



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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The Auditor General intends to issue an unqualified audit report on your financial statements, but the audit cannot be formally concluded and an audit certificate issued until matters relating to the Fire Fighters' Pension Fund have been considered. There are some issues to report to you prior to their approval.

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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 South Wales Fire and Rescue Authority (the Authority) at 31 March 2018 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 £1.969 million for the Authority's main financial statements and £0.441 million for the Fire Fighters' Pension Fund Account. 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 Authority's 2017-18 financial statements, which require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 29 June 2018 which was in line with the statutory deadline of 30 June 2018. We have now substantially completed the audit work. There is one outstanding issue relating to pension overpayments (see paragraphs 21 to 26). We are satisfied that this issue does not have a material impact on the financial statements and we are able to issue an audit opinion. However, we are not yet able to close the audit and issue the certificate for 2017-18, as a result of our outstanding enquiries on lawfulness matters relating to the Authority's retrospective consideration and approval of the Fire Fighters' Pension (Wales) Scheme (Amendment) Order 2014, which need to be concluded.
- 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 Treasurer.

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 (LoR) based on that set out in [Appendix 1](#).

- 9 The proposed audit report is set out in [Appendix 2](#). As noted in paragraph 6 and set out in [Appendix 2](#), while we do intend to certify the financial statements we are not yet able to close the audit and issue the certificate for 2017-18.

Significant issues arising from the audit

Uncorrected misstatements

- 10 Paragraph 11 sets out one misstatement that we identified in the financial statements, which we have discussed with management. The uncorrected misstatement is not material and does not affect our audit opinion on the financial statements. If you decide not to correct this misstatement we ask that you set out your reasons in the LoR.

The misclassification of capital contributions and capital grants

- 11 The Authority has classified capital contributions of £690,000 and capital grants of £169,000 as income within the 'Cost of Services' in the Comprehensive Income and Expenditure Statement. This does not comply with the Code of Practice, which states that such income should be classified as 'Taxation and non-specific grant income'.

Non-material uncertainties

- 12 We set out below two areas of non-material uncertainty:
- The Authority has not fully assessed the accounting treatment of a contribution of £654,000 from the Welsh Ambulance Service NHS Trust, received in respect of Barry Fire Station. The Authority has treated the contribution as income in 2017-18 (see paragraph 11 above). Whilst this is consistent with the draft 'Heads of Terms' agreement, which refers to a capital contribution, this agreement also states that the contribution is in lieu of rental income for a 25-year period. The draft operating lease agreement confirms a rental charge of £1 per annum with no reference to a capital contribution. Given that both agreements are draft, and appear inconsistent, it is difficult for us to determine the appropriate accounting treatment and we therefore have audit uncertainty.
 - In 2017-18 the Authority has contributed £800,000 towards the cost of the Joint Public Service Centre. The Authority has treated its contribution as rental expenditure paid in advance, which it is amortising over 8 years. Therefore, as at 31 March 2018 the Authority has classified £700,000 as a prepayment. The signed contract does not specify the purpose of the £800,000 payment. As part of our audit South Wales Police confirmed that, in their view, the payment is in respect of occupancy. Whilst we consider the

Authority's accounting treatment to be reasonable, it is difficult to confirm given that the contract is unclear.

Corrected misstatements

- 13 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 brief explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 14 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

- 15 Last year we reported concerns about the quality of the financial statements presented for audit. We also reported concerns about the audit trail and supporting documentation. Since last year's audit the Authority has made good progress in many of the areas reported. There have been significant improvements in the quality of the first draft financial statements presented for audit. There have also been improvements in the supporting working papers and an improved audit trail generally. However, there is still scope for improvement in some areas, and the more significant matters arising are as set out at paragraphs 16 to 20.

The Authority did not consider whether any assets had been disposed as part of a major refurbishment

- 16 The Authority has been refurbishing Barry Fire Station, with capital expenditure of £823,000 having been added to the asset valuation during 2017-18. At the time of our audit fieldwork, the Authority had not considered whether any parts of the existing asset had been replaced. If they had been replaced, it would have most likely resulted in a reduction in the asset valuation. The Authority has recently confirmed that no assets, or asset parts, were replaced during 2017-18. Next year, the Authority should undertake and document an assessment prior to its preparation of the 2018-19 financial statements. The Authority should also obtain a revised valuation for the Fire Station once the works are complete.

The record of the depreciated historical cost of assets is not accurate, making it difficult to confirm the accuracy of the revaluation reserve transactions and balances

- 17 As recommended last year, the Authority has prepared a record of the depreciated historical cost of assets, but this does not include asset additions in 2016-17 and 2017-18, or impairments. We completed additional testing and analysis to gain assurance that the revaluation reserve balance was not materially misstated at the year end.

As reported in previous years, pension fund adjustments disclosed in the financial statements are overly complex and analyses within the disclosures do not strictly comply with the Code of Practice guidance notes

- 18 The pension fund entries processed in the cost of services and the movement on the pension fund liability and reserve are in line with the Code of Practice. However, the supporting working papers and analyses within the disclosures are overly complex. As set out in the Code of Practice guidance notes, the transactions should be grouped together as 'top-up grant' rather than disclose various other pension fund transactions.

The audit progressed very well during planned on-site testing, but in the latter stages there were some delays which need to be addressed for next year given the significantly earlier statutory timetable

- 19 As you are aware the Authority faces revised deadlines for the preparation and publication of the financial statements for 2018-19 onwards. The accounts must be prepared by 31 May (one month earlier) and published by 31 July (two months earlier).
- 20 The audit progressed well during our three weeks on-site testing, but in the latter stages of the audit there were delays in clearing some important audit queries, and some additional queries were raised during the final review stage. In order to meet the challenges of the change in next year's timetable, it is essential that all audit queries are raised, prioritised and dealt with quickly. We will work with the Authority to develop a detailed 'audit deliverables document' and timetable to enable next year's challenging deadlines to be met. This will also need to cover key areas such as the timing of the relevant committees to consider and approve the 2018-19 financial statements.

There is one significant matter, relating to the Fire Fighters' Pension Fund, that we are discussing with management

- 21 The Fire Fighters' Pension (Wales) Scheme (Amendment) Order 2014 came into force on 31 December 2014 and made retrospective amendments from 1 July 2013, to the Fire Fighters' Pension Scheme Order 1992.

- 22 Essentially, the amendment introduced powers for the Authority to treat temporary promotions as additional pension benefits effective from 1 July 2013. However, it came to light at the Scheme Advisory Board (Wales) meeting held on 27 November 2017 that the Authority had not exercised these powers, in that Authority Members had not considered whether to adopt the change permitted by the 2014 Order. In their response to our audit enquiries letter, the Authority drew our attention to the fact that it had continued, from 1 July 2013, to apply the previous regulations (which allowed for the best of the last three years in final salary calculations) and hence pension entitlements, for relevant cases, were incorrectly calculated and paid contrary to the pension regulations. We understand that the other Welsh Fire Authorities have taken similar actions.
- 23 In March 2018, the Authority took the decision to treat temporary promotions as additional pension benefits for some groups of staff from 1 April 2018 (in accordance with the amendment order). It also took the decision to apply the previous regulations for those who retire within three years of the implementation date (1 April 2018), and not to apply the changes retrospectively. However, there are financial implications to not applying the changes retrospectively as some pensions have been or will be, based on inflated pensionable pay. There are four groups of fire fighters that are affected.
- 24 Neither the report presented to the Authority on 26 March 2018 nor the minutes of the meeting set out the financial impact on the four different affected groups of fire fighters, and it is therefore unclear whether members understood the financial and legal impacts when making their decision.
- 25 Furthermore, as the net cost of the Fire Fighters' Pension Fund falls to Welsh Government, and not the Authority, it is unclear whether Welsh Government were sighted of the financial implication on its budget of the decision by the Authority.
- 26 We have established that the impact of the overpayments is not material to the accounts (see paragraph 6). However, we have concerns over the lawfulness of the decision taken by the Authority and further audit work is therefore required, and we have sought legal advice on this matter. As a result, we will not issue the audit certificate to close the audit until this work is concluded.

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

- 27 There are no other matters to report to you. In particular:
- 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 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 2016-17 and 2017-18 financial audit work

- 28 We will soon be reporting separately on the Authority's actions against last year's recommendations, which have been reasonable, and our audit observations and recommendations from this year's audit. This year's recommendations will include management's responses and intended actions.

Independence and objectivity

- 29 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 30 We can confirm that 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

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

24 September 2018

Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of South Wales Fire and Rescue Authority (including the remuneration disclosures) and the Fire Fighter's Pension Fund for the year ended 31st March 2018 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

Management representations

Responsibilities

I have fulfilled my responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the code of practice on local authority accounting; 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 South 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, as set out below:

- **The misclassification of capital contributions and capital grants** - the Authority has classified capital contributions of £690,000 and capital grants of £169,000 as income within the 'Cost of Services' in the Comprehensive Income and Expenditure Statement, rather than as 'Taxation and non-specific grant income'.

We have considered the low value of this mis-statement and the work involved in correcting this entry outweighed the impact on stakeholders.

The issues associated with the implementation of the Fire Fighters' Pension (Wales) Scheme (amendment) Order 2014 have been discussed with management. Work is currently in progress within the Authority to address residual legal and funding matters arising from the delay in implementing the Order.

Representations by South 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 South Wales Fire and Rescue Authority on 17 September 2018.

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:

Chris Barton

Treasurer,

South Wales Fire & Rescue Authority

Date: 24 September 2018

Signed by:

Councillor Tudor Davies

Chairman,

South Wales Fire & Rescue Authority

Date: 24 September 2018

Appendix 2

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

Report on the audit of the financial statements

Opinion

I have audited the financial statements of

- the South Wales Fire & Rescue Authority; and
- the Fire Fighters' Pension Fund Account

for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

South 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 Fire Fighters' 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 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of South Wales Fire & Rescue Authority and the Fire Fighters' Pension Fund as at 31 March 2018 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 2018.

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 2018; 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 have carried out the audit of the accounts of South Wales Fire & Rescue Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters relating to the Fire Fighters' Pension Fund. I am satisfied that these matters do not have a material effect on the financial statements.

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 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
25 September 2018

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Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the South 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 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£600,000	Reclassification of prepayment to show as partly short-term and partly long-term element.	To correctly disclose debtor as partly short-term and partly long-term.
£168,000	Reclassification of part of intangible asset opening balance to asset under construction, and removal of related incorrect entry in earmarked reserves.	To correctly classify the opening balance of fixed assets by category, and to correctly disclose the balance on earmarked reserves.
£49,000 (£1,171,000 comparative)	Other income figures in Narrative Report not accurate.	To correctly disclose other income for 2017-18 and 2016-17.
£3,000	Benefit in kind for Assistant Chief Officer not initially disclosed.	To correctly disclose a senior officer's remuneration.
£1,417,000	Capital commitments not disclosed accurately.	To correctly disclose capital commitments.
£7,000	Median remuneration calculated incorrectly.	To correctly disclose median remuneration.
£2,030,000 (£2,030,000)	Pension reserve movements not correctly analysed in the Movement in Reserves Statement note.	To correct the analysis in the note.
Various amendments, presentation corrections and additional narrative	There have been some minor amendments, presentational corrections and additional narrative to the financial statements and notes.	To ensure accurate disclosure and presentation, and to inform the reader.

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