

## Audit of Accounts Report – North Wales Fire and Rescue Authority

Audit year: 2019-20

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# Contents

We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

## Audit of Accounts Report

Introduction	4
Impact of COVID-19 on this Year's Audit	4
Proposed Audit Report	5
Significant Issues	6
Recommendations	7
Appendices	
Appendix 1 – Final Letter of Representation	8
Appendix 2 – Proposed Audit Report	11
Appendix 3 – Summary of Corrections Made	15

# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report. We have already discussed these issues with the Assistant Chief Officer (Finance and Resources) and her team.
- 2 You are required to prepare accounts and we have now substantially completed this year's audit, despite the challenges posed by the Covid-19 pandemic. It is of considerable testament to the commitment of your officers that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of officers in supporting us to complete our audit in such challenging circumstances. We will be reviewing what we have learned from the impact of the pandemic on our audit and whether there are innovative practices that we might adopt in the future to enhance our work.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £969,000 for this year's audit of the main statements and at £186,000 for the Fire Fighters Pension Fund.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Related Party Disclosures £10,000
  - Senior officer remuneration £1,000
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

## Exhibit 1 – impact of COVID-19 on this year’s audit

<b>Timetable</b>	<p>Officers provided us with the signed draft accounts on 29 May 2020 which was earlier than the statutory deadline of 31 May 2020. We expect your audit report to be signed by 10 November 2020 following the Fire Authority meeting on 9 November 2020.</p> <p>Due to the lockdown and social distancing restrictions we delayed the dates for members of the public to exercise their accounts inspection rights. It is important that members of the public can exercise those rights if they wish to.</p>
<b>Electronic signatures</b>	<p>Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. It is likely that we will need to use electronic signatures for this purpose. We will liaise with management to ensure appropriate arrangements are in place.</p>
<b>Conducting the audit approach and obtaining audit evidence</b>	<p>Due to social distancing measures, Audit Wales staff are currently working remotely from home. As a result, we adopted new ways of working:</p> <ul style="list-style-type: none"><li>• refined our audit deliverables to clarify working paper requirement;</li><li>• held regular Skype meetings with the relevant accountants in the Finance teams throughout the audit to discuss progress and emerging issues;</li><li>• secured remote access to enable the audit team to access the Authority’s financial systems; and</li><li>• established a secure remote file transfer portal to safely share information.</li></ul>

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed Audit Opinion

- 10 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

- 12 Our proposed audit report is set out in **Appendix 2**. The audit report also includes an Emphasis of Matter which draw attention to:
- Note 33 ‘Transactions relating to post employment benefits’ which describes material valuation uncertainty clauses in the valuation reports on Pooled Property Funds held by the Clwyd Pension Fund.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 14 There are no misstatements identified in the accounts, which remain uncorrected.

### Corrected misstatements

- 15 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

### Other Significant Issues arising from the Audit

- 16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year as shown in **Exhibit 2**:

#### Exhibit 2 – significant issues arising from the audit

Significant issues arising from the audit	
<b>Emphasis of matter – property investment funds related to the pension fund</b>	The outbreak of the COVID-19 pandemic has impacted on global financial and property markets. Due to these market conditions, material valuation uncertainty clauses have been included in year-end valuation reports related to the Clwyd Pension Fund’s property investment funds. The total value of these investments as at 31 March 2020 is £127.5 million and the Authority’s share amounts to £2 million.

**McCloud/Sergeant:  
post year-end  
remedy proposal**

In December 2018, the Court of Appeal ruled against the Government, holding that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age. These cases are referred to as McCloud/Sergeant. The costs of providing a remedy to affected employees may be significant. Last year we concluded there was sufficient evidence that these judgements applied to both the Fire Fighters' Pension Scheme and the Local Government Pension Scheme and, based on the Government Actuary Department assessment of the impact, the resulting estimates were applied to your scheme liabilities and the financial statements adjusted. Details were set out in our 2018-19 Audit of Accounts Report. Since that ruling, the Government has been considering a remedy and on 16 July 2020 it issued a proposal for consultation. Although the proposed remedy remains subject to uncertainty, it provides further evidence of the likely impact of the McCloud/Sergeant ruling on pension liabilities. Pension actuaries each provided a broad assessment of what the impact of the proposal might be. Whilst the impact on the Local Government Pension Scheme is not expected to be material, the impact on the Fire Fighters' Pension Scheme was estimated to reduce the total liability as a result of McCloud/Sergeant by £1.5 million. Consequently, an updated actuary's report taking into account the impact of the proposed remedy on the Fire Fighters' Pension Scheme was obtained, and the accounts updated

## Recommendations

- 17 It is pleasing to note that the Authority has implemented all of the recommendations that we made following the 2018-19 audit.
- 18 In 2019-20 there are no issues sufficiently significant to warrant bringing them to your attention although we will discuss some minor issues with officers and follow up progress during next year's audit.

# Appendix 1

## Final Letter of Representation

Audited body's letterhead

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

9 November 2020

### Representations regarding the 2019-20 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 2020 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 United Kingdom 2019-20; 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 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.

## **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 Fire and Rescue Authority on 9 November 2020.

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:

Ken Finch

Treasurer

9 November 2020

Signed by:

Councillor Peter Lewis

Chair of the Fire and Rescue Authority

9 November 2020

# Appendix 2

## Proposed independent auditor's report of the Auditor General for Wales to the members of North Wales Fire and Rescue Authority

### Report on the audit of the financial statements

#### Opinion

I have audited the financial statements of North Wales Fire and Rescue Authority for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

North Wales Fire and 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 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 2019-2020 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of North Wales Fire and Rescue Authority as at 31 March 2020 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 2019-20.

#### 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 Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's 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.

#### Emphasis of Matter – effects of Covid-19 on property pension asset valuations

I draw attention to Note 33 to the financial statements, which describes material valuation uncertainty clauses in the valuation report's on Pooled Property Funds, held by the Clwyd

pension fund, arising from circumstances caused by the Covid-19 pandemic. My opinion is not modified in respect of this matter.

## **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 Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve 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 Statement of Accounts. The other information comprises the information included in the Statement of Accounts 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 2019-20;
- 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 Authority and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- proper 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 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 11, 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Adrian Crompton  
Auditor General for Wales  
10 November 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of Corrections Made

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

Nature of correction	Reason for correction	Impact
<p><b>Note 33 – Transactions relating to post-employment benefits has been amended:</b></p> <ul style="list-style-type: none"> <li>• IAS19 Adjustment to Net Cost of Service has been amended from £2,294,000 to £744,000</li> <li>• Net Pensions Deficit has been amended from £313,448,000 to £312,118,000</li> </ul>	<p>The Fire Authority have received an updated Actuarial Statement from GAD following the McCloud/Sergeant post year-end remedy. As a result, the IAS19 adjustment figures have been amended, which in turn will have an effect on the core financial statements.</p>	<ul style="list-style-type: none"> <li>• Employee’s disclosure within the Comprehensive Income and Expenditure Statement has been amended from £28,681,000 to £27,035,000.</li> <li>• Pensions Liability within the Balance sheet has been amended from £313,448,000 to £312,118,000.</li> </ul> <p>There have also been appropriate amendments within the Movement in Reserves Statement, Cash Flow Statement, Expenditure Funding Analysis &amp; Pensions Reserve.</p>
<p><b>Note 25 – Senior Officer Remuneration</b></p> <p>In relation to the temporary Assistant Chief Fire Officer</p> <ul style="list-style-type: none"> <li>• Salary has been amended from £78,826 to £86,675</li> <li>• Pensions contributions has been amended from £29,331 to £21,534</li> </ul>	<p>Additional remuneration relating to a temporary promotion had been classified as pension contribution rather than salary in the disclosure note.</p>	<p>The adjustment had no other impact on the financial statements. Disclosure requirement only.</p>

Nature of correction	Reason for correction	Impact
<p><b>Cash Flow Statement</b></p> <ul style="list-style-type: none"> <li>Adjustments for Items Included in the net (Surplus) or Deficit on the Provision of Services that are Investing and Financing Activities has been amended from (£494,000) to (£360,000)</li> <li>Investing Activities has been amended from £691,000 to £641,000</li> </ul>	<p>Non-cash items charged to the net surplus or deficit on the provision of services had been incorrectly included within the Cash Flow.</p> <p>Proceeds from the sale of property, plant and equipment, investment property and intangible assets was overstated by £50,000.</p>	<p>There were also corresponding adjustments noted within Notes 21 and 22 within the financial statements.</p>
<p><b>Note 8 – Other Operating Expenditure &amp; Income</b></p> <ul style="list-style-type: none"> <li>Gain or Loss on the disposal of non-current assets has been amended from £27,000 to £135,000</li> </ul>	<p>Two vehicles which had a combined net book value of £108,000 had been derecognised.</p> <p>However, following investigation, it was confirmed that both of these vehicles were disposed of during 2018-19 and the accounting treatment was therefore incorrect.</p>	<p>Within <b>Note 11 – Property, Plant and Equipment</b></p> <p><b>Gross book value</b></p> <ul style="list-style-type: none"> <li>Derecognition – Disposals has been amended from £309,000 to £632,000</li> <li>Derecognition – Other has been amended from (£5,551,000) to (£5,228,000)</li> </ul> <p><b>Accumulated Depreciation</b></p> <ul style="list-style-type: none"> <li>Derecognition – Disposals has been amended from £259,000 to £474,000</li> <li>Derecognition – Other has been amended from (£5,102,000) to (£4,887,000)</li> </ul>
<p><b>Comprehensive Income &amp; Expenditure Statement</b></p> <ul style="list-style-type: none"> <li>Contributions to (from) Reserves has been amended from</li> </ul>	<p>There was an inconsistency between the Movement in Reserves Statement (MiRS) and the Total Comprehensive Income &amp; Expenditure statement.</p>	<p>£Nil</p> <p>This was a presentational error that impacted on the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.</p>

Nature of correction	Reason for correction	Impact
<p>£1,121,000 to £1,050,000</p> <ul style="list-style-type: none"> <li>Income has been amended from (£2,692,000) to (£2,621,000)</li> </ul>	<p>The Fire Service had incorrectly accounted for the Local Resilience Forum monies held on behalf of other authorities as a contribution to reserves. However, the amount is ring fenced to LRF and is therefore not income of the Fire Service.</p>	
<p><b>Balance Sheet</b></p> <ul style="list-style-type: none"> <li>Short Term borrowing has been amended from £18,721,000 to £18,929,000</li> <li>Long Term borrowing has been amended from £12,327,000 to £12,119,000</li> </ul>	<p>The amounts within the Balance sheet did not correctly reflect the amounts disclosed within Note 12.</p>	<p>£Nil. This was a reclassification between short and long term borrowing in the Balance sheet.</p>
<p><b>Note 11 – Property, Plant &amp; Equipment</b></p> <ul style="list-style-type: none"> <li>Impairment losses/ reversals recognised in the revaluations reserve has been amended from £0 to (£110,000)</li> <li>Impairment losses / reversals recognised in the Surplus/Deficit on the Provision of Services has been amended from (£156,000) to (£46,000)</li> <li>The 2018-19 comparators were also amended. The Revaluation reserve decreased, and the Capital Adjustment Account increased by £1,610,000</li> </ul>	<p>The impairment of three assets had been charged to the comprehensive income and expenditure statement even though there were related balances on the revaluation reserve. These should have been utilised first, before any remaining charges were then charged to Comprehensive Income &amp; Expenditure Statement.</p> <p>As a result, the Revaluation Reserve balance was overstated, and the Capital Adjustment Account is therefore understated.</p> <p>A similar adjustment was needed to the 2018-19 comparators for the Revaluation Reserve and Capital Adjustment Account to correct for historic impairment which had not</p>	<p>£Nil. These adjustments had no impact on the actual revenue position of the Fire Authority, but rather fed through the MiRS into unusable reserves.</p>

Nature of correction	Reason for correction	Impact
	initially been set off against revaluation reserve balances.	
<p><b>Balance Sheet</b></p> <ul style="list-style-type: none"> <li>Current debtors have been amended from £3,524,000 to £3,444,000</li> <li>Non-Current Debtors has been amended from £0 to £80,000</li> </ul>	A payment in advance had been incorrectly classified as a short-term asset when it should be long term.	<p>£Nil.</p> <p>This was a reclassification between short and long-term debtors in the Balance sheet.</p>
<p><b>Note 20 - Pensions Reserve</b></p> <ul style="list-style-type: none"> <li>Reversal of Items related to retirement benefits debited to the Provision of Service in the Comprehensive Income &amp; Expenditure Statement has been amended from (£18,012,000) to (£17,632,000) and the Employer's pensions contributions and direct payments to pensioners payable in the year has been amended from £9,209,000 to £8,829,000.</li> <li>The 2018/19 comparative figures have been amended from (£28,224,000) to (£28,134,000) &amp; from £8,627,000 to £8,537,000 accordingly.</li> </ul>	An actuarial adjustment in the pension reserve had been misclassified.	<p>£Nil.</p> <p>This was a classification error in the pensions reserve in the Balance sheet.</p>





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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.