

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

North Wales Fire and Rescue Authority

Audit year: 2015-16

Issued: September 2016

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Status of report

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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 at 31 March 2016 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 for North Wales Fire and Rescue Authority is £441,000. 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 North Wales Fire and Rescue Authority, for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 by the statutory deadline of 30 June 2016 and 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 the Deputy Chief Fire Officer, Dawn Docx.

Proposed audit report

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided 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. There are three misstatements identified in the financial statements, which remain uncorrected. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

IT assets with a net book value of £38,000 are no longer in use resulting in an overstatement of non-current assets in the balance sheet.

- Testing to verify the existence of assets identified a number of IT assets that had been replaced or disposed of. As a result the net book value of assets held in the balance sheet is overstated by £38,000. See paragraphs 14 to 19 below which set out further details.

Expenditure amounting to £54,000 has been accounted for in the wrong accounting period

- A number of invoices in respect of training costs and software licenses were paid for in 2015-16 but the expenditure relates to 2016-17. These amounts should have been accounted for as financial prepayments. As a result, expenditure in the comprehensive income and expenditure account is overstated and debtors (prepayments) in the balance sheet is understated by this amount.

A refund of expenditure has been incorrectly classified as income

- A refund of expenditure amounting to £34,000 has been incorrectly treated as income when it should have been netted off the original expenditure transaction. Whilst there is no net effect on the income and expenditure account, both gross income and gross expenditure are overstated by this amount.

Corrected misstatements

11. 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](#)

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year.

We have some concerns about the qualitative aspects of your accounting practices and financial reporting

13. We have the following concerns about the qualitative aspects of your accounting practices and financial reporting:

The asset register does not hold sufficiently detailed information on the individual assets classified as operational and IT equipment, nor is the process to account for disposals sufficiently robust

14. From the financial asset register it is not possible, in respect of operational and IT equipment to identify individual assets. Consequently, it is difficult to determine whether the assets accounted for in the financial statements are still in existence within the Fire service.
15. Work was carried out to identify the assets associated with a sample of the asset register entries but this was not straightforward and was protracted.
16. We were able to perform sufficient testing to gain assurance that operational assets do exist but this was not the case for IT equipment where it became apparent that some of the assets were no longer in use. As noted in paragraph 10, this resulted in the net book value of IT assets being overstated by £38,000. We did not seek to establish whether there were further errors as we were satisfied that there wasn't a material misstatement in the net book value of assets included in the balance sheet.
17. When assets are disposed of (or scrapped) they need to be removed from the asset register to ensure that the gross book values, accumulated depreciation and net book values are correctly stated. However, the process to ensure that finance is informed of disposals is currently inadequate.
18. This was also the case for vehicles, in that a number of vehicles had been disposed of during 2015-16 which had not been accounted for in the draft statements. This has resulted in an amendment to the accounts for these items and we subsequently obtained sufficient assurance in relation to other vehicles.
19. Relevant departments maintain their own records for these asset categories but they are not currently reconciled to the financial asset register. It is essential that work is carried out to ensure that individual or relevant groups of assets are recorded in the asset register and that processes are put in place to ensure that finance are informed of all disposals. This can further be supported by regularly reconciling the departmental asset records with the asset register.

Financial Information held in the asset register needs to be strengthened to provide clear analysis to support the year-end gross balances and in year accounting entries

- 20.** The Code of Practice requires certain financial and non-financial information, both current and historical, to be held in the asset register to allow for appropriate accounting of asset transactions. The absence of relevant information makes the annual entries more complex. It is therefore essential that the Authority revises its asset register to capture all relevant information.

The presentation of the Property Plant and Equipment note needed to be restated

- 21.** The entries relating to the in-year revaluation of land and buildings had not been presented correctly within the Property Plant and Equipment note and consequently some entries did not agree with other parts of the financial statements as required. The note was therefore subject to restatement to ensure that it presented correctly. This did not impact on the net book value of the assets.

The Authority needs to ensure that all income and expenditure is accounted for in its primary accounting statements

- 22.** It is a fundamental requirement of the Code of Practice that the comprehensive income and expenditure statement (CIES) contains gross expenditure, gross income and net expenditure of its operations. It was identified that the Authority had received and spent grant income of £1.425 million (£1.373 million in 2014-15) that had not been accounted for in the CIES, although we accept that the income was disclosed in Note 28 in the financial statements. The disclosure, whilst needed to support the primary statements, is not adequate in itself. This has resulted in a material amendment to both the current and prior year in the financial statements.
- 23.** Furthermore, whilst we appreciate that the Fire Authority is sighted on the receipt of grant funding, we would expect to see the grant income and related expenditure incorporated into the budgetary information considered by the Fire Authority. This would provide a single comprehensive source of financial information to support the Authority in exercising its financial oversight.

The Firefighters' Pension Fund account did not account for taxation costs relating to pension lump sum compensation payments as a result of a Court ruling

- 24.** Following the conclusion of a Court case (GAD v Milne) it was determined that the calculation of commutation payments to retiring firefighters, dating back a number of years, had been incorrect. As a result, corrective payments of £804,000 were paid from the Firefighters' Pension Fund and these additional costs were reimbursed by the Welsh Government. However, in addition to these payments, there were tax liabilities relating to the lump sum compensation payments of £536,000. Whilst it was agreed that the actual cash transactions would take place between HM Treasury and the Inland Revenue, from an accounting perspective they relate to the activities of the North Wales Fire and Rescue Authority. Therefore an adjustment has been made to

account for these as notional transactions to ensure that the financial statements correctly reflect the real liabilities.

We encountered some difficulties during the course of the audit

25. As a result of the issues identified above in relation the adequacy of both financial and non-financial information in the asset register, a significant amount of additional work was required to obtain sufficient assurance over non-current assets.
26. In addition, whilst the remaining working papers were generally satisfactory there is opportunity to improve their clarity further.

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

27. There are no other matters to report to you. In particular:
 - there were no significant matters discussed and corresponded upon with management which we need to report to you;
 - there are no other matters significant to the oversight of the financial reporting process that we need to report to you;
 - we did not identify any 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 2015-16 financial audit work

28. The recommendations arising from our 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

29. As part of the finalisation process, we are required to provide you with representations concerning our independence.
30. 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 North Wales Fire and Rescue Authority that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

19 September 2016

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the North Wales Fire Authority for the year ended 31 March 2016 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.
- 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 the 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 decision not to correct for the misstatements in the accounts for 2015/16 is as follows:

- *The net book value of IT Assets in the balance sheet is overstated* – a full and comprehensive review of the asset register and the procedures around recording the assets on the register will be undertaken in 2016/17, any overstatements will be corrected during this process. It is considered that the amounts involved are not material and it is still the position that the accounts provide a true and fair view of the financial position of the Authority.
- Expenditure has been accounted for in the wrong accounting period – the amounts are not material and would not have affected the overall financial position as the money

would have been set aside in to an earmarked reserve from the 2015/16 accounts to cover the expenditure in 2016/17.

- A refund of expenditure has been incorrectly classified as income – the amount is not material and there is no expenditure in year to net off.

Representations by the 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 the North Wales Fire and Rescue Authority on 19 September 2016.

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:

Signed by:

Dawn Docx
Deputy Chief Fire Officer

Meirick Lloyd Davies
**Chair of the North Wales Fire and
Rescue Authority**

Date: 19 September 2016

Date: 19 September 2016

Appendix 2

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

I have audited the accounting statements and related notes of

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

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The North Wales Fire and Rescue Authority's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

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 [year] based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Firefighters' Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the North Wales Fire and Rescue Authority and the Firefighters' pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of the North Wales Fire and Rescue Authority

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the North Wales Fire and Rescue Authority as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on the accounting statements of the Firefighters' Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of the Firefighters' Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

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 accounting 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;
- The Governance Statement does not reflect compliance with guidance.

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.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
27 September 2016

Wales Audit Office
24 Cathedral Road
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.

Value of correction	Nature of correction	Reason for correction
£1,425,000	Explanatory Foreword Revenue Grants per Explanatory Foreword have been understated.	To correctly disclose the value of Revenue Grants received in year.
£ Numerous	Comprehensive Income and Expenditure Account Gross income and expenditure per Statement of Accounts included material omissions. The income and expenditure omissions were of the same amount and there was no net effect on Cost of Services. This will be accompanied by a prior period adjustment in note 5 to correct comparative figures.	To correctly disclose the value of Income received in year, and comparative information.
De minimus raised from £100 to £1,000	Accounting Policy 17 – Property Plant and Equipment The stated de-minimus level in accounting policy 17 was reviewed, and an updated level assigned.	De-minimus has been raised to better reflect practices for capitalising fixed assets.
£ Numerous	Note 7 Transfers to and from Earmarked Reserves The casting and cross-casting of the note had not been correctly completed.	To correctly cast and cross-cast the Transfers to and from Earmarked Reserves note,
£ Numerous	Note 11 Property Plant and Equipment There have been material adjustments to the presentation of the revaluation and depreciation entries of Land and Buildings in Note 11 to reflect the requirements of The Code.	To correctly present the accumulated depreciation and subsequent revaluation transactions.



Value of correction	Nature of correction	Reason for correction
£122,000	<p>Note 11 Property Plant and Equipment – Disposals Adjustments were made to reflect the disposal of vehicles and write out of accumulated depreciation that had not been removed from the asset register upon their original disposal.</p>	To correctly disclose the gross value of vehicles and accumulated depreciation.
£459,000	<p>Note 19 Unusable Reserves – Revaluation Reserve and capital adjustment account Adjustment to reflect the correct treatment of asset revaluations</p>	To ensure the Revaluation Reserve and Capital Adjustment Accounts are correctly stated.
£ Numerous	<p>Note 21- Cash Flow Statement – Operating Activities Adjustments have been made to disclosures in Cash Flow - Operating Activities and include amendments to 'IAS 19 Pension Adjustments', 'Contributions (to)/ from Various Provisions' and 'Transfers to Reserves'.</p>	To correctly disclose Net Cash Flow from Operating Activity.
£1,864,000	<p>Note 22- Cash Flow Statement- Investing Activities Net cash flows from investing activities for 2014/15 is stated at £3,402,000, this figure should be £5,266,000.</p>	To correctly disclose the Net cash flows from investing activities for 2014/15.
£ Numerous	<p>Note 27 – Officers' Remuneration Ratios Median information had been compiled on scale point salaries as opposed to total remuneration. Disclosures updated to reflect total remuneration as opposed to scale point salaries. Comparative information provided to accompany note.</p>	To correctly disclose remuneration in accordance with The Accounts and Audit (Wales) Regulations.

Value of correction	Nature of correction	Reason for correction
£536,000	<p>The Firefighters' Pension Fund Account</p> <p>The account did not include the unauthorised charge element of commutation payments (Also known as GAD v Milne).</p>	To correctly include the unauthorised charge element of commutation payments.
Various amendments and additional narrative	There have been various minor amendments and additional narrative.	To ensure accurate disclosure and to inform the reader.

Appendix 4

Recommendations arising from our 2015-16 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:

Matter arising 1 Insufficient financial and non-financial information held in the asset register

Findings	The asset register does not hold sufficient financial and non-financial information, both current and historical, to support accounting entries.
Priority	High
Recommendation	Revise the asset register to include all relevant information.
Benefits of implementing the recommendation	To ensure that the necessary accounting entries are easily established and supported by underlying records.
Accepted in full by management	The treatment of Land and Buildings with regards to revaluations and depreciation in accordance with the code is complicated and the system devised to account for the entries has not fully captured all the requirements.
Management response	A review of the asset register will be undertaken in 2016/17 and the system used to account for the entries will be reviewed to ensure compliance with the code.
Implementation date	For the 2016/17 Statement of Accounts.

Matter arising 2 – Insufficient analysis of individual equipment assets in the asset register

Findings	Equipment assets are not recorded in the asset register in sufficient detail to ensure that individual assets, or groups of assets, can be identified.
Priority	High
Recommendation	Revise the asset register to include assets at an individual or group level, to ensure that they can be easily identified and ensure that the asset register reconciles to departmental records.
Benefits of implementing the recommendation	To ensure that the asset register, and therefore the financial statements, accurately reflects the assets held by the Fire Authority.
Accepted in full by management	It is accepted that the asset register only accounts for the total spend on certain assets in year. Whilst all the Authority's assets are on the asset register, the current system does not easily allow for the disposal of individual assets. Departments hold a detailed record of all the assets but there has been no reconciliation of the both registers.

Matter arising 2 – Insufficient analysis of individual equipment assets in the asset register

Management response	A review of the asset register will be undertaken in 2016/17 and the system used to account for the entries will be reviewed to ensure compliance with the code.
Implementation date	For the 2016/17 Statement of Accounts

Matter arising 3 – Lack of a robust process to ensure that asset disposals are accounted for in the asset register

Findings	The process for notifying finance of asset disposals is inadequate resulting in the financial asset register not being updated in a timely manner.
Priority	High
Recommendation	Implement a robust process to notify finance of asset disposals.
Benefits of implementing the recommendation	To ensure that the asset register, and therefore the financial statements, accurately reflects the assets held by the Fire Authority.
Accepted in full by management	Departments hold records of all assets which include entries for asset disposal. The information with regards to disposals in-year has not always been communicated to Finance. Whilst the net book value of assets may be correct (except in instances where the asset has been disposed of before it has been fully depreciated) the gross book value may be overstated.
Management response	A review of the asset register will be undertaken in 2016/17 and the system used to account for the entries will be reviewed to ensure compliance with the code. Procedures will be reviewed to ensure the asset register and departmental registers contain the same information.
Implementation date	A review will be undertaken in 2016/17

Matter arising 4 – Grant income and related expenditure is not accounted for in the financial statements and budgetary reports

Findings	Grant income and associated expenditure had not been accounted for in the financial statements nor included in budgetary reports presented to the Fire Authority.
Priority	High
Recommendation	Ensure that all grant income and expenditure is properly accounted for and reported.
Benefits of implementing the recommendation	To ensure that the accounting records are accurate and that the Fire Authority has appropriate financial oversight in relation to all funds available to the Authority in managing its activities.

Matter arising 4 – Grant income and related expenditure is not accounted for in the financial statements and budgetary reports

Accepted in full by management	Whilst Members are notified of all grants that have been awarded to the Authority, the information is not communicated to them as part of financial out-turn reporting.
Management response	A section with regards to grants will be included in the out-turn reports to Members for 2016/17.
Implementation date	September 2016

Matter arising 5 – A number of transactions relating to 2016-17 have been accounted for in 2015-16

Findings	Transactions relating to 2016-17 were accounted for in the 2015-16 financial year resulting in expenditure being overstated and debtors being understated.
Priority	High
Recommendation	Ensure that transactions are accounted for in the correct period in accordance with the accruals principle.
Benefits of implementing the recommendation	To ensure that the financial statements accurately record income and expenditure relating to the relevant period and the balance sheet reflects all assets held at the year-end.
Accepted in full by management	The transaction has been incorrectly accounted for in-year but the net effect on the out-turn position would not have changed as a reserve would have been set aside from 2015/16 to account for the expenditure in 2016/17.
Management response	Procedures will be reviewed with regards to the accruing of prepayments.
Implementation date	For the 2016/17 Statement of Accounts

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