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Auditor General for Wales

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

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Contents

Summary report

Introduction	4
Recommendations arising from our 2015-16 financial audit work	4
Recommendations arising from our 2016-17 financial audit work	6

Summary report

- 1 This report is an addendum to my Audit of the Financial Statements Report presented to North Wales Fire and Rescue Authority (the Authority) on 18 September 2017.

Introduction

- 2 It is the Authority's responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare a Statement of Accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure we are going toeconomy, efficiency and effectiveness in its use of resources.
- 3 The Public Audit (Wales) Act 2004 requires me to:
 - provide an audit opinion on the accounting statements;
 - review the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
 - issue a certificate confirming that I have completed the audit of the accounts.
- 4 Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on the International Financial Reporting Standards. On 22 September 2017, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Authority's and the Fire Fighters' Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts.
- 5 The key matters arising from the accounts audit were reported to members of the Authority in my Audit of Financial Statements report on 18 September 2017.

Recommendations arising from our 2015-16 financial audit work

- 6 We set out all the recommendations arising from our 2015-16 audit work with a summary of action taken by management during 2016-17. We have followed these up as part of the 2016-17 audit and summarise our findings.

Exhibit 1: Recommendations arising from our 2015-16 financial audit work

Recommendation	Management and Audit Response
<p>The asset register does not hold sufficient financial and non-financial information, both current and historical, to support accounting entries.</p> <p>Revise the asset register to include all relevant information.</p>	<p>Management Response</p> <p>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.</p> <p>Audit Response</p> <p>A review had been undertaken and separate records have been created for individual land and building assets to strengthen the supporting records. However, this has not been done in the asset register itself and a number of accounting entries had been incorrectly netted off resulting in material adjustments to the accounts.</p>
<p>Equipment assets are not recorded in the asset register in sufficient detail to ensure that individual assets, or groups or assets, can be identified.</p> <p>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.</p>	<p>Management Response</p> <p>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.</p> <p>Audit Response</p> <p>This recommendation had not been addressed resulting in significant additional work to identify individual assets and carry out audit testing.</p>
<p>The process for notifying finance of asset disposals is inadequate resulting in the financial asset register not being updated in a timely manner.</p> <p>Implement a robust process to notify finance of asset disposals.</p>	<p>Management Response</p> <p>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.</p> <p>Audit Response</p> <p>We identified a number of assets that were still on the asset register, but were not owned as at 31 March 2017. Any changes to the process had therefore not been fully effective.</p>

Recommendation	Management and Audit Response
<p>Grant income and associated expenditure had not been accounted for in the financial statements nor included in budgetary reports presented to the Fire Authority.</p> <p>Ensure that all grant income and expenditure is properly accounted for and reported.</p>	<p>Management Response</p> <p>A section with regards to grants will be included in the out-turn reports to Members for 2016-17.</p> <p>Audit Response</p> <p>Grant income and expenditure had been included in the financial statements. However, the gross amounts had not been reconciled to the underlying transactions in the balance sheet holding accounts. As a result we identified significant errors in the financial statements.</p>
<p>Transactions relating to 2016-17 were accounted for in the 2015-16 financial year resulting in expenditure being overstated and debtors being understated.</p> <p>Ensure that transactions are accounted for in the correct period in accordance with the accruals principle.</p>	<p>Management Response</p> <p>Procedures will be reviewed with regards to the accruing of prepayments.</p> <p>Audit Response</p> <p>Other than in relation to grant income and expenditure we did not identify any other transactions recorded in the incorrect financial year.</p>

Recommendations arising from our 2016-17 financial audit work

- 7 In my Audit of Financial Statements report I set out that I would present a separate report with details of the recommendations arising from our financial audit work. The recommendations are set out below with management's response to them:

Exhibit 2: Matter arising 1 – The draft accounts had not been subject to sufficient quality review

Matter arising 1 – The draft accounts had not been subject to sufficient quality review	
Findings	The draft accounts included a number of prima facie errors and inconsistencies which should have been picked up and eliminated as part of a quality review process prior to presenting them for audit. It was also evident from these inconsistencies that there were some fundamental errors in the accounts.
Priority	High.
Recommendation	The Authority should introduce a robust quality review of the account to be presented for our audit that is clearly documented, signed by the Authority's Treasurer, and shared with us prior to the audit of the accounts.
Benefits of implementing the recommendation	To ensure that the draft financial statements presented for audit are free from error.

Matter arising 1 – The draft accounts had not been subject to sufficient quality review	
Accepted in full by management	Agreed.
Management response	An action plan will be prepared to address this issue including setting out an allocation of duties.
Implementation date	March 2018.

Exhibit 3: Matter arising 2 – The quality of working papers needs to be improved

Matter arising 2 – The quality of working papers needs to be improved	
Findings	Working papers in support of the financial statements were poor and required extensive explanation. It is essential that working papers are improved to provide a clear and understandable audit trail between the financial ledger and the accounting statements. It is also important that accounting transactions are not incorrectly netted off to ensure the appropriate accounting treatment.
Priority	High.
Recommendation	The Authority should prepare working papers of sufficient quality that clearly support the financial statements and are self-explanatory to someone with accounting knowledge. The Authority should also ensure that accounting transactions are not inappropriately netted off and that the accounting treatment is compliant with the Code of Practice on Local Government Accounting.
Benefits of implementing the recommendation	To provide clear and understandable working papers in support of the financial statements. This will provide a clear audit trail for both officers and auditors.
Accepted in full by management	Agreed.
Management response	Staff will be instructed accordingly.
Implementation date	March 2018.

Exhibit 4: Matter arising 3 – Communication and liaison between the Authority's and Conwy's finance staff needs to be improved

Matter arising 3 – Communication and liaison between the Authority's and Conwy's finance staff needs to be improved	
Findings	Inadequate liaison between relevant finance staff resulted in a number of accounting adjustments due to a result of a lack of appreciation of what the other had done.
Priority	High.

Matter arising 3 – Communication and liaison between the Authority's and Conwy's finance staff needs to be improved	
Recommendation	The Authority should ensure that all relevant finance staff understand how their work overlaps so that the annual accounts and the underlying accounting records are maintained correctly.
Benefits of implementing the recommendation	To ensure that the draft accounts are prepared correctly and to ensure that the Authority can meet the challenges of the early closure timetable.
Accepted in full by management	Agreed.
Management response	Staff will be instructed accordingly.
Implementation date	March 2018.

Exhibit 5: Matter arising 4 – Insufficient analysis of individual equipment assets in the asset register

Matter arising 4 – 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	The Authority should revise its asset register to include assets at an individual or group level, to ensure that they can be easily identified and to 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 Authority.
Accepted in full by management	Agreed.
Management response	A work plan will be prepared to address this issue.
Implementation date	March 2018.

Exhibit 6: Matter arising 5 – IT assets have not been correctly classified between tangible and intangible assets

Matter arising 5 – IT assets have not been correctly classified between tangible and intangible assets	
Findings	Despite a number of IT assets being intangible in nature eg software licences, all IT assets had been incorrectly classified as tangible assets.
Priority	High.

Matter arising 5 – IT assets have not been correctly classified between tangible and intangible assets

Recommendation	In conjunction with recommendation 4, the Authority should review all IT assets to ensure that they are appropriately classified as either tangible or intangible assets.
Benefits of implementing the recommendation	To ensure that the classification of assets is correctly disclosed in the financial statements
Accepted in full by management	Agreed.
Management response	A review will be undertaken.
Implementation date	March 2018.

Exhibit 7: Matter arising 6 – Lack of a robust process to ensure that asset disposals are accounted for in the asset register

Matter arising 6 – 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	The Authority should implement a robust process so that all staff are required to promptly notify finance of all 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 Authority.
Accepted in full by management	Agreed.
Management response	This will be incorporated with other work plans and reviews.
Implementation date	March 2018.

Exhibit 8: Matter arising 7 – Grant income and related expenditure is not accounted for correctly in the financial statements

Matter arising 7 – Grant income and related expenditure is not accounted for correctly in the financial statements	
Findings	Grant income and expenditure are being inappropriately managed in a balance sheet holding account rather than in dedicated revenue codes. In addition the financial transactions in the ledger are not being reconciled to the claims being made to ensure that relevant income and expenditure are being recorded. As a result there were material errors in the draft accounts relating to grant income and expenditure.
Priority	High.
Recommendation	The Authority should set up appropriate revenue codes to correctly account for grant income and expenditure and ensure that the financial transactions are properly reconciled to grant claims.
Benefits of implementing the recommendation	To ensure that the financial statements correctly record grant activities relating to the financial year and to also ensure the appropriate management of funding.
Accepted in full by management	Accepted in part.
Management response	The method of managing grant initiatives is well understood by the staff involved, who are not generally finance based. Any change will have to take this in to account. The issue of reconciliation is a matter to be addressed along with other work planning and reviews already mentioned
Implementation date	March 2018.

Exhibit 9: Matter arising 8 – IAS19 accounting transactions have not been reflected in the financial ledger Matter arising 8 – IAS19 accounting transactions have not

Matter arising 8 – IAS19 accounting transactions have not been reflected in the financial ledger	
Findings	Transactions to account for IAS19 have not been entered into the financial ledger. As a result the financial statements do not agree to the underlying financial records of the Authority, which is inappropriate.
Priority	High.
Recommendation	The Authority should ensure that IAS19 transactions are accounted for in the financial ledger.
Benefits of implementing the recommendation	To ensure that the financial statements agree to the underlying accounting records.
Accepted in full by management	Agreed.

Matter arising 8 – IAS19 accounting transactions have not been reflected in the financial ledger

Management response	Staff will be instructed accordingly.
Implementation date	March 2018.

Exhibit 10: Matter arising 9 – There is a need to plan for the revised accounts preparation, audit and publication timetable that is to be introduced in 2018-19

Matter arising 9 – There is a need to plan for the revised accounts preparation, audit and publication timetable that is to be introduced in 2018-19	
Findings	Based on current working practices and the lack of collective ownership in both the preparation, audit and publication process, there is currently a clear risk that the Authority will fail to meet the revised timetables for 2018-19. For 2018-19 the Authority will have to present its draft accounts to us by 31 May 2019, with audit certification required by 31 July 2019.
Priority	High.
Recommendation	The Authority should develop a comprehensive project plan to identify the key tasks and interdependencies of the accounts preparation and audit process, and to set out the improvements needed to bring the timetable forward.
Benefits of implementing the recommendation	To ensure that the Authority meets the revised statutory deadlines from 2018-19 onwards.
Accepted in full by management	Agreed.
Management response	A project plan will be prepared to address this issue.
Implementation date	March 2018.

Exhibit 11: Matter arising 10 – The Authority’s land and building title deeds are often in the name of predecessor bodies and have not been registered with the Land Registry

Matter arising 10 – The Authority’s land and building title deeds are often in the name of predecessor bodies and have not been registered with the Land Registry	
Findings	Title deeds are mainly in the name of predecessor bodies and have not been registered with the Land Registry.
Priority	Medium.
Recommendation	The Authority should register its ownership of all relevant land and buildings with the Land Registry.
Benefits of implementing the recommendation	To ensure that ownership records are correct.

Matter arising 10 – The Authority’s land and building title deeds are often in the name of predecessor bodies and have not been registered with the Land Registry

Accepted in full by management	Agreed.
Management response	A project will be implemented.
Implementation date	As soon as possible.

Exhibit 12: Matter arising 11 – Related party declaration requests presume knowledge by the individual that they may not have which runs the risk that declarations may not be made

Matter arising 11 – Related party declaration requests presume knowledge by the individual that they may not have, which runs the risk that declarations may not be made

Findings	Related part declaration requests ask for knowledge of transactions with the Authority rather than relevant interests.
Priority	High.
Recommendation	The Authority should revise its related party declaration requests to ask individuals to declare relevant interests.
Benefits of implementing the recommendation	To ensure that related party disclosures are complete.
Accepted in full by management	Agreed.
Management response	The change will be implemented.
Implementation date	December 2017.

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