report

meeting	**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY**
date	**29 July 2005** agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

ADJUSTMENTS TO THE 2003/2004 FINAL ACCOUNTS

1 PURPOSE OF REPORT

1.1 To inform Members of an issue that has arisen in respect of the 2003/4 final accounts, which will be explained in full in the 2004/5 final accounts to be presented to this meeting.

1.2 To draw Members' attention to a letter received from PriceWaterhouseCoopers, the external auditors of the accounts in 2003/4.

2 BACKGROUND

2.1 During the preparation of the final accounts for 2004/5 it became apparent to senior officers that there had been a significant error in the accounting treatment of the disclosures required under Financial Reporting Standard 17 (Pension Liabilities) and that this error, despite it's size, had not been picked up either by officers or external auditors during the previous year.

2.2 In effect what had happened was that the full range of complex calculations relating to FRS 17 had been carried out but the entries in the accounts had been reversed in error. Because these adjustments have no effect on the Authority's Revenue Account, as they are effectively cancelled out within the account itself, the only place where this could have been noticed was on the Balance Sheet where the correct figures had been entered but shown as current assets rather than liabilities.

3. EFFECT ON THE ACCOUNTS

3.1 The disclosures required in the accounts in respect of FRS17 are largely technical matters which have no effect on the financial performance or stability of the organisation. They are however shown on the face of the Balance Sheet to show the effect of the long term liabilities for the payment of pensions.

3.2 The reporting requirements in respect of FRS17 were changed in 2003/4 to more accurately reflect the same reporting practices as the private sector. The calculations involve taking advice from the County Council's pension administrators and a firm, of Actuaries. The information then received is adjusted for local requirements and then entered into the accounts.

3.3 As mentioned above the audit of the Authority's 2003/04 accounts was completed in 2004 and an unqualified opinion was given on those accounts in November 2004. It is unfortunate that this issue was not identified during the preparation and audit of the 2003/04 accounts, however discussions with the previous external auditors (PriceWaterhouseCoopers), the current external auditors (The Audit Commission), the Head of Finance and Resources and the Treasurer have considered what action, if any, needs to be taken in response to the identification of this issue. The prior year comparative figures for 2003/4 have therefore been restated in the 2004/5 accounts to present the Balance Sheet in such a way that it correctly discloses that the Authority had net liabilities rather than net assets in 2003/04.

3.4 Also, for the purposes of clarity the 2003/4 accounts have also been adjusted for the effect of transferring some of the earmarked reserve for pensions to a pensions provision as it is considered that this better reflects it's purpose. The adjustments to the 2003/4 accounts are therefore as follows:

	Original 2003/4 £000's	**Restated 2003/4 £000's**
Total Assets	28,062	28,062
Provision	(942)	(942)
Other Current Liabilities	(2,481)	(2,481)
Total Assets Less Current Liabilities	**24,639**	**24,639**
Net Liability related To defined benefit Scheme	187,194	(187,194)
Other Long Term Liabilities	(2,124)	(2,124)
Net Assets	**209,709**	**(164,679)**
Earmarked Reserve	1,027	1,027
Other Reserves	21,488	21,488
Pension Reserve	187,194	(187,194)
	209,709	**(164,679)**

3.5 As can be seen above these adjustments have the effect of creating a large "negative Balance Sheet" which takes account of the large liability arising from the FRS17 adjustments.

3.6 The action of presenting this adjustment as a "Prior Year Adjustment in the 2004/5 final accounts is supported by the current auditors (The Audit Commission), PriceWaterhouseCoopers, the Authority Treasurer and the Head of Finance and Resources. A letter to Members from Messrs PriceWaterhouseCoopers is attached to this report as Appendix A.

4 FINANCIAL IMPLICATIONS

Despite the high value of the transactions required to correct this error there are no financial implications for the Authority due to the technical nature of the adjustments required.

5 PERSONNEL IMPLICATIONS

There are no Personnel implications arising from this report.

6 RISK MANAGEMENT IMPLICATIONS

There are no risk management implications arising from this report.

7 EQUALITY IMPACT ASSESSMENT

There are no specific implications which arise from this report, however an impact assessment of the fundraising unit shows that funds raised are directed entirely towards the improving the safety of communities. These communities clearly reflect ethnic and religious diversity which are addressed within the Authority's activities.

8. RECOMMENDATION

8.1 That Members note the contents of the above report and consider the letter from Messrs PriceWaterhouseCoopers.

8.2 That Members approve the corrective action to be taken in the 2003/4 Accounts.

9. BACKGROUND PAPERS FOR INSPECTION

None.

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CHIEF FIRE OFFICER

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27 May 2005

Our ref: MAJ

Ladies and Gentlemen

2003/04 Accounts

As you will be aware the audit of the Authority's 2003/04 accounts was completed in 2004 and an unqualified opinion was given on those accounts in November 2004. You will also be aware that 2003/04 was our final year as auditors to the Authority and that you now have the Audit Commission as your external auditors.

We were recently contacted by the Authority to inform us that an issue had come to light with respect to the 2003/04 accounts. The issue, in brief, related to the way in which the pension liability had been disclosed within the balance sheet, resulting in the balance sheet indicating that the Authority had net assets at the year-end when in fact it should have indicated that the Authority had net liabilities. However, the nature and size of the pension liability giving rise to the overall net liabilities position was clearly identified throughout the detailed notes to the accounts.

It is unfortunate that this issue was not identified during the preparation and audit of the 2003/04 accounts and surprising given the various stages of review that the accounts are subject to by the Authority and by ourselves throughout their preparation and the audit process. We have considered what action, if any, we need to take in response to the identification of this issue. We have discussed the issue both with the Authority's Head of Finance and Resources and with the Authority's Appointed Auditor and have collectively agreed that in the Authority's 2004/05 accounts, which are due to be presented to the CFA at its meeting in July 2005, the relevant prior year comparative figures will be restated to present the balance sheet in such a way that it correctly discloses that the Authority had net liabilities rather than net assets in 2003/04.

We trust you will agree that this is the most appropriate way forward.

Yours faithfully

PricewaterhouseCoopers LLP