



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **North Wales Fire and Rescue Authority**

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Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Recommendations arising from our 2018-19 financial audit work	7
Independence and objectivity	8

Appendices

Appendix 1 – Final Letter of Representation	9
Appendix 2 – proposed audit report of the Auditor General to the North Wales Fire and Rescue Authority	12
Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of the North Wales Fire and Rescue Authority	16
Appendix 4 – recommendations arising from our 2018-19 financial audit work	18

Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the North Wales Fire and Rescue Authority (the Authority) at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material is £878,000 for the Authority and £167,000 for the Firefighters' Pension Fund. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Authority, for 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 31 May 2019, which was in accordance with the earlier statutory deadline 2018-19, and we have now substantially completed the audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Mr Ken Finch, Treasurer.

Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements. As part of the final stages of the audit you will provide us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 We set out below one misstatement that we identified in the financial statements, which has been discussed with management but remains uncorrected, and request that it is corrected. If you decide not to correct the misstatement, we ask that you provide us with the reasons for non-correction.

Tax costs deducted from retirees have not been accrued in the Firefighters Pension Fund account.

- 11 If an individual elects to take a higher proportion of their pension benefits as a lump sum payment, the sums involved are subject to taxation. The Authority collects this tax from the individual when the lump sum payment is made and subsequently pays it over to HMRC. Whilst the Authority has collected the tax, in circumstances where the payment to HMRC had not been made by 31 March 2019, the liability has not been accrued and recognised in the financial statements. As a result, the commutation of pension and lump sum benefits in the firefighter's pension fund is understated by £19,960 as is the creditor's balance in the Balance Sheet.

Corrected misstatements

- 12 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

It is pleasing to note the significant improvement in the quality of the draft financial statements and supporting working papers although we have some concerns about the qualitative aspects of your accounting practices

- 13 This was the first year of the revised statutory deadline for the preparation and publication of the financial statement by 31 July 2019. Not only has the Authority met the audit submission deadline of 31 May but also prepared draft statements and supporting working papers of a significantly higher quality than in previous years. Consequently, we did not encounter any significant difficulties in conducting the audit. We will work with the Authority over the coming year to further develop the Audit Deliverables to ensure that all the relevant working papers are available at the commencement of the audit.

It is timely to conduct a comprehensive review of the form and content of the financial statements and the accounting policies applied in their preparation

- 14 Whilst the financial statements generally comply with the Code of Practice for Local Government Accounting, the form and content of the statements could be further enhanced by conducting a review against the Code disclosure checklist. At the same time the Authority could take the opportunity to remove immaterial disclosures.
- 15 Equally, the Authority should carry out a review of its accounting policies to ensure that they are still fit for purpose and comprehensively reflect the various policies that it applies in the preparation of the financial statements.

There are still some issues with the Authority's asset register that urgently need to be addressed

- 16 We have previously made a number of recommendations in relation to the asset register, some of which remain unaddressed. Whilst we understand that the Authority recognises the need for an asset register software solution, it is unlikely that a system will be procured and implemented for at least two years. It is essential that the Authority take interim measures to strengthen its Excel based asset register, particularly in relation to assets that have been subject to revaluation and to ensure its overall integrity.

There is one matter, significant to the oversight of the financial reporting process that we need to report to you – the process to collate information required to disclose related party transactions could be strengthened further

- 17 Note 31 to the financial statements sets out related party transaction disclosures. Authority members make an annual declaration of those related parties in which they, or close family members, have an interest in. Whilst we are satisfied that the note in the audited financial statements reflects these disclosures, we would note:
 - that one member did not complete their return at all and other members did not do so on a timely basis and in fact needed to be reminded on more than one occasion;
 - that there were inconsistencies in the number of declarations made from the previous year, which could legitimately have resulted from changes in circumstances, but may also be indicative of omission or lack of understanding; and
 - there were inconsistencies in that the declarations didn't always accord with other available information, including that on the Authority's website.
- 18 Whilst we are satisfied that the disclosures are materially stated, the Authority should strengthen its arrangements to ensure that the information used to prepare the disclosure note is robust.

There is one significant matter discussed and corresponded upon with management which we need to report to you.

- 19 In December 2018, the Court of Appeal ruled against the Government, holding the changes made to pension schemes discriminated against a group of public officers on the grounds of age. The changes surrounded a move from a final salary to a career average basis. On 27 June 2019, the Supreme Court denied the Government's application to appeal the decision. This series of events is referred to as the McCloud judgement.
- 20 The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.
- 21 The Fire Authority participate in two pension schemes, the Local Government Pension Scheme (LGPS) for fire staff, which is administered by Flintshire County Council, the actuary of the scheme being Mercers. The North Wales Fire Fighters Pension fund is specifically for fire officers, overseen by the Government Actuary Department (GAD).
- 22 GAD and Mercers have undertaken separate reviews of the impact of the McCloud judgement on the North Wales Fire Fighters Pension Fund and LGPS respectively and have calculated additional liabilities of £12.9 million. This additional liability has been included within the financial statements and increases the total pension liability to £332 million.

There are no other matters that we need to report to you

- 23 There are no other matters to report to you. In particular:
 - we did not identify any other material weaknesses in your internal controls that we have not reported to you already; and
 - there are no other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2018-19 financial audit work

- 24 The recommendations arising from our 2018-19 financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 25 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 26 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Authority that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

North Wales Fire and Rescue Authority
Ffordd Salesbury,
St Asaph Business Park,
St Asaph,
Denbighshire,
LL17 0JJ

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

29 July 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of North Wales Fire and Rescue Authority for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the code of practice on local authority accounting in the UK; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects North Wales Fire and Rescue Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The issues associated with the taxation deducted in respect of pension lump sums has been discussed with management and it has been confirmed that all payments are made when they become due to HMRC. Arrangements have been made for all future deductions to be fully accounted for at the time of the payment to the individual.

Representations by North Wales Fire and Rescue Authority

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by North Wales Fire and Rescue Authority on 29 July 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

K Finch FCPFA

Treasurer

North Wales Fire & Rescue Authority

Date: 29 July 2019

Signed by:

Councillor Peter Lewis

Chairman

North Wales Fire & Rescue Authority

Date: 29 July 2019

Appendix 2

Proposed audit report of the Auditor General to the North Wales Fire and Rescue Authority

Report on the audit of the financial statements

Opinion

I have audited the financial statements of

- the North Wales Fire & Rescue Authority; and
- the Firefighters Pension Fund Account

for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

North Wales Fire & Rescue Authority's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

The Firefighters' Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of the North Wales Fire & Rescue Authority and the Firefighters' Pension Fund as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Fire & Rescue Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fire & Rescue Authority's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Fire & Rescue Authority and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the North Wales Fire and Rescue Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Fire & Rescue Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
29 July 2019

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Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the North Wales Fire and Rescue Authority

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 3: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
Narrative	Narrative Report: A number of amendments were made to the Financial Position section of the Narrative Report to strengthen the information and provide more clarity where it cross references to the notes in the financial statements	To improve the information for the reader
£319,000	Balance Sheet: Increase Property Plant & Equipment £319,000 Decrease Intangible Assets £319,000	To correctly classify IT software additions as intangible assets
£851,000	Balance Sheet: Increase Debtors £851,000 Increase Creditors £851,000	To correctly recognise grant income, due on behalf of the other Welsh Fire Authorities, and the obligation to pay it over to them, as at 31 March 2019
£12.883 million	Increase in the pension liability in the Balance Sheet and Note 35 'Transactions relating to post-employment benefits' to reflect the estimated impact of the McCloud judgement on pension fund age discrimination. Corresponding adjustments have been made within the Expenditure and Funding Analysis, Comprehensive Income and Expenditures Statement, Movement in reserves Statement, Cashflow Statement, Pension Fund Reserve and supporting notes.	An additional Pension liability has arisen following the McCloud judgement for which a reasonable estimate can be made of the impact.

Value of correction	Nature of correction	Reason for correction
	This adjustment has no impact on Usable Reserves.	
Narrative	Note 2: Disclosures added relating to future and other major sources of estimation and uncertainty	To comply with disclosure requirements.
Narrative	Note 3: The wording of this note has been amended to better reflect the substance of the material transaction relating to a pension prepayment	To better inform the reader
Narrative	Note 4: Narrative added to explain the nature of an adjusting event after the balance sheet date relating to the McCloud pension judgement	To provide appropriate disclosure of an adjusting event after the balance sheet date
£142,000	Note 13: Decrease financial liabilities at amortised cost	To correctly state the liabilities
Change in analysis	Note 16 and note 18: The analysis of the debtors and creditors notes were amended to reflect the Code requirements	To comply with disclosure requirements
Change in analysis	Note 19: The analysis of the provisions note was amended to reflect the Code requirements	To comply with disclosure requirements
Narrative	Note 31: Additional disclosures were made to show the total transactions with related party bodies. In addition details of a member who failed to complete an annual declaration were provided.	To comply with disclosure requirements
Additional analysis	Note 32: Additional information has been provided relating to capital expenditure and capital commitments	To better inform the reader
There have also been a number of other minor amendments and disclosure updates as a result of our work.		

Appendix 4

Recommendations arising from our 2018-19 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 4: matter arising 1

Matter arising 1 – incorrect accounting treatment of personal tax deductions from lump sum payments made to retirees resulting in understated charges to the Firefighters pension fund.	
Findings	The Authority had incorrectly charged the net (after personal tax charges) lump sum payment made to the individual to the firefighter's pension fund rather than the full cost to the Authority. As a result, lump sum costs were understated and amounts owing to HMRC (collected from the individuals) were not accrued in the financial statements.
Priority	High
Recommendation	The Authority should properly account for the different elements of net lump sum payments in its accounting transactions.
Benefits of implementing the recommendation	To comply with proper accounting principles.
Accepted in full by management	Yes
Management response	The accounting arrangements have been revised to ensure that all tax liabilities are accounted for correctly.
Implementation date	Immediate

Exhibit 5: matter arising 2

Matter arising 2 – the financial statements would benefit from a full review against the Code disclosure checklist	
Findings	We identified a number of areas of non-compliance with the Code disclosure requirements. Had the Authority completed the Code disclosure checklist these could have been identified earlier and addressed prior to submission of the financial statements for audit.
Priority	High

Matter arising 2 – the financial statements would benefit from a full review against the Code disclosure checklist

Recommendation	The Authority should ensure that it completes the Code disclosure checklist and also consider whether immaterial disclosures can be removed to make the statements more accessible to the reader.
Benefits of implementing the recommendation	To ensure compliance with the Code of Practice on Local Government Accounting.
Accepted in full by management	Yes
Management response	The preparation of the 2019/20 statement of accounts will include the completion of the disclosure checklist.
Implementation date	March 2020

Exhibit 6: matter arising 3

Matter arising 3 – the accounting policies would benefit from a review to ensure that they appropriately reflect the Authority’s accounting practices

Findings	We identified that several accounting policies were out of date and not all accounting practices were covered in the policies.
Priority	High
Recommendation	The Authority should review its accounting policies to ensure that they are both relevant and comprehensive.
Benefits of implementing the recommendation	To ensure that the specific principles, rules and practice on which the accounts are prepared are properly defined and set out in the financial statements.
Accepted in full by management	Yes
Management response	Whilst we consider that the accounting policies reflect the accounting practices an annual review to ensure that the accounting policies remain complete and accurate has been included in the annual accounts process.
Implementation date	March 2020

Exhibit 7: matter arising 4

Matter arising 4 – previous recommendations relating to the asset register are still outstanding and urgently need to be addressed, particularly in relation to those assets that have been revalued.	
Findings	The Excel based asset register is poorly structured and does not hold adequate information in relation to those assets that have been revalued.
Priority	High
Recommendation	The Authority should redesign the asset register to ensure that it is well structured and to ensure that it holds all the necessary information to support the accounting entries, particularly in relation to valuations.
Benefits of implementing the recommendation	The asset register will fully support the accounting transactions within the financial statements.
Accepted in full by management	Yes
Management response	A dedicated fixed asset register will be considered as part of the new ledger implementation. As an interim measure the current excel workbook will be reviewed and revised to ensure that the audit trail is clearer.
Implementation date	December 2019

Exhibit 8: matter arising 5

Matter arising 5 – the process for the collection of annual declarations from members could be strengthened	
Findings	Some Members were slow to respond to the Authority's request for annual declarations and the declarations were in places inconsistent with other relevant information
Priority	High
Recommendation	The Authority should strengthen its processes in relation to the collation of annual declarations and Members need to respond on a timely basis.
Benefits of implementing the recommendation	To ensure that all interests are declared and disclosed in the financial statements where appropriate.
Accepted in full by management	Yes
Management response	The internal arrangements will be reviewed and revised to ensure full compliance for 2019/20.
Implementation date	March 2020

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