



WALES AUDIT OFFICE
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Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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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 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material is £1.910 million based on the Authority's draft main financial statements and £0.529m 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 2018-19 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 2019 on 31 May 2019 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 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 based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 We set out below 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.
- Survivor pensions – pension costs are estimated to be understated by £110,000 due to the impact of legislative changes.
 - Lump sums due to pensioners – £131,000 due to pensioners are incorrectly classified as Authority creditors rather than Fire Fighter Pension Fund creditors, with a corresponding mis-statement in the amount due to the Authority from the Fire Fighter Pension Fund.

Non-material uncertainty

- 11 As reported last year, the Authority had not considered a Scheme (Amendment) Order which made retrospective amendments from 1 July 2013 to the Firefighters Pension Scheme Order 1992. In February 2019, the Authority approved that all pension payments made after 31 March 2019 be adjusted, and that all retired firefighters who have benefited incorrectly from a higher final salary-based pension would have the amendment order applied from 1 April 2019.
- 12 The Authority advised its actuary of the change in pension benefits from 1 April 2019. The actuary did not take account of this when calculating the pension liabilities, concluding that any difference would be below the reporting materiality range of 3%. The actuary has estimated that pension liabilities are overstated by less than 0.1% (£907,000), which is not material.

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 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 is one issue which arose after the year end and resulted in adjustments to the Fire Fighters' and Local Government Pensions Schemes. We set out details below.

McCloud/Sergeant

- 15 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 will be significant.
- 16 We have concluded that there is sufficient evidence that these judgements apply to both the Fire Fighters Pension Scheme and the Local Government Pension Scheme. Assessments of the impact of the ruling on both pension schemes have been undertaken by the Government Actuary Department and the resulting calculation principles applied to your scheme liabilities.
- 17 The main financial statements have been adjusted as appropriate for the estimated impact of the ruling. The details are set out in Appendix 3.

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

- 18 There are no other matters to report to you. In particular:
 - We have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - 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 2018-19 financial audit work

- 19 We will report recommendations arising from our audit separately. The Authority has made good progress in implementing the recommendations from this year's audit. There are no issues sufficiently significant to warrant bringing to your attention in this report.

Independence and objectivity

- 20 As part of the finalisation process, we are required to provide you with representations concerning our independence.

21 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 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

29 July 2019

Representations regarding the 2018-19 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 2019 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:

- Survivor pensions – pension costs are estimated to be understated by £110,000 due to the impact of legislative changes.
- Lump sums due to pensioners – £131,000 due to pensioners are incorrectly classified as Authority creditors rather than Fire Fighter Pension Fund creditors, with a corresponding mis-statement in the amount due to the Authority from the Fire Fighter Pension Fund.

We have considered the low value of these mis-statements and the work involved in correcting these entries outweighed the impact on stakeholders.

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.

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: 29 July 2019

Signed by:

Councillor Tudor Davies
Chairman,
South Wales Fire & Rescue Authority
Date: 29 July 2019

Appendix 2

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

The independent auditor's report of the Auditor General for Wales to the members of 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 and Rescue Authority; and
- the Fire Fighters' Pension Fund Account.

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

South 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 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 2019 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

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

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Fire and 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 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.

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

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019;
- 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 and Rescue 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 South Wales Fire and Rescue Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 and 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
31 July 2019

24 Cathedral Road
Cardiff
CF11 9LJ

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.

Value of correction	Nature of correction	Reason for correction
£173,000	Reclassification of impairment in the Comprehensive Income & Expenditure statement, and associated notes	To correctly include impairment in relation to a revalued asset in the cost of services.
£566,000	Amendments to the service charge and interest analysis in the PFI disclosures	To correct the analysis of service charge and interest in relation to the PFI arrangement
Various	Adding in disclosures about the Joint Control Project	To transparently disclose transactions in relation to the Joint Control Project
£26,000	Inclusion of the Treasurer's remuneration details in the Officer's Remuneration Note	To correctly disclose the remuneration of a Senior Officer
£500,000	Reference to the long term debtor with South Wales Police in the related party disclosures	To include a related party in the disclosure.
Various	Amendment of various figures in the Cashflow Statement.	To correctly show the analysis of cash movements in the Cashflow Statement.
£1,965,000	Reclassification of assets under construction as property, plant and equipment.	To correctly classify assets under construction and intangible assets.
£176,000	Removal of intangible assets from the property, plant and equipment note.	To correctly disclose the analysis of property, plant and equipment in the note.
£1,536,000 £1,568,000 £1,617,000	Amendments to the Fire Fighter Pension Fund net asset statement, and the Authority's related debtor and creditor balances	To correctly disclose the top up grant due from the Welsh Government
Various	Amendment of various figures in relation to IAS19 in Note 3, 21 and 34	To correctly disclose entries from the IAS19 adjustment.

Value of correction	Nature of correction	Reason for correction
£40,820,000	<p>McCloud/Sergeant adjustments for events after the balance sheet date</p> <p>Fire Fighters Pension Scheme:</p> <p>Increase in year past service costs</p> <p>Increase in the present value of defined obligations (gross pensions liability).</p> <p>Compensating adjustment to the general fund and pensions reserve</p> <p>Narrative disclosures setting out:</p> <ul style="list-style-type: none"> - the past service cost (and increase to the gross pension liability) resulting from the McCloud/Sergeant judgement; and - the uncertainties and sensitivities inherent in accounting for the McCloud/Sergeant judgement 	<p>To reflect the estimated impact of 27th June 2019 Supreme Court ruling that the Government may not appeal the previous ruling that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age.</p> <p>We have concluded that the judgement gives rise to a past service cost and liability within the scope of IAS19. There is a constructive obligation on the scheme to remedy the ruling that the transitional protections given during the 2015 pension scheme reforms were unlawful.</p> <p>GAD has undertaken work and in its 2018-19 report on the scheme sets out its estimate of the costs as a percentage of the liabilities.</p> <p>We consider that a reliable estimate is possible because the GAD remedy is consistent with remedy being assumed for policy purposes by HM Treasury and the schemes.</p>
£815,000	<p>Local Government Pension Scheme</p> <p>Increase in year past service costs</p> <p>Increase in the present value of defined obligations (gross pensions liability).</p> <p>Compensating adjustment to the general fund and pensions reserve</p> <p>Narrative disclosures setting out the past service cost (and increase to the gross pension liability) resulting from the McCloud/Sergeant judgement.</p>	<p>To reflect the estimated impact of 27th June 2019 Supreme Court ruling that the Government may not appeal the previous ruling that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age.</p> <p>We have concluded that there is sufficient evidence that these judgements apply to LGPS.</p> <p>GAD has published its report on its LGPS-wide impact assessment. GAD has estimated the impact to be 3.2% of the scheme's active liabilities based on a salary growth assumption of CPI +1.5%. The RCT pension fund has provided additional information to inform the estimated costs.</p>

Value of correction	Nature of correction	Reason for correction
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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