit Scheme £000	Firefighters' 2006 Pension Scheme £000
Comprehensive Income and Expenditure Statement			
<b>Cost of Services</b>			
~ current service costs	6,580	(690)	2,220
<b>Financing and Investment Income and Expenditure</b>			
~ net interest expense	14,080	730	580
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>20,660</b>	<b>40</b>	<b>2,800</b>
<b>Other Post-employment Benefit Charged to the CIES</b>			
Remeasurement of the net defined benefit liability comprising:			
~ actuarial gains arising on changes in demographic assumptions	(16,680)	(13,520)	(4,820)
~ actuarial losses arising on changes in financial assumptions	52,300	690	4,670
~ changes in assumptions underlying the present value of the retained settlement	0	0	6,050
~ other	(6,780)	(460)	790
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>28,840</b>	<b>(13,290)</b>	<b>6,690</b>
<b>Movement in Reserves Statement</b>			
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(20,660)	(40)	(2,800)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
~ employers contributions payable to scheme	(2,225)	0	(494)

**Reconciliation of Present Value of the Scheme Liabilities - Firefighters Schemes:**

	<b>Firefighters' 1992 Pension Scheme £000</b>	<b>Injury Benefit Scheme £000</b>	<b>Firefighters' 2006 Pension Scheme £000</b>	<b>Total £000</b>
Opening balance at the 1 <sup>st</sup> April 2013	325,430	18,250	10,450	354,130
Current service costs (net of employee contributions)	6,100	810	2,040	8,950
Past service costs	0	10	0	10
Contributions by scheme participants	1,420	0	450	1,870
Remeasurement gain				0
- Changes in demographic assumptions	(7,710)	(2,130)	(1,020)	(10,860)
- Changes in financial assumptions	(180)	0	(20)	(200)
- Other experience	(5,820)	(1,390)	(90)	(7,300)
Finance Interest cost	13,930	800	500	15,230
Benefits paid	(10,580)	(120)	0	(10,700)
<b>Closing balance at the 31<sup>st</sup> March 2014</b>	<b>322,590</b>	<b>16,230</b>	<b>12,310</b>	<b>351,130</b>
Current service costs (net of employee contributions)	5,050	690	1,600	7,340
Contributions by scheme participants	1,530	0	620	2,150
Remeasurement gain				
- Changes in demographic assumptions	(16,680)	(13,520)	(4,820)	(35,020)
- Changes in financial assumptions	52,300	690	4,670	57,660
- Changes in assumptions underlying the present value of the retained settlement	0	0	6,050	6,050
- Other experience	(6,780)	(460)	790	(6,450)
Finance Interest cost	14,080	730	580	15,390
Benefits paid	(11,850)	(110)	(300)	(12,260)
<b>Closing balance at the 31<sup>st</sup> March 2015</b>	<b>360,240</b>	<b>4,250</b>	<b>21,500</b>	<b>385,990</b>

**Reconciliation of present value of the scheme liabilities - LGPS**

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Funded Liabilities	24,374	28,408
Unfunded Liabilities	78	81
Opening balance at the 1 <sup>st</sup> April	24,452	28,489
Current service cost	942	910
Past service costs	0	233
Interest cost	1,116	1,246
Contributions by scheme participants	269	269
Remeasurement gain/(loss):		
Changes in demographic assumptions	672	0
Changes in financial assumptions	557	6,065
Other experience	911	(162)
Benefits paid	(426)	(424)
Unfunded benefits paid	(4)	(4)
<b>Closing balance at the 31<sup>st</sup> March</b>	<b>28,489</b>	<b>36,622</b>
Represented by:		
Funded Liabilities	28,408	36,536
Unfunded Liabilities	81	86

**Reconciliation of the movement of fair value of scheme assets - LGPS**

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Opening balance at the 1 <sup>st</sup> April	16,231	17,172
Interest Income	740	754
<u>Remeasurement (gain)/loss:</u>		
The return on plan assets, excluding the amount included in the net interest expense	(270)	2,038
Employer contributions	628	914
Contributions by scheme participants	269	269
Contributions in respect of unfunded benefits	4	4
Unfunded benefits paid	(4)	(4)
Benefits paid	(426)	(424)
<b>Closing balance at the 31<sup>st</sup> March</b>	<b>17,172</b>	<b>20,723</b>

**Pensions Assets and Liabilities Recognised in the Balance Sheet - LGPS:**

	<b>LGPS £000</b>
As at 31 <sup>st</sup> March 2014	
Present value of the defined benefit obligation	28,489
Fair value of plan assets	(17,172)
<b>Net liability arising from defined benefit obligation</b>	<b>11,317</b>
As at 31 <sup>st</sup> March 2015	
Present value of the defined benefit obligation	36,622
Fair value of plan assets	(20,723)
<b>Net liability arising from defined benefit obligation</b>	<b>15,899</b>



## Local Government Pension Scheme assets comprised:

	Year ended 31 <sup>st</sup> March 2014 £000	Year ended 31 <sup>st</sup> March 2014 %	Year ended 31 <sup>st</sup> March 2015 £000	Year ended 31 <sup>st</sup> March 2015 %
Cash and cash equivalents	390	2.3%	208	1.0%
<u>Quoted prices in active markets</u>				
Equity Securities				
Other	631	3.7%	643	3.1%
Bonds				
UK Government	212	1.2%	1,137	5.5%
Other	1,228	7.2%	852	4.1%
Investment Funds and Unit Trusts				
Equities	8,658	50.4%	10,449	50.4%
Bonds	587	3.4%	633	3.0%
Hedge Funds	566	3.3%	881	4.2%
Commodities	461	2.7%	472	2.3%
Other	890	5.2%	380	1.8%
Derivatives				
Interest Rate	0	0.0%	116	0.6%
<u>Quoted prices not in active markets</u>				
Property				
UK Property	1,605	9.3%	1,964	9.5%
Private Equity				
All	674	3.9%	786	3.8%
Investment Funds and Unit Trusts				
Bonds	543	3.2%	1,297	6.3%
Hedge Funds	21	0.1%	18	0.1%
Commodities	316	1.8%	398	1.9%
Infrastructure	390	2.3%	489	2.4%
<b>Total Assets</b>	<b>17,172</b>	<b>100.0%</b>	<b>20,723</b>	<b>100.0%</b>

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The LGPS is valued by the actuary, Hymans Robertson, and the Firefighters pension schemes are valued by GAD. These actuaries provide expert advice on assumptions to be applied. The estimates for the LGPS Fund are based on the latest full valuation of the scheme in the 2013 actuarial report dated the 28<sup>th</sup> March 2014.

The significant assumptions used by the actuaries have been:

	2013/14		2014/15	
	LGPS	Fire Pension Scheme	LGPS	Fire Pension Scheme
<b>Mortality assumptions:</b>				
Longevity in years of current pensioners at 65:				
Men	22.2	23.5	22.2	22.5
Women	24.3	25.5	24.3	22.5
Longevity in years at 65 for future pensioners currently aged 45:				
Men	24.2	26.6	24.2	24.8
Women	26.6	28.6	26.6	24.8
<b>Other assumptions:</b>				
Rate of Inflation	2.8%	2.5%	-	2.2%
Short duration			1.9%	-
Medium duration			2.2%	-
Long duration			2.3%	-
Rate of increase in pensions	2.8%	2.5%	2.4%	2.2%
Rate of increase in salaries	4.6%	4.5%	4.3%	4.2%
Rate for discounting scheme liabilities	4.3%	4.4%	3.2%	3.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the year and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous year.

**Impact on the Defined Benefit Obligation in the Scheme**

	Change in Assumption	
	LGPS £000	Fire Pension Schemes £000
Longevity (change of 1 year)	1,099	9,000
Rate of increase in salaries (change of 0.5%)	2,192	5,000
Rate of increase in pensions (change of 0.5%)	2,493	33,000
Rate of discounting scheme liabilities (change of 0.5%)	4,842	40,000
Early retirement (change of 1 year)	0	(2,000)

Opposite changes in the assumptions will provide approximately equal and opposite changes in the liability.

**Impact on the CFA's Cash Flows**

The objectives of the schemes are to keep employers' contributions at as constant a rate as possible. Leicestershire County Council has agreed a strategy with the scheme's actuaries to achieve a funding level of 100% over the next 20 years. The next triennial valuation of the LGPS is due to be completed on the 31<sup>st</sup> March 2016.

No such strategy exists for the Fire Pension schemes as they are unfunded schemes and therefore have no target funding level. The methodology for calculating employer contribution rates to the Fire Pensions Schemes for the 2012 valuation is set out in 'The Public Services (Valuations and Employer Cost Cap) Directions 2014.

**33 Contingent Liabilities**Employment Appeal Tribunal on holiday pay for contractual overtime

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). This stems from a discrepancy between EU and UK law. In the UK, employers have generally used basic pay to calculate how much employees are paid while they are on holiday whilst the European Working Time Directive does not specify how holiday pay should be calculated, suggesting that overall remuneration should be taken into account. This ruling may have an implication where Firefighters work casual overtime (i.e. stay beyond the shift finish time in order to complete an incident). The backdated claims are however limited, with the tribunal ruling that workers can only make claims if it less than three months since their last incorrect payment (of holiday pay), although the claim can be back dated until such time as there is a three month break between underpayments. Based on the 2013/14 and 2014/15 level of casual overtime this is not considered material. There is potential for an appeal against the ruling which may impact on an estimate of any future liability for such backdated claims.

**34 Events after the reporting period**

Following the Pensions Ombudsman determination of the 13<sup>th</sup> May 2015 in respect of Firefighter Pensions, the following statement has been issued:

The government accepts that there are other firefighters and also police officers who are affected by the principles set out in the Ombudsman's Determination. Those firefighters who retired between 1<sup>st</sup> December 2001 and 21<sup>st</sup> August 2006 who are due redress will be contacted by their former fire authority in due course to discuss the appropriate payment in their case.

As at the 30<sup>th</sup> September 2015 the cost of this is not calculated although it is known that the likely number of retirees affected is 58 between 1/12/01 and 1/12/14 and 35 between 1/12/04 and 21/08/06. The full financial implication of the Determination, once calculated, will be funded by the Department for Communities and Local Government. The net financial effect to the CFA will be nil. Future actuarial valuations may need to adjust for the outcome of the Determination. This may result in an increase to the total pensions liability.

**35 Reconciliation of the Surplus on the CIES to the Revenue Activities Cash Flow.**

	2013/14		2014/15	
	£000	£000	£000	£000
<b>The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:</b>				
Pension liability	(16,046)		(13,337)	
Depreciation	(2,014)		(2,199)	
Amortisation	(13)		(13)	
Impairment and downward revaluation	(4,408)		(875)	
Accumulating absence adjustment account	103		104	
Collection fund adjustment account	(215)		(191)	
Write out of revaluation reserve	24		209	
Net gain on disposal	82		99	
Creditors	2,952		2,076	
Debtors	(2,635)		(1,117)	
Provisions	48		(249)	
Inventories	2		12	
Other items	16		46	
<b>Adjustments to net surplus deficit on the provisions of services for non cash movements Items classified elsewhere in the statement:</b>		<b>(22,104)</b>		<b>(15,435)</b>
Capital grant received		1,049		1,495
<b>Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		<b>1,049</b>		<b>1,495</b>

**36 Operating Activities**

	2013/14 £000	2014/15 £000
Interest received	(37)	(37)
Dividend received	(33)	(64)
Interest paid	559	849

**37 Investing Activities**

	2013/14 £000	2014/15 £000
Purchase of property, plant and equipment and intangible assets	8,489	4,020
Purchase of short and long term investments	4,043	3,500
Proceeds from the sale of short and long term investments	(2,001)	(3,558)
Proceeds from the sale of property, plant and equipment	(1,260)	(145)
Capital grants and contributions	(1,049)	(1,049)
<b>Net Cash Flow from Investing Activities</b>	<b>8,222</b>	<b>2,768</b>

**38 Financing Activities**

	2013/14 £000	2014/15 £000
Cash receipts from short term and long term borrowing including sale and leaseback	(6,942)	(2,500)
Repayments of short term and long term borrowing	938	2,905
<b>Net Cash Flow from Financing Activities</b>	<b>(6,004)</b>	<b>405</b>

**39 Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the CIES is that specified by the Service Reporting Code of Practice. Decisions about resource allocation are taken by the CFA, who are considered to be the chief operating decision maker, on the basis of a one segment for the whole CFA. These reports are prepared on a different basis from the accounting policies used in the accounts. In particular:

- ~ No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the CIES).
- ~ The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

**RECONCILIATION BETWEEN MANAGEMENT ACCOUNTS AND CIES**

	Management Accounts as Reported in Explanatory Foreword	Not reported in Management Accounts	Not included in CIES	Total
	£000	£000	£000	£000
<b>2013/14</b>				
Employee expenses	28,621	104	0	28,725
Pension costs calculated in accordance with IAS19	0	16,046	0	16,046
Other service expenses*	9,039	0	(2,679)	6,360
Depreciation, revaluation losses to CIES, amortisation and impairment	0	6,324	0	6,324
Write out of revaluation reserve on disposal	0	25	0	25
Non-domestic rates expenditure	0	93	0	93
Interest payments	728	0	0	728
<b>Expenditure</b>	<b>38,388</b>	<b>22,592</b>	<b>(2,679)</b>	<b>58,301</b>
Fees, charges and other income	(892)	0	0	(892)
Interest and investment income	(94)	0	0	(94)
Income from council tax	(16,574)	(212)	0	(16,786)
Income from non-domestic rates	(7,896)	0	0	(7,896)
Gain on disposal of non-current assets	0	(82)	0	(82)
Government grants and contributions	(13,247)	(1,552)	0	(14,799)
<b>Income</b>	<b>(38,703)</b>	<b>(1,846)</b>	<b>0</b>	<b>(40,549)</b>
<b>Deficit on the Provision of Services</b>				<b>17,752</b>
<b>2014/15</b>				
Employee expenses	27,398	(104)	0	27,294
Pension costs calculated in accordance with IAS19	0	13,104	0	13,104
Other service expenses*	8,757	0	(1,765)	6,992
Depreciation, revaluation losses to CIES, amortisation and impairment	0	3,078	0	3,078
Interest payments	865	0	0	865
<b>Expenditure</b>	<b>37,020</b>	<b>16,078</b>	<b>(1,765)</b>	<b>51,333</b>
Fees, charges and other income	(1,022)	0	0	(1,022)
Interest and investment income	(85)	0	0	(85)
Income from council tax	(17,387)	0	0	(17,387)
Income from non-domestic rates	(8,119)	0	0	(8,119)
Gain on disposal of non-current assets	0	0	(99)	(99)
Government grants and contributions	(11,714)	(1,495)	0	(13,209)
<b>Income</b>	<b>(38,327)</b>	<b>(1,495)</b>	<b>(99)</b>	<b>(39,921)</b>
<b>Deficit on the Provision of Services</b>				<b>11,412</b>

\* Made up of non pay costs such as premises expenses, transport expenses and supplies and services.

**PENSION FUND STATEMENT****Firefighters' Pension Fund**

<b>Fund Account</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b><u>Income to the fund</u></b>		
<b>Contributions receivable:</b>		
~ from employer		
~ normal contributions	(2,807)	(2,719)
~ ill health contributions	(18)	(20)
~ from members	(1,870)	(2,157)
<b>Income to the fund</b>	<b>(4,695)</b>	<b>(4,896)</b>
<b><u>Spending by the fund</u></b>		
<b>Benefits payable:</b>		
~ Pension payments	8,189	8,998
~ Death benefits	86	0
~ Commutation of pensions and lump-sum retirement benefits	2,454	2,568
<b>Payments To and On Behalf of Leavers</b>		
~ Individual transfers out to other schemes	(27)	311
<b>Spending by the fund</b>	<b>10,702</b>	<b>11,877</b>
<b>Deficit for the year before top up grant receivable from DCLG</b>	<b>6,007</b>	<b>6,981</b>
~ Top-up grant received	(4,959)	(4,944)
<b>Deficit for the Year</b>	<b>1,048</b>	<b>2,037</b>
<b>Firefighters' Pension fund net assets statement</b>		
<b>Net current assets and liabilities:</b>		
~ pensions top up grant receivable from DCLG	1,048	2,037
~ repayment of 13-14 grant claimed in error	0	(29)
<b>Net grant receivable</b>	<b>1,048</b>	<b>2,008</b>

**NOTES TO THE FIREFIGHTERS' PENSION FUND STATEMENT**

- In accordance with the requirements of IAS19 the actual cost of pensions required for council tax setting purposes is replaced by the current service cost of pensions in CIES, and reversed out in the MIRS.
- Employee contributions, and employer contributions are paid into a separate account out of which pensions are paid. This is administered on behalf of the CFA by Leicestershire County Council Pensions Department. Any deficit on this account is made up by direct government funding from the DCLG.
- It is these employer contributions (rather than the net cost of pensions) that are replaced in the CIES.
- The Government has determined that this account is deemed a pension fund separate from the CIES and is thus reported on separately. There are no assets in this scheme and the difference between income and expenditure is met by direct government funding to balance the account to nil each year, and therefore there is no surplus or deficit on this fund to impact on overall CFA reserves.
- The pensions fund's accounts do not take account of liabilities to pay pensions and other benefits after the 31<sup>st</sup> March 2015. These can be found in note 32 in the notes to the accounts.
- The accounts are prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting policies starting on page 15.
- Any Government funding payable is paid in two instalments, 80% of the estimated annual amount in July and any further surplus or deficit settled with DCLG following audit of the accounts for the year.
- The fund is in deficit by £385,990k as at the 31<sup>st</sup> March 2015 (£351,130k as at the 31<sup>st</sup> March 2014).

## **GLOSSARY OF TERMS**

### **1. Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **2. Amortisation**

The reduction of the value of an intangible asset by pro-rating its cost over a period of years.

### **3. Capital Expenditure**

Expenditure on the acquisition of non current assets or expenditure which adds to and not merely maintains the value of existing non current assets.

### **4. Capital Receipts**

Income from the sale of assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

### **5. Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **6. Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principle accountancy body dealing with Local Government finance.

### **7. Corporate and Democratic Core**

Includes all aspects of members' activities and corporate management (see 8 below).

### **8. Corporate Management**

Concerns those activities and costs relating to provision of infrastructure, whether by the CFA or not, and the information which is required for public accountability.

### **9. Creditors**

Amounts owed by the CFA for which payment has not been made by the end of the financial year.

### **10. Debtors**

Amounts due to the CFA but unpaid at the end of the financial year.

### **11. Depreciation**

The measure of the wearing out, consumption, or other reduction in the usual economic life of a non current asset.

### **12. Government Actuary's Department**

A Government Department that provides advice upon public sector pension arrangements, social security provision and regulators of private pension policies.

### **13. Long Term Borrowing**

Loans raised to finance capital spending which have still to be repaid.

**14. Non-current Assets**

Property, plant and equipment that yield benefits to the CFA for a period of more than one year.

**15. Non Distributed Costs**

Costs relating to pension scheme past service costs, settlements and curtailments.

**16. Operating Leases**

A method of financing the acquisition of assets, notably equipment, vehicles, plant etc. which involves the payment of a rental by the user for a period which is normally substantially less than the useful economic life of the asset.

**17. Provision**

A liability or loss relating to a past event which is likely or certain to be incurred but uncertain as to the date when it will arise, which can be reasonably estimated.

**18. Reserve**

An amount set aside for purposes falling outside the definition of a provision.

**19. Revenue Expenditure**

Expenditure arising from the day to day operation of the CFA.

# *Leicester, Leicestershire and Rutland Combined Fire Authority*

*Report to those charged with governance - DRAFT*

Report to the Combined Fire Authority on the audit for the year  
ended 31 March 2015 (*ISA (UK&I) 260*)

Government and  
Public Sector

September 2015



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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

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*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.*

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# ***Executive summary***

## ***Background***

This report tells you about the significant findings from our audit. We presented our plan to you in January 2015; we have reviewed the plan and concluded that it was appropriate to include an additional significant risk relating to valuation of property plant and equipment. Further details can be found on page 6.

## ***Audit Summary***

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 24<sup>th</sup> September.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- formal confirmation of the outcome of the work performed on pensions scheme assets from the auditors of the Local Government Pension Fund;
- completion of our work on verification of payroll reports used in the audit;
- agreement of accounting treatment of liabilities relating to the Pensions Ombudsman's determination on commutation factors and the 2015 Fire Pension Scheme;
- review of final version of the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation;
- submission of results of our work on Whole of Government Accounts; and
- completion procedures, including subsequent events review.

We look forward to discussing our report with you on 24<sup>th</sup> September 2015. Attending the meeting from PwC will be Ali Breadon and Jane Jones.

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## ***Audit approach***

Our audit approach was set in our audit plan which we presented to you in January 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

We draw your attention to the inclusion of a further significant risk not included in our original audit plan. Before starting our final audit we re-categorised the revaluation of Property, Plant and Equipment as a significant risk due to the size of this balance and the reliance on judgement involved in its calculation.

Risk	Categorisation	Audit approach	Results of work performed
<p><b>Management override of controls</b>  ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.  In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant</p>	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> <li>- review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>- test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;</li> <li>- review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li> <li>- evaluate the business rationale underlying significant transactions outside the normal course of business; and</li> <li>- perform unpredictable procedures targeted on fraud risks.</li> </ul>	<p>We assessed the control environment.</p> <p>We reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards.</p> <p>We tested journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus. We found that all journal and year end postings tested were appropriate.</p> <p>We reviewed key accounting estimates for bias, including the valuation of land and buildings and estimates of pension liabilities. We concluded that judgement and estimates used are reasonable.</p> <p>We performed unpredictable procedures targeted on fraud risks. These included:</p> <ul style="list-style-type: none"> <li>• review of the monthly profile of non-grant income for unusual fluctuations compared to previous year and average monthly income;</li> <li>• scanning analytics of all non-grant income transactions for unusual or unexpected items;</li> <li>• targeted testing of a sample of invoices raised in the two weeks before the year end;</li> <li>• extending the sample size used in our testing of expenditure around the year end to gain assurance that expenditure is accounted for in the correct period;</li> <li>• verifying the existence of a number of vehicles to address the risk of fraud involving assets.</li> </ul> <p>We have no issues to report from these procedures. We did not identify any significant transactions outside the normal course of business.</p>

Risk	Categorisation	Audit approach	Results of work performed
<p><b>Risk of fraud in revenue and expenditure recognition</b>  Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.</p>	<p>Significant</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p>	<p>We understood the control environment, including validation of key controls.</p> <p>We evaluated and tested the accounting policies for income and expenditure recognition and found these are consistent with accounting standards and applied appropriately.</p> <p>We tested both income and expenditure by agreeing to supporting documentation, with a focus on those areas we identified as being of highest risk.</p> <p>In our testing of operating expenditure we identified one error of £3,559 relating to an overstatement of expenditure, which when projected gives a total indicated overstatement of operating expenditure of £60,059. The underlying cause of the overstatement was failure to classify part of an invoice for £15,330 paid before year end, which related to computer maintenance services in 2015/16 as a prepayment. Management have not adjusted for the original error identified (which is below our de minimis materiality) or the projected misstatement.</p> <p>We have no other issues to report from these procedures.</p>

### Property, Plant and Equipment valuation

The authority's property plant and equipment is held at fair value. All land and properties are subject to revaluation annually as at the balance sheet date by an independent external valuer. The valuation relies on use of accurate base data for land and gross internal areas of buildings, as well as use suitable assumptions for value per square metre. Given the size of the balance there is a risk that errors in the base data, in particular measurements of areas, used by the valuer could result in material errors in the financial statements. The authority's property plant and equipment balance also includes material values for assets under construction and vehicles, plant and equipment.

#### Significant

Land and buildings comprises the majority of the PPE balance at £36,494,000. We will utilise an internal expert in our assessment of the valuer's work to confirm that the valuation basis, methodology and assumptions used by the valuer are appropriate. We will perform additional work to verify that the floor and site areas used by the valuer are appropriate.

Assets under construction is a material balance at £2,936,000, and there have been significant movements in year. We will verify that the method by which assets under construction have been valued is appropriate.

Vehicles, plant and equipment are carried at depreciated historical cost. We will perform existence testing over these assets as part of our unpredictable procedures, which will provide additional comfort over the balance of £7,628k.

We evaluated the Authority's controls over property plant and equipment valuations.

We confirmed the Authority's external valuer's independence and expert qualifications.

We used our valuation experts to evaluate the work of your valuer, and concluded that valuation basis, methodology and assumptions used by the valuer are appropriate. Further details are discussed on page 10.

We confirmed that all property valuations are based on the valuer taking his own internal measurements as an independent external expert, and that all properties subject to alteration or refurbishment have been measured by the valuer following completion of works.

We physically inspected a sample of assets (properties, vehicles and plant and equipment) to confirm their existence and that no impairment of value is necessary.

It was not possible for us to trace from the total value in the financial statements for furniture and fittings (£205,275) and ICT assets (£274,405) to physically inspect individual assets. This is because individual assets do not have unique identifiers for us to trace them to their location. We have raised a control issue relating to this at page 17 and have included this matter in our management representation letter (Appendix 2).

We inspected title deeds for a sample of properties to confirm freehold is held.

We tested a sample of properties to confirm their appropriate classification and that the value in the financial statements agrees to the expert valuation report.

We tested a sample of properties to confirm the accounting for re-measurements has been performed appropriately.

We performed testing of a sample of assets under construction and found their basis of valuation to be correct.

No other issues were noted from testing of property valuation.

### Meeting the financial challenge

All local government organisations are faced with increased challenges in their medium term financial outlook. There continues to be a number of risks to the delivery of the plan, in respect of national changes, such as the worsening position of the Local Government Finance Settlement and uncertainties of funding beyond 2015/16, Council Tax Freeze Grant and Business Rates retention. The Authority has also been unsuccessful in its recent bid for capital funding and has been notified of cuts to the section 31 USAR grant.

As a result, the following risks are increased:

- slippage: the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies;
- timing: the timing of planned savings, service reductions and funding announcements may impact delivery against savings targets; and
- assumptions: significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan.

There is also a risk of deteriorating operational performance and quality due to reduced resources and management capacity where cost savings are made without careful consideration.



Elevated

We will continue to review the savings plans, their robustness and performance against these plans in year.

We will specifically consider:

- the impact of new operational arrangements in relation to the Authority;
- impact of business rates on the Authority's financial position;
- the Authority's intentions to take advantage of the Council Tax Freeze Grant;
- the governance structure in place to deliver the targets;
- the level and extent of accountability; and
- how the assumptions applied in the Authority's plan compare to other organisations and best practice.

We will consider any relevant accounting assumptions and whether they are realistic and reasonable.

We have reviewed your future savings plans and considered how robust they are, and reviewed performance against these plans in year. We considered:

- how the Authority is assessing the impact of proposed savings plans on service delivery;
- the level of assumed future business rates income and impact of this on the Authority's financial position;
- the Authority's intentions to take advantage of Council Tax Freeze Grant and impact of anticipated future grant on savings plans;
- the Authority's governance structure in place to deliver the targets;
- the level and extent of accountability for savings delivery;
- the reasonableness of assumptions applied by the Authority and how they compare with other fire authorities;
- the extent of scenario planning used; and
- the appropriateness of the policy on minimum reserve levels in the context of the savings plans.

Based on our work we concluded that the Authority has appropriate plans in place to meet the financial challenges it faces.

### *Intelligent scoping*

In our audit plan presented to you in January 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our actual overall materiality was decreased slightly to reflect the expenditure in the accounts presented for audit. This had no effect on our testing strategy.

Our revised materiality levels are as follows:

	£
Overall materiality	1,080,520
Clearly trivial reporting de minimis	44,000

Overall materiality has been set at 2% of actual gross expenditure for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Combined Fire Authority at its meeting in January 2015.



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# *Significant audit and accounting matters*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

## *Accounts*

We have completed our audit, subject to the following outstanding matters:

- formal confirmation of the outcome of the work performed on pensions scheme assets from the auditors of the Local Government Pension Fund;
- completion of our work on verification of payroll reports used in the audit
- agreement of accounting treatment of liabilities relating to the Pensions Ombudsman's determination on commutation factors and the 2015 Fire Pension Scheme;
- review of final version of the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation;
- submission of results of our work on Whole of Government Accounts; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval, we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules

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submitted to the Department for Communities and Local Government. The National Audit Office (NAO), as Group Auditor, has determined the audit threshold is £350 million. We perform procedures to confirm the Authority falls below this threshold, and we anticipate reporting via a short form Assurance Statement to the NAO that the Authority falls below the threshold.

## *Accounting issues*

For the fourth consecutive year both the quality and timeliness of the draft financial statements presented for audit has improved significantly. There were very few presentational or consistency issues noted in our review. This is due to a concerted effort on the part of the Finance Team to improve the accuracy and quality of accounts presented for audit.

In our testing of journals we identified that 19% of the journal lines we selected for testing were re-codings, many relating to revenue. It may be possible to increase future efficiency by improving the accuracy of initial journal coding. However, we are satisfied that all required adjustments were made prior to production of the draft financial statements.

## *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. There were no uncorrected factual misstatements identified during our audit, however there is one projected misstatement which has not been corrected. See page 5 and Appendix 1.

### *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask the Treasurer to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

### *Judgements and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

#### *Pensions liability*

A key estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Local Government Pension Scheme (LGPS) administered by Leicestershire County Council and the Firefighters' pension schemes. Your net pension liability on all schemes at 31 March 2015 was £402.026 million (2014 - £362.447 million).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. We used actuarial experts to review the methodology and assumptions applied by your actuaries.

We validated the data supplied to the actuary on which to base their calculations.

We used the work of pension scheme auditors at Leicestershire County Council with regards to the assets of the LGPS. Pension assets were found to be accounted for and

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measured appropriately. We are waiting for formal confirmation of the results of the pension scheme auditors' work at the time of writing this report.

#### *Property, Plant and Equipment valuation*

We have performed audit work to obtain assurance over the valuation of the £47.058 million Property, Plant and Equipment held by the Authority, as described on page 6. A key area of judgement is the valuation of property.

The overall conclusion of our expert valuer's review of property valuations was that the valuations were prepared on an appropriate basis. Our expert noted that the Gross Replacement Cost rates used in the valuation are at the low end of the average rates we see but our expert considered them acceptable. We have reviewed the work of our expert and concur with the conclusions drawn.

We found that property was valued and accounted for appropriately.

As discussed on page 6, it was not possible for us to select individual furniture and fittings (total value £205,275) or ICT assets (total value £274,405) for physical inspection. This is because the Authority doesn't maintain detailed records of those assets and their location. We raise a control issue relating to this at page 17 and have included this matter in our management representation letter (Appendix 2).

#### *Provision for Pensions Ombudsman's determination on commutation factors*

In May 2015 the Pensions Ombudsman determined that the Government Actuary's Department (GAD) should have reviewed historic commutation factors under the Fire Pension Scheme 1992 sooner and that lump sum payments previously made on retirement should be recalculated.

As a result, government has to make arrangements for payments to be made reflecting the more beneficial terms

that would have applied had commutation factors been reviewed and, where appropriate, revised at the appropriate times. This results in an additional fire pension liability. This liability has been disclosed as an event after the reporting period in the financial statements, with disclosure of an associated asset, since the costs are expected to be recovered from DCLG. Due to the number of individuals involved, only very recent release of detailed guidance on calculation of the liability and the fact that certain cases may still have to be referred on to GAD for calculation, management have informed us that the value of the liability is not yet available and it has not therefore been disclosed or adjusted for in the financial statements. The number of retirees likely to be affected has however been reported as a total of 93 individuals. We are seeking representation from management in relation to this matter.

We are also currently reviewing the accounting treatment of the liability with our specialist accounting team to determine how and when it is most appropriate to account for this change. We will update the Authority with the outcome of this work on 24 September 2015.

### *Fire Pension Scheme 2015*

We have been made aware that there are employment tribunal discrimination claims being brought by the FBU against fire services in relation to transitional protections offered for the Fire Pension Scheme 2015. We have discussed this matter with management and are informed that as yet no tribunal claims have been lodged against this authority. We are seeking representation on this matter. Should claims be lodged before the date at which we sign accounts we will consider their likely materiality and the appropriate accounting treatment.

### *WGA mismatches*

HM Treasury has reviewed the WGA returns submitted by all government bodies and highlighted mismatches in balances and transactions. There is a mismatch of £2.844 million in

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the capital and revenue grants reported by the Authority and CLG. We have traced to supporting CLG confirmations, and we are satisfied that the figures reported by the Authority agree to appropriate third party documentation.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

### *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We performed procedures to test the completeness of related party transactions and have no matters to report in relation to this work. Confirmation of accuracy of the list of related parties forms part of representation letter we ask management to sign (Appendix 2).

### *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and

associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

**Relationships between PwC and the Authority**

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

**Relationships and Investments**

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

**Employment of PricewaterhouseCoopers staff by the Authority**

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management

position covering financial, accounting or control related areas.

**Business relationships**

We have not identified any business relationships between PwC and the Authority.

**Services provided to the Authority**

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Group. The table on the following page outlines all non-audit services provided to the Authority during the financial year 2014/15, including all relevant threats and safeguards.

<b>Nature of service</b>	<b>Fee £</b>	<b>Potential threat to independence</b>	<b>Safeguards in place</b>
<b>Tax helpline This service runs from 1 September and is renewed annually. It was approved to renew for 2014/15 by the engagement leader in August 2014 and has just been approved to renew for 2015/16 at the same cost.</b>	2,000	A <b>self-review</b> threat could arise if we provide you with tax planning advice which either depends on a specific accounting treatment or has a material effect on the financial statements of an entity.  A <b>management</b> threat would exist if we did something that is a management responsibility. This	Members of the engagement team providing the tax services are not members of the audit engagement team.  If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.  A specified member of the Authority’s Finance Team receives the results of this service and makes all significant judgements connected with the services. This individual has a sufficient level of understanding of the work and has responsibility for evaluating the service delivered and determining what actions to take.  Our service constitutes advice and recommendations only. We will not make decisions on behalf of management. Our recommendations are

		could occur if we were to make decisions for the Authority.	justified by objective and transparent analyses or management are provided with the opportunity to decide between reasonable alternatives.
<b>Organisational Change Programme model review</b> This work was approved by the engagement leader in February 2015 and is now complete.	5,000	A <b>self-review</b> threat could arise if we are reviewing the calculations behind a model which we review as part of our vfm work.	We reviewed management completed calculations; we did not complete them for the Authority. We did not make any management decisions with regard to any amendments to the model, and we did not provide any form assurance over it. As such any self review risk that exists has been appropriately safeguarded against.
<b>Pension and tax advice Update of previously supplied pensions tax modeller. The 2014/15 work was approved by the engagement leader in December 2014.</b>	3,500	A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.	We made our respective responsibilities clear and the Treasurer agreed under the terms of our engagement to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.  Our advice and recommendations were for consideration and decision by management. Our recommendations were justified by objective and transparent analyses. The Treasurer was provided with the opportunity to decide between reasonable alternatives where appropriate.  An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.
<b>Employment tax services Assistance with the impact of redundancies on pension and individual member payments. Guidance on the employment taxes treatment of any payments in connection with redundancy or voluntary severance.</b> This work was approved by the engagement leader in	5,000	A <b>self-review</b> threat could arise if we provide you with tax planning advice which either depends on a specific accounting treatment or has a material effect on the financial statements of an entity.  A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.	Members of the engagement team providing the tax services were not members of the audit engagement team.  The advice provided is not dependent on a specific accounting treatment.  A specified member of the Authority's Finance Team received the results of this service and made all significant judgements connected with the services. This individual has a sufficient level of understanding of the work and had responsibility for evaluating the service delivered and determining what actions to take.  Our advice and recommendations were for consideration and decision by management. Our recommendations were justified by objective and transparent analyses. We provided with the opportunity to decide between reasonable alternatives where appropriate.

May 2015 and is being performed in 2015/16.

<b>VAT workshop</b> Attendance of two <b>members of the finance team</b> at a VAT conference in March 2015	600	A <b>self-review</b> threat could arise if we provide you with VAT advice which either depends on a specific accounting treatment or has a material effect on the financial statements.	Members of the team providing the VAT workshop were not members of the audit engagement team.  The nature of the service was delivery of objective technical training and no entity-specific advice was given.
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**Total fees 16,100**

### *Fees*

The analysis of our audit and non-audit fees for the year ended 31<sup>st</sup> March 2015 is included on page 20. In relation to the non-audit services provided, none included contingent fee arrangements.

### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

### *Rotation*

It is Public Sector Audit Appointments Limited's<sup>1</sup> policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. Public Sector Audit Appointments Limited's view is that generally the range of regulatory

safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

We sought approval for extension of Alison Breadon's engagement leader appointment for a sixth year to 2014/15 before the start of that financial year, in accordance with Audit Commission requirements.

<sup>1</sup> On the 31 March 2015 the Audit Commission was abolished and contracts were novated from the Audit Commission through to Public Sector Audit Appointments Limited.

### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's senior management or staff.

### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We ask the Combined Fire Authority to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Economy, efficiency and effectiveness*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Public Sector Audit Appointments Limited guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion. However, we have identified the following matter which we wish to bring to your attention:

### Future financial planning

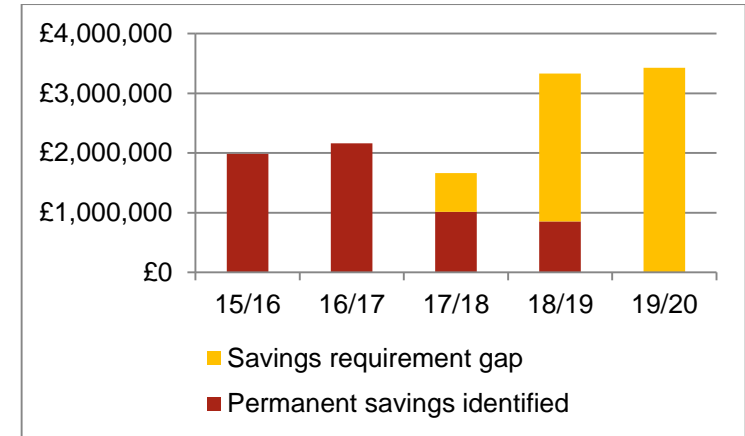
The Authority has produced a Medium Term Financial Plan (MTFP) extending to 2019/20 to quantify possible future budget gaps. The MTFP is being regularly updated in response to changes in projected funding and new efficiency savings identified.

The current MTFP has used a model provided by external advisors to forecast the value of key funding sources. A sharp decrease of 71% in Revenue Support Grant is forecast over the period. The model presumes a 1% increase in new Dimensions grant and a 1.3% increase in Firelink grant and other income, in line with CPI. A council tax increase of 1.99% year on year is assumed.

Over the past year the Authority has been identifying efficiency savings to address future budget gaps as part of its Integrated Risk Management Plan. This follows detailed modelling of where future service response is most likely to be required, to ensure cuts are made safely in the appropriate geographical areas so essential service delivery is preserved while savings are delivered.

These savings plans have been consulted on where appropriate and are now approved and included in the current MTFP. There are still some savings required to be identified from 2017/18 onwards, as shown in the chart opposite. This illustrates the level of future savings required based on the income assumptions described above. It also shows the level of savings which have been identified to date and therefore the current savings gap for each year.

Several of the efficiency savings identified cannot be fully implemented due to the policy in place on operational redundancies. There is therefore an associated operational over establishment cost within the MTFP modelled on expected retirements, and an earmarked over establishment reserve has been created to meet these costs over the short



term. Action is being taken to reduce the over establishment costs through exploring opportunities for secondments and voluntary redundancies.

In addition, the Authority will need explore further savings ideas to meet the budget shortfall going forward. This could include increased joint working or making improved use of the available capacity at HQ.

The Authority has made good progress on refining estimates used in modelling, and on identifying and implementing efficiency savings. The Authority now needs to prioritise:

- further refining its future financial models to model worst case scenarios, in particular lower future business rates income and additional loss of future government grants; and
- exploring and costing opportunities for further permanent efficiency savings needed from 2017/18 onwards.



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# Internal controls

## *Accounting systems and systems of internal control*

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

## *Reporting requirements*

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. There have been no significant deficiencies in control noted. There was one control weaknesses noted during the audit that has not previously been reported to you by internal audit which is shown in the table below.

## *Summary of internal control deficiencies*

<b>Deficiency</b>	<b>Recommendation</b>	<b>Management's response</b>
<b>Asset verification</b> The lists circulated to asset managers for confirmation that assets exist and are not impaired do not include individual asset numbers for furniture and fittings/ ICT assets.	Best practice would be to assign asset numbers to individual assets held in the fixed asset register, particularly ICT equipment, so they may be used in asset verification checks to mitigate the risk of fraud through misappropriation of assets.	The Area Manager Finance will hold discussions and review current practice with the relevant teams. Outcomes of this review will be put in place by December 2015.

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# *Risk of fraud*

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## **Auditors' responsibility**

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## **Management's responsibility**

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## **Responsibility of the Authority**

Your responsibility as part of your governance role is:

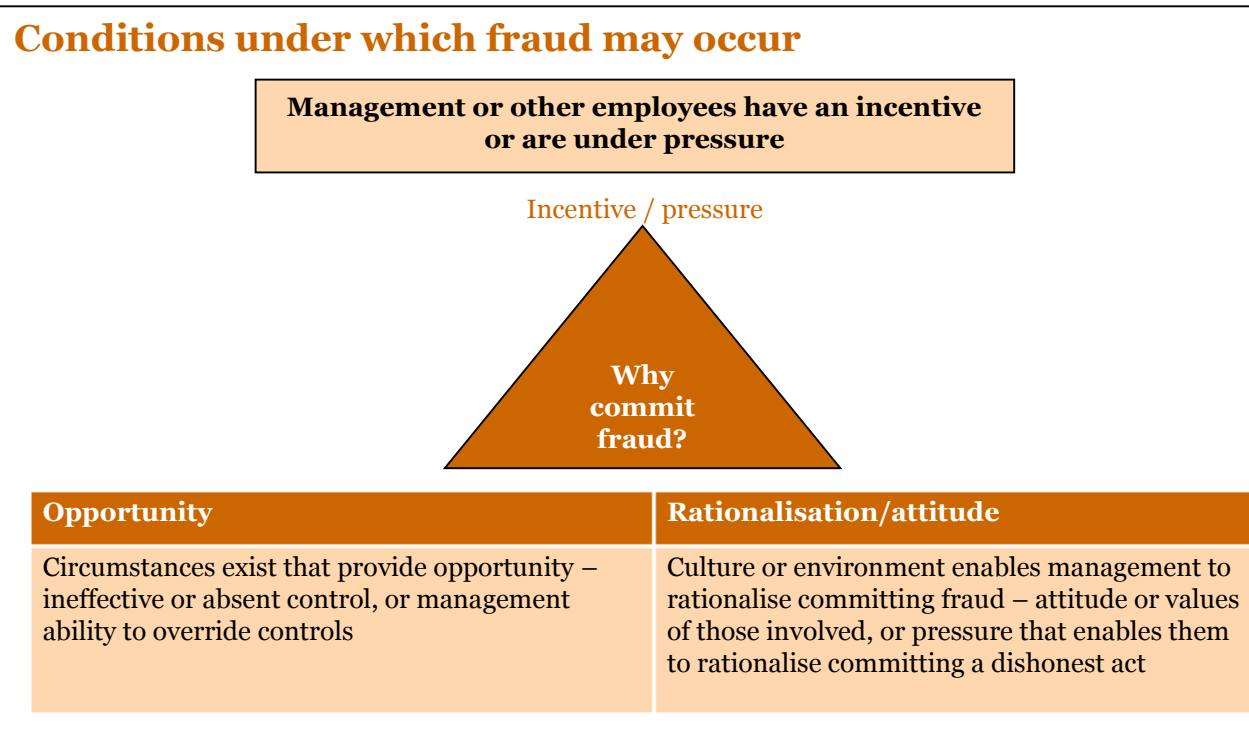
- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Combined Fire Authority in January 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



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# ***Fees update***

## *Fees update for 2014/15*

We reported our audit fee proposals in our plan.

Our actual fees were in line with our proposals.

Our fees charged were therefore:

	2014/15 outturn	2014/15 fee proposal
<b>Statement of Accounts (including whole of government accounts and Value for Money Conclusion)</b>	38,996	38,996
<b>Non-audit work</b>	16,100	16,100
<b>TOTAL</b>	<b>55,096</b>	<b>55,096</b>

We planned to perform non-audit work as described on pages 12-14 which fell outside of the Code of Audit Practice requirements. Our proposed and actual fee for this work was £16,100.

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# *Appendices*

# Appendix 1: Summary of uncorrected misstatements

We found the following misstatement during the audit that has not been adjusted by management. You are requested to consider this formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

As agreed with the Combined Fire Authority in January 2015, we have recorded all misstatements we identify which are greater than £44,000.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	This is an adjustment which would reduce the cost of services. In accordance with our testing methodology, we have calculated the value by projecting the known error of £3,559 within our expenditure testing sample across the untested part of the expenditure population being tested. This gives a total projected error of £60,059.	Projected		£60,059		£60,059
	The error we identified relates to of an item of expenditure which contained an element of prepayment, but had been charged in full to 2014/15.					
<b>Total uncorrected misstatements</b>				<b>£60,059</b>		<b>£60,059</b>

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## ***Appendix 2: Letter of representation***

PricewaterhouseCoopers LLP  
Donington Court  
Pegasus Business Park  
Castle Donington  
East Midlands  
DE74 2UZ

Dear Sirs

### **Representation letter – audit of Leicester, Leicestershire and Rutland Combined Fire Authority’s (the Authority) Statement of Accounts for the year ended 31 March 2015**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Deputy Treasurer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

#### **Statement of Accounts**

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the

Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements, grouped by category, is attached to this letter.

### **Information Provided**

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### **Accounting policies**

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

### **Fraud and non-compliance with laws and regulations**

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

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:



- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
  - all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### **Related party transactions**

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### **Employee Benefits**

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

### **Contractual arrangements/agreements**

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

### **Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Taxation**

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

### **Pension fund assets and liabilities**

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

### **Pension fund registered status**

I confirm that the Local Government Pension Scheme, the Firefighters' Pension Scheme (1992), the New Firefighters' Pension Scheme (2006) and the Firefighters' Pensions Injury Awards Scheme are Registered Pension Schemes. We are not aware of any reason why the tax status of the schemes should change.

### **Bank accounts**

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### **Subsequent events**

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

### **Using the work of experts**

I agree with the findings of FHP Property Consultants, experts in evaluating the value of land and buildings, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### **ICT assets and furniture and fittings**

I confirm that the net book value assigned to ICT assets and furniture and fittings has been appropriately measured and reflects all impairments and disposals of these assets, as required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

**Provision for Pension Ombudsman’s determination on commutation factors**

I confirm that the disclosure in respect of the Pension Ombudsman’s determination on commutation factors of May 2015 is made in accordance with the recognition or disclosure criteria of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and reflects the information available to me as at this date.

**Fire Pension Scheme 2015**

I confirm that the Authority used an appropriate basis for determining that the recognition or disclosure criteria of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 have not been met, for any potential liability which may occur as a result of possible employment tribunal claims against the Authority in relation to transitional protections offered for the Fire Pension Scheme 2015, an accounting estimate that was not recognised or disclosed in the Statement of Accounts.

.....

Adam Stretton

(Deputy Treasurer)

For and on behalf of Leicester, Leicestershire and Rutland Combined Fire Authority

Date .....

Date .....

**Attachment: Summary of unadjusted misstatements**

<i>No</i>	<i>Description of misstatement (factual, judgemental, projected)</i>	<i>Income statement £000</i>		<i>Balance sheet £000</i>	
		<b>Dr</b>	<b>Cr</b>	<b>Dr</b>	<b>Cr</b>
1	<p>This is an adjustment which would reduce the cost of services. In accordance with our testing methodology, we have calculated the value by projecting the known error of £3,559 within our expenditure testing sample across the untested part of the expenditure population being tested. This gives a total projected error of £60,059.</p> <p>The error we identified relates to of an item of expenditure which contained an element of prepayment, but had been charged in full to 2014/15.</p>	Projected	60	60	
<b>Total uncorrected misstatements</b>			<b>60</b>	<b>60</b>	

## Appendix 1 - Related parties and related party transactions

<i>Type of related party relationship</i>	<i>Client response and Details</i>
<p><b>List all parties (both persons and entities) with control<sup>2</sup> or joint control<sup>3</sup> of the reporting entity.</b></p>	<p>Department for Communities and Local Government (DCLG)</p> <p><u>Members and dependants of the CFA at 31/03/15</u></p> <p>A Byrne            B Newton            C Bhatti            C Radford            D Bajaj            J Coxon            J Fox            K A Bool            M B Wyatt            M Charlesworth            O O'Shea            S Barton            S Bray            S Corrall            G Hart            A Hershaw            P Lewis</p>
<p><b>Where these parties are persons:</b></p>	<p>N/A</p>

<sup>2</sup> An individual controls the company when the individual is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company [IFRS10].

<sup>3</sup> Joint control is where two or more parties are bound by a contractual arrangement, and the contractual arrangement gives two or more of those parties joint control of the company [IFRS11].

- **List their close family members<sup>4</sup>, and any other entities controlled<sup>1</sup> or jointly controlled<sup>2</sup> by these persons or their close family members<sup>3</sup>.**
- **List the entities over which these persons or their close family members<sup>3</sup> have significant influence<sup>4</sup> (either by holding key management positions<sup>5</sup> or otherwise). Include entities that are controlled or jointly controlled by those entities.**

N/A

**List all parties (both persons and entities) with significant influence<sup>5</sup> over the reporting entity.**

D Webb  
R Chandler  
S Lunn  
T Peel  
M Andrew  
B Barnes  
R Taylor  
A Stretton  
G Goodman  
J Tasker  
A Brodie

**Where these parties are persons:**

- **List their close family members<sup>3</sup>, and any entities controlled<sup>1</sup> or jointly controlled<sup>2</sup> by these persons or their close family members<sup>3</sup>. Include entities that are controlled or jointly controlled by those entities.**

N Webb  
J Chandler  
N Orme  
I Peel  
A Andrew  
R Barnes  
N Taylor  
C Stretton

<sup>4</sup> Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner [IAS 24].

<sup>5</sup> Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies [IAS28].

J Goodman  
O Goodman  
A Goodman  
G Goodman

**List all key management personnel<sup>6</sup> of the reporting entity and its parent.**

D Webb  
R Chandler  
S Lunn  
T Peel  
M Andrew  
B Barnes  
R Taylor  
A Stretton  
G Goodman  
J Tasker  
A Brodie

**List those key management personnel's<sup>5</sup> close family members<sup>3</sup>, and any other entities controlled<sup>1</sup> or jointly controlled<sup>2</sup> by those key management personnel or their close family members<sup>3</sup>. Include entities that are controlled or jointly controlled by those entities.**

**List all entities within the reporting entity's group – parents, subsidiaries, and fellow subsidiaries.**

Forge Health Limited (wholly owned subsidiary)

**List the reporting entity's joint ventures and associates (and their subsidiaries). Also list other group members' joint ventures and associates (and their subsidiaries).**

Forge Health Limited (wholly owned subsidiary)

**If the reporting entity is itself a joint venture:**

- **List all venturers, these venturers' group members and that group's associates or joint ventures.**

N/A

**If the reporting entity is itself an associate:**

- **List all investing entities, these investing entities' group members and that group's joint ventures.**

N/A

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<sup>6</sup> Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity [IAS24].



**List all post-employment benefit plans for the benefit of the reporting entity, or any entity disclosed within the above questions.** N/A

**If the reporting entity is itself a post-employment benefit plan:**

- **List all sponsoring employers.** N/A

**If the reporting entity has a premium listing on the London Stock Exchange, list any ‘controlling shareholder’<sup>7</sup> (defined as any person who exercises or controls, on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company. (LR 6.1.2A specifies some voting rights that are disregarded for this purpose. Subject to conditions, these are:** N/A

**(i) Voting rights exercised as bare trustee, investment manager, collective investment undertaking or long-term insurer.**

**(ii) Voting rights held in relation to the business of underwriting the sale or issue of securities, placing securities (where committed to acquiring unplaced securities), and acquiring securities pursuant to an agreement to procure third party purchases of securities.)**

**If the reporting entity is required to adhere to the Alternative Investment Market (“AIM”) Rules (i.e., the entity is AIM listed), additional related parties are defined by the AIM Rules:** N/A

- a) any person who is a director of the reporting entity or of any company which is its subsidiary or parent undertaking, other subsidiary undertaking of its parent company;**
- b) a substantial shareholder (any person who holds any legal or beneficial interest directly or indirectly in 10% or more of any class of AIM security (excluding treasury shares) or 10% or more of the voting rights (excluding treasury shares) ;**

---

<sup>7</sup> There is a requirement to disclose contracts of significance with controlling shareholders. Also need to make disclosures re independence agreements with such a shareholder.

- c) **an associate of (a) or (b) being;**
- i. **the family of such a person;**
  - ii. **the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an occupational pension scheme as defined in regulation 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, or an employees' share scheme which does not, in either case, have the effect of conferring benefits on persons all or most of whom are related parties).**
  - iii. **any company in whose equity shares such a person individually or taken together with his or her family (or if a director, individually or taken together with his family and any other director of that company) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) to the extent that they are or could be able:**
    - **to exercise or control the exercise of 30% or more of the votes (excluding treasury shares) able to be cast at general meetings on all, or substantially all, matters; or**
    - **to appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters;**
  - iv. **any other company which is its subsidiary undertaking, parent undertaking or subsidiary undertaking of its parent undertaking;**
  - v. **any company whose directors are accustomed to act in accordance with (a)'s directions or instructions; any company in the capital of which (a), either alone or together with any other company within (iv) or (v) or both taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) interested in the manner described in (iii);**
- d) **any person who was a director of the reporting entity or any of its subsidiaries, sister or parent undertakings or a substantial shareholder within the twelve months preceding the date of the transaction.**

**A ‘person’ is defined in the AIM Rules as “an individual, corporation, partnership, association, trust or other entity as the context admits or requires”.**

**The AIM Rules also limit the nature of the transactions which must be reported if entered into with any of these parties, and provide certain exemption criteria for transactions. In excess of these being required to be reported within the reporting entity’s financial statements (AIMR19), there are also other required actions the reporting entity and/or listed entity must complete – please seek legal advice if you are unaware of these requirements.**

**I confirm that the above listing is, to the best of my knowledge having made appropriate enquiries of others complete and all information is accurate.**

**Signature: ..... Date: .....**





In the event that, pursuant to a request which the Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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130610-142627-JA-UK

**Leicester, Leicestershire and Rutland Combined Fire Authority  
The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of the control environment  
2014-15**



**Neil Jones CPFA, Head of Internal Audit Service,  
Leicestershire County Council**

**19<sup>th</sup> August 2015**

## Background

Leicestershire County Council's Internal Audit Service (LCCIAS) provides the internal audit function for the Leicester, Leicestershire and Rutland Combined Fire Authority (CFA). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the CFA's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is for a specific time interval i.e. 2014-15 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the CFA's control environment. However, the caveat at the end of the document explains what internal control cannot do i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given the small amount of internal audit resource commissioned by the CFA Treasurer. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

### **Governance related internal audit work**

A governance themed Ethics and Culture audit, returned substantial assurance. The annual Key ICT Controls work (substantial assurance) contains some focus on IT Organisation and Governance and the associated management of risk. Phase one of the electronic fuel management audit concentrated on the governance aspects of the process, including supporting policies and procedures.

On the whole, recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

Good governance was displayed during the specific risk management audit (see below) when it was identified that the revised procedure had been externally reviewed by peer and other local public sector organisations.

Work commenced in mapping out the 'lines of defence' assurance framework. This work will be completed within 2015-2016 once revised governance and management structures are known.

A planned audit of the Medium Term Financial Planning Cycle (MTFS) was deferred by the Treasurer predominantly due to decisions being made on the Integrated Risk Management Plan (IRMP) which resulted in a revised MTFS being presented to CFA on 8<sup>th</sup> April 2015. The HoIAS attended the Overview and Scrutiny Committee (the Committee) to present internal audit plans and reports. This enabled him to gauge good governance at Member and senior management level at first hand.

At its meeting on 18<sup>th</sup> March 2015, the Committee approved an Internal Audit Charter for the CFA mandating the purpose, authority and responsibility of the internal audit activity. LCCIAS shared the County Council's revised Anti-Fraud and Corruption documents to enable the Treasurer to update the CFA's suite of counter fraud documents to enable it to conform to the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption.

The HoIAS held regular discussions with the Treasurer and where required the Monitoring Officer (MO) on governance issues and related audit aspects.

**HoIAS opinion: - Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the CFA's governance arrangements during 2014-15 were robust.**

#### **Risk management related internal audit work**

In general terms, internal audits planned and conducted are 'risk based' i.e. ensuring that the CFA's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring sufficient and adequate controls are in place to reduce risk exposure.

A follow up audit was conducted to ascertain whether risk management activities were co-ordinated across the differing service areas and a revised Corporate Risk Management Guidance (Procedure) and Corporate Risk Register (CRR) had been developed and implemented. Implementation was delayed, mainly as a result of management's involvement in the Service's response to industrial action. Whilst progress had been made and recommendations were agreed, an opinion was not reached because at the date of the audit (early February 2015) it couldn't be confirmed whether the CRR (2013-16) was complete and included all key risks. Management accepted that the level of risk was sufficient to emphasise that prompt action was required by June 2015, to approve and implement the full Procedure, and develop a robust Organisational CRR. It was intended to gain Policy Committee approval in June 2015 but that Committee was cancelled.

**HoIAS opinion: Whilst no specific opinion was reached, management agreed to implement audit recommendations, which will mitigate risk. Therefore reasonable assurance is given that risk is managed.**



## **Financial (and ICT) Controls related internal audit work**

Of the six audits with a financial or ICT control theme one was graded at full assurance and four returned substantial assurance.

There was one partial assurance rating in relation to the audit of pensions administration and specifically in the requirement that pension contributions are deducted at the correct banding. However all recommendations in respect of this report have been agreed and their implementation will be followed up.

The Treasurer commissioned an audit to investigate further the circumstances surrounding the reported misuse of one of the Authority's procurement cards and to give assurances to management that robust procedures exist to approve card holders and monitor on-going usage. A number of recommendations were made.

**HoIAS opinion: Reasonable assurance can be given that the CFA's core financial practices remain strong. However, the procurement cards recommendations need reviewing and implementing where accepted.**

## **The control environment**

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

### **Control**

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

### **Caveat**

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.