

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

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We intend to issue an unqualified audit report on your Statement of Accounts with two Emphasis of Matter paragraphs drawing attention to disclosure notes in your accounts. There are some significant issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 Statement of Accounts in this report.
- 2 We have already discussed these issues with your Treasurer.
- 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 £2.2 million for this year's audit of the main financial statements and at £0.480 million 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:
  - Senior Officer salaries £1,000
  - Senior Officer/Member Related Parties £10,000
- 6 We have substantially completed this year's audit work.
- 7 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

- 8 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 a timely way 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.
- 9 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>Your officers provided us with draft accounts that were certified by the Treasurer on 31 May 2020 as planned. This is in line with last year and complies with regulatory deadlines.</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. As a result, the audit will not be formally signed off until September.</p>
<b>Electronic signatures</b>	<p>The Chair/Treasurer and Auditor General used electronic accounts to approve and certify the accounts respectively.</p>
<b>Audit evidence</b>	<p>Due to social distancing measures, Audit Wales staff are currently working remotely from home. All information was received electronically.</p> <p>We have used software such as Starleaf and Microsoft Teams to discuss issues with your staff, request documentation or review systems directly by sharing our desktop screens.</p>

- 10 With remote working, the audit this year has been elongated. 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

- 11 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**. We also intend to include two Emphasis of Matter paragraphs in the report to draw attention to two disclosure notes in your accounts. This matter is set out in **Exhibit 2** below.
- 12 We issue a qualified audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 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.
- 14 Our proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

### Uncorrected misstatements

- 15 We set out below one misstatement we identified in the accounts, which we have discussed with management but which remains uncorrected. We request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reason in writing for not correcting it:
- lump sums due to pensioners – £208,000 due to pensioners are incorrectly classified as Authority creditors rather than Fire Fighters' Pension Fund creditors, with a corresponding misstatement in the amount due from the Authority to the Fire Fighters' Pension Fund.

### Corrected misstatements

- 16 We identified a number of misstatements and omissions in the accounts that have now been corrected by management. Those we judge should be drawn to your attention are set out with explanations in **Appendix 3**.

### Other significant issues arising from the audit

- 17 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	
Emphasis of matter – valuation of property assets	The first emphasis of matter relates to the impact of the COVID-19 pandemic on the valuation of land and buildings as at 31 March 2020. As a result of COVID-19, and in accordance with specific guidance issued by their professional institute, the Authority's valuer declared a 'material valuation uncertainty' in their valuation report, with a total valuation of £68.779 million. The Authority has used this valuation report to inform the measurement of property asset values in the accounts at that date, as described in Note 2.
Emphasis of matter – property investment funds related to the pension fund	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 Rhondda Cynon Taf Pension Fund's UK property investment funds. The total value of these investments as at 31 March 2020 is £209 million and the Authority's share amounts to £4.1 million.

## Significant issues arising from the audit

<p>McCloud/Sergeant: post year-end remedy proposal</p>	<p>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.</p> <p>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 at £8.2 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.</p>
<p>Quality of draft accounts</p>	<p>The draft accounts provided for audit included many simple errors, including casting errors, typographical errors and instances where disclosures had not been updated for 2019-20.</p> <p>Whilst supporting working papers were generally good, there were some instances where information in the draft accounts did not agree to the underlying accounting records. For example, pension disclosures did not agree to the actuarial valuation reports as these had not been updated to reflect audit adjustments in 2018-19, and the balance in the net assets statement did not agree to the ledger.</p> <p>COVID-19 has inevitably impacted on quality this year, and for next year the Authority should look to reinstate robust quality assurance arrangements.</p>



## Recommendations

- 18 We will report recommendations arising from our audit separately. There are no issues sufficiently significant to warrant bringing to your attention. We will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

[Date]

## Representations regarding the 2019-20 Statement of Accounts

This letter is provided in connection with your audit of the financial statements (including the remuneration disclosures that are subject to audit) of South 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 Statement of Accounts in accordance with legislative requirements and The Code of Local Authority Accounting; in particular, that 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; and
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

## Statement of Accounts representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the Statement of Accounts.

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 up to the date of certification have been considered and those 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. There is one uncorrected misstatement, a summary of this item is set out below:

- lump sums due to pensioners – £208,000 due to pensioners are incorrectly classified as Authority creditors rather than Fire Fighters’ Pension Fund creditors, with a corresponding misstatement in the amount due from the Authority to the Fire Fighters’ Pension Fund. We do not consider this to be a material misstatement and no adjustment has been made.

## **Representations by the Fire and Rescue Authority**

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Fire and Rescue Authority on 28 September 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:

Signed by:

**Chris Barton**  
**Treasurer**

**Councillor Tudor Davies**  
**Chair, Fire and Rescue Authority**

Date:

Date:

# Appendix 2

## Proposed Audit Report

### 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 South Wales Fire and Rescue Authority for the year ended 31 March 2020 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, the Fire Fighters' Pension Fund 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 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 South 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 2019-2020.

##### 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.

## **Emphasis of matter – effects of COVID-19 on the valuation of land and buildings**

I draw attention to Note 2 to the financial statements, which describes a material valuation uncertainty clause in the valuation report of certain property items arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

## **Emphasis of matter – valuation of Rhondda Cynon Taf Pension Fund's property investment fund**

I draw attention to Note 35 to the financial statements, which describes a material valuation uncertainty related to property investment funds managed on behalf of the Rhondda Cynon Taf Pension Fund. 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 Fire and 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 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 2019-2020; 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 and Rescue Authority and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report nor 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 set out on page 10, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Adrian Crompton  
Auditor General for Wales  
29 September 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ



# Appendix 3

## Summary of corrections made

During our audit we identified the following misstatements and omissions 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

Value of correction	Nature of correction	Reason for correction
<b>£8.170 million and narrative disclosure of event after the balance sheet date</b>	Reduction in the pension fund liability, matched by a reduction in total expenditure, to reflect the impact of the Government's proposed remedy for McCloud/ Sergeant. Disclosure note updated to reflect that the issue of a consultation on proposals to remedy the McCloud/ Sergeant pension issue is an adjusting event after the balance sheet date.	Initial report obtained from the actuary assumed more fire fighters would meet the eligibility criteria for remedy.
<b>£2.434 million</b>	Grant income that had been netted off expenditure was reclassified as income.	Income and expenditure should be recorded gross, rather than netted off.
<b>£0.680 million</b>	Net reduction in the pension fund liability, matched by a net reduction in total expenditure.	Initial reports obtained from the actuaries did not include up-to-date information.

Value of correction	Nature of correction	Reason for correction
£0.348 million	Reclassification of capital grants and contributions	Capital grants and contributions were incorrectly classified 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'.
£0.914 million	Increase in both debtors and creditors.	An amount due to the Fire Fighters' Pension Fund was incorrectly netted off debtors.
£1.554 million	Increase in the amount due to the Welsh Government, as recorded in the Fire Fighters' Pension Fund.	The balance due to the Welsh Government was incorrectly recorded in the net asset statement.
£10.658 million	Pension costs reclassified in the 'adjustments between accounting basis and funding basis' analysis disclosure (note 3).	The analysis of certain pension transactions was incorrect.
<b>Annual Governance Statement and Narrative Report</b>	The Annual Governance Statement and Narrative Report were updated to provide additional information on the impact of the COVID-19 pandemic on the Authority's governance framework.	To ensure best practice in reporting.

Value of correction	Nature of correction	Reason for correction
<p><b>Narrative disclosure to explain the material uncertainty in pension fund property investment valuations</b></p>	<p><b>Note 35</b> An additional paragraph was added to this note to describe the impact of material uncertainties disclosed in pension fund manager year-end valuation reports for the UK property investment funds managed on behalf of the Rhondda Cynon Taf Pension Fund.</p>	<p>To ensure compliance with the Code of Local Authority Accounting and International Accounting Standards.</p>
<p><b>Narrative disclosure to explain a material uncertainty relating to property asset valuations</b></p>	<p><b>Note 2</b> An additional paragraph was added to this note to describe the impact of a material valuation uncertainty clause included in the valuer's valuation report.</p>	<p>To ensure compliance with the Code of Local Authority Accounting and International Accounting Standards.</p>



Audit Wales  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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