



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **North 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 is likely to issue an unqualified audit report on your financial statements, subject to confirmation of the financial impact of pension overpayments on the financial statements. 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 North 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 £0.966 million for the Authority and £0.154 million for the Firefighters' Pension Fund. 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 financial statements of the Authority, for 2017-18, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 1 June 2018 which was well in advance of the statutory deadline of 30 June 2018. We have now substantially completed the audit work. There is one outstanding issue relating to the confirmation of the financial impact of pension overpayments on the financial statements, as a result of the Authority's retrospective consideration and approval, in March 2018, of the Firefighters' Pension (Wales) Scheme (Amendment) Order 2014, which need to be finalised. I comment further on this issue at paragraphs 32 to 37.
- 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 Mr Ken Finch, Treasurer.

Proposed audit report

- 8 Based on the work we have carried out it is likely that the Auditor General's intention is to issue an unqualified audit report on the financial statements, as we anticipate that the value of pension overpayments are not material to the financial

statements. However, this is subject to final confirmation and we are working closely with officers to obtain the necessary information.

- 9 Once this is complete, we expect you to provide us with a Letter of Representation based on that set out in [Appendix 1](#).
- 10 The proposed audit report is set out in [Appendix 2](#).
- 11 Whilst we are expect that we will be able to issue an audit opinion on the financial statements we are still considering whether our opinion will include an emphasis of matter to draw attention to the pension overpayments.
- 12 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 legality matters relating to the Authority's retrospective consideration and approval of the Firefighters' Pension (Wales) Scheme (Amendment) Order 2014, which need to be concluded.

Significant issues arising from the audit

Uncorrected misstatements

- 13 We set out below two misstatements that we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that they are corrected. If you decide not to correct the misstatements, we ask that you provide us with the reasons for non-correction.

Intangible assets largely received prior to the year-end were not accrued for in the correct financial year

- 14 An invoice for IT assets valued at £134,000 was received prior to the year end and paid in April 2018. Enquiries with relevant officers established that the relevant assets had been installed over a period that extended across the year end but that a significant proportion of the invoice should have been accrued and recognised in the financial statements.

Pension top-up grant receivable in the Firefighters' Pension Fund Account is overstated by £27,000

- 15 A top-up grant instalment from Welsh Government had been incorrectly miscoded as a revenue grant in the Authority's accounts. As a result, the amount due from Welsh Government in the Firefighters' Pension Fund account is overstated.

Corrected misstatements

- 16 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

- 17 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 continue to have some concerns about the qualitative aspects of your accounting practices and financial reporting.

Despite our previous recommendations there still remain a number of issues with the adequacy of the asset register

- 18 The asset register, which is maintained on a spreadsheet, is unnecessarily complicated and includes a large number of worksheets. Despite previous recommendations, it still does not hold sufficient financial and non-financial information, both current and historical, to support certain accounting entries.
- 19 In addition, the details in the asset register are still insufficient, in respect of operational and IT equipment purchased before 2017-18, to identify individual or groups of assets.
- 20 The Authority might want to consider the use of a more formal asset register system.

The accounting treatment for asset disposals does not comply with the Code of Practice on Local Government Accounting

- 21 The Authority is incorrectly accelerating depreciation in the year of disposal to write assets down to a nil net book value and treating proceeds as a gain on the sale of asset. This does not comply with the Code of Practice on Local Government Accounting when accounting for the gains/losses on disposal of assets.

Some primary statements were incorrectly prepared

- 22 The cash flow and movement in reserves statements were incorrectly prepared and included adjustments that were not relevant to ensure that the statements balanced. These primary statements are essential statements that provide assurance over the integrity of the overall financial statements and it is therefore critical that they are prepared correctly.

Accounting for grant income continues to be an area of concern

- 23 Whilst we did not encounter as many difficulties in auditing grant income and expenditure this year, it is still of concern that the transactional activity is being carried out in balance sheet holding accounts, rather than in the revenue account. As a result, year-end accounting entries are required to ensure that the financial statements reflect the activity.
- 24 We have previously recommended that the Authority changes its approach in this area, to which the Authority has been reluctant. We would encourage the Authority to re-look at this to seek to establish an improved method of managing and accounting for these activities. This would avoid unnecessary accounting entries and reconciliation between the holding account and the financial statements.

We again encountered difficulties during the audit, which continue to be of particular concern as the timetable for the accounts preparation, audit, and publication is significantly earlier and shorter from 2018-19

- 25 A comprehensive set of working papers were not available to us at the start of the audit. Working papers were provided individually upon request and were often of poor quality, incomplete, required explanation and, in some instances, further work and supporting information. This often led to delays in completing audit work.
- 26 It was also disappointing to note that there had been limited learning from the prior year audit with a number of errors, resulting in audit adjustments, being repeated.
- 27 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 less than currently) and published by 31 July (two months less than currently).
- 28 Whilst it was encouraging that the Authority provided the draft accounts on 1 June 2018, in order to meet the challenges of the change in timetable, it is essential that the draft accounts are of a significantly higher quality and that there are good quality working papers that clearly support the financial statements and are self-explanatory to someone with accounting knowledge.
- 29 Based on the quality of the draft 2017-18 statements and the inadequacy of the supporting working papers provided, both in terms of availability and quality, it is our view that the Authority would not meet the preparation and publication timetable in 2018-19.
- 30 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.
- 31 We also recognise that Assistant Chief Officer, Finance and Resources, has recently been appointed and we are confident that we can work together constructively to achieve this,

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

- 32 The Firefighters Pension (Wales) Scheme (Amendment) Order 2014 came into force on 31 December 2014 and made retrospective amendments from 1 July 2013, to the Firefighters Pension Scheme Order 1992.
- 33 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. The Authority continued, from 1 July 2013, to apply the previous regulations (which allowed for the best of the last 3 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.
- 34 In March 2018, the Authority took the decision to treat temporary promotions as additional pension benefits, for some groups of staff, from 1 July 2018 (in accordance with the amendment order). It also took the decision to apply the previous regulations for those who retire within 3 years of the implementation date (1 July 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 firefighters that are affected.
- 35 Neither the report (Firefighters' Pension Schemes Additional Pension Benefits) presented to the Authority on 19 March 2018 nor the minutes of the meeting set out the impact on the four different affected groups of firefighters, and it is therefore unclear whether members understood the impacts when making their decision.
- 36 Furthermore, as the net cost of the Firefighters Pension Fund (FFPF) 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.
- 37 Based on our work to date, we anticipate that the impact, on both the FFPF and the Authority's main statements, is not material to the accounts, but this is still subject to final confirmation. We also have concerns over legal aspects 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 report to you

- 38 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 financial audit work

39 We set out all the recommendations arising from our 2016-17 audit work with a summary of action taken by management during 2017-18. We have followed these up as part of the 2017-18 audit and summarise our findings. Whilst some improvements have been made, it is disappointing to note that many of the recommendations have not been addressed and it is a direct consequence of this that the draft accounts have once again been subject to extensive amendment.

Exhibit 1: Recommendations arising from our 2016-17 financial audit work

Recommendation	Management and Audit Response
<p>The draft accounts had not been subject to sufficient quality review</p> <p>The Authority should introduce a robust quality review of the account to be presented for our audit that is clearly documented, signed by the Authority's Treasurer, and shared with us prior to the audit of the accounts.</p>	<p>Management Response</p> <p>An action plan will be prepared to address this issue including setting out an allocation of duties.</p> <p>Implementation date: March 2018</p> <p>Audit Response</p> <p>We understand that a quality review process was introduced. However, it was not sufficiently robust as a number of obvious errors were apparent in the draft statements, for example, the 2016-17 comparators were misstated in some areas.</p>

Recommendation	Management and Audit Response
<p>The quality of working papers needs to be improved</p> <p>The Authority should prepare working papers of sufficient quality that clearly support the financial statements and are self-explanatory to someone with accounting knowledge. The Authority should also ensure that accounting transactions are not inappropriately netted off and that the accounting treatment is compliant with the Code of Practice on Local Government Accounting.</p>	<p>Management Response</p> <p>Staff will be instructed accordingly. Implementation date: March 2018</p> <p>Audit Response</p> <p>We recognise that some working papers have been changed from the previous year. However, many of the working papers still require improvement. In some instances, necessary working papers have not been prepared, are incomplete and/or require explanation and further supporting information to be understood. As a result, time in the audit window was lost waiting for further work to be completed.</p>
<p>Communication and liaison between the Authority's and Conwy's finance staff needs to be improved</p> <p>The Authority should ensure that all relevant finance staff understand how their work overlaps so that the annual accounts and the underlying accounting records are maintained correctly.</p>	<p>Management Response</p> <p>Staff will be instructed accordingly. Implementation date: March 2018</p> <p>Audit Response</p> <p>We continued to find instances where there was a lack of understanding over the clarity of roles and responsibilities.</p>
<p>Insufficient analysis of individual equipment assets in the asset register</p> <p>The Authority should revise its asset register to include assets at an individual or group level, to ensure that they can be easily identified and to ensure that the asset register reconciles to departmental records.</p>	<p>Management Response</p> <p>A work plan will be prepared to address this issue. Implementation date: March 2018</p> <p>Audit Response</p> <p>This recommendation has been partly addressed for the assets purchased in 2017/18 but remains outstanding for assets purchased before this.</p>
<p>IT assets have not been correctly classified between tangible and intangible assets</p> <p>In conjunction with recommendation 4 (above), the Authority should review all IT assets to ensure that they are appropriately classified as either tangible or intangible assets.</p>	<p>Management Response</p> <p>A review will be undertaken. Implementation date: March 2018</p> <p>Audit Response</p> <p>This recommendation has been implemented.</p>

Recommendation	Management and Audit Response
<p>Lack of a robust process to ensure that asset disposals are accounted for in the asset register</p> <p>The Authority should implement a robust process so that all staff are required to promptly notify finance of all asset disposals.</p>	<p>Management Response</p> <p>This will be incorporated with other work plans and reviews.</p> <p>Implementation date: March 2018</p> <p>Audit Response</p> <p>This recommendation has been implemented.</p>
<p>Grant income and related expenditure is not accounted for correctly in the financial statements</p> <p>The Authority should set up appropriate revenue codes to correctly account for grant income and expenditure and ensure that the financial transactions are properly reconciled to grant claims.</p>	<p>Management Response</p> <p>The method of managing grant initiatives is well understood by the staff involved, who are not generally finance based. Any change will have to take this into account. The issue of reconciliation is a matter to be addressed along with other work planning and reviews already mentioned.</p> <p>Implementation date: March 2018</p> <p>Audit Response</p> <p>This recommendation has been addressed in part.</p>
<p>IAS19 accounting transactions have not been reflected in the financial ledger</p> <p>The Authority should ensure that IAS19 transactions are accounted for in the financial ledger.</p>	<p>Management Response</p> <p>Staff will be instructed accordingly.</p> <p>Implementation date: March 2018</p> <p>Audit Response</p> <p>IAS19 transactions are now correctly accounted for in the financial ledger.</p>
<p>There is a need to plan for the revised accounts preparation, audit and publication timetable that is to be introduced in 2018-19</p> <p>The Authority should develop a comprehensive project plan to identify the key tasks and inter-dependencies of the accounts preparation and audit process, and to set out the improvements needed to bring the timetable forward.</p>	<p>Management Response</p> <p>A project plan will be prepared to address this issue.</p> <p>Implementation date: March 2018</p> <p>Audit Response</p> <p>We have not yet seen a detailed project plan. It was positive to note that the draft accounts were presented for audit on 1 June 2018, although there is significant work still required to ensure that the accounts are fully supported by good quality working papers at the same time.</p>

Recommendation	Management and Audit Response
<p>The Authority's land and building title deeds are often in the name of predecessor bodies and have not been registered with the Land Registry</p> <p>The Authority should register its ownership of all relevant land and buildings with the Land Registry</p>	<p>Management Response</p> <p>A project will be implemented. Implementation date: as soon as possible (stated in November 2017)</p> <p>Audit Response</p> <p>We have seen evidence that some early discussions have taken place in relation to this, but it remains outstanding at the time of audit.</p>
<p>Related party declaration requests presume knowledge by the individual that they may not have, which runs the risk that declarations may not be made</p> <p>The Authority should revise its related party declaration requests to ask individuals to declare relevant interests.</p>	<p>Management Response</p> <p>The change will be implemented. Implementation date: December 2017</p> <p>Audit Response</p> <p>This change has been implemented.</p>

Recommendations arising from our 2017-18 financial audit work

40 The recommendations arising from our 2017-18 financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on 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.

Independence and objectivity

- 41 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 42 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

North Wales Fire and Rescue Authority
Ffordd Salesbury,
St Asaph Business Park,
St Asaph,
Denbighshire,
LL17 0JJ

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

17 September 2018

Representations regarding the 2017-18 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 2018 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 UK; 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 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.

The issues associated with the implementation of the Firefighters' 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 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 North 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:

K Finch FCPFA

Treasurer

North Wales Fire & Rescue Authority

Date: 17 September 2018

Signed by:

Councillor Meirick Lloyd Davies

Chairman

North Wales Fire & Rescue Authority

Date: 17 September 2018

Appendix 2

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

Opinion

I have audited the financial statements of

- the North Wales Fire & Rescue Authority; and
- the Firefighters Pension Fund Account

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

North 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 Firefighters' 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 the North Wales Fire & Rescue Authority and the Firefighters' Pension Fund as at 31st 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 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 2018;
- 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 North 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.

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters relating to the Firefighters 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 pages 14 to 16, 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
20 September 2018

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the North 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. The adjustments, which do not impact on the net revenue position of the Authority as at 31 March 2018, are necessary to ensure that the Authority's financial statements comply with its statutory reporting requirements.

Exhibit 3: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
Numerous	Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Cash Flow Statement 2016/17 comparators were incorrectly stated	To correctly reflect the 2016/17 audited financial statements
£6,951,000 £Nil overall impact on MIRS total	Note 7 Adjustment between accounting basis and funding basis The adjustments primarily involving the Pension Reserve were incorrectly stated	To comply with the Code of Practice
£558,000	Note 9 Other Operating Expenditure and Income The proceeds of asset disposals were incorrectly disclosed as the gain on the disposals as they hadn't taken account of any net book value of the disposed assets	To comply with the Code of Practice
£803,000	Note 9 Other Operating Expenditure and Income The movement in grant reserve (£803,000) had incorrectly been treated as a revenue contribution	To comply with the Code of Practice
£147,000	Note 12 Property Plant and Equipment Land disposed of in year had incorrectly been classified as an asset held for sale	To ensure the correct classification of assets

Value of correction	Nature of correction	Reason for correction
£609,000	Note 12 Property Plant and Equipment Assets that were still in ownership and use by the Authority had been incorrectly disposed of from the asset register	The assets had not been disposed.
£192,000	Note 12 Property Plant and Equipment Intangible assets, disposed of in year, had incorrectly been classified as Vehicles and Equipment	To correctly disclose assets and their movements in accordance with the Code of Practice
£1,515,000 (long term) £16,000 (short term)	Note 13 Financial Instruments The note did not disclose the correct balances for borrowings or support the correct balances in the Balance Sheet	To ensure the disclosure note agrees to the Balance sheet.
£129,000	Note 13 Financial Instruments Loans were not shown at amortised costs (i.e. costs and accrued interest) as accrued interest was accounted for in creditors	To correctly disclose loans at amortised cost. This error is a repeat of an error identified in 2016/17
£6,704,000	Note 21 Pension Reserve The reversal of items relating to retirement benefits and employers pension contributions in this note did not reflect the information provided by the actuary or the payroll information	To correctly account for movements in the pension reserve
Numerous	Note 22, 23 and 24 Cash Flow Statement – Operating, Investing and Financing Activities These notes were extensively restated as a number of the entries were either incorrectly calculated or erroneously included.	To ensure that the cash flow statement complies with the Code of Practice
£25,355	Note 27 Officers Remuneration An Assistant Chief Officer had been incorrectly omitted from the note	To ensure that the remuneration disclosures were correctly stated
£1,809	Note 27 Officers Remuneration The Treasurer's remuneration had been incorrectly overstated	To ensure that the remuneration disclosures were correctly stated
Numerous	Note 27 Officers Remuneration The Benefit in kind disclosures, which are low in value, were incorrectly stated for 5 senior officers	To ensure that the remuneration disclosures were correctly stated

Value of correction	Nature of correction	Reason for correction
£3,711,000 in 2017/18 £1,875,000 in 2016/17	Note 29 Grants The status of the arrangement for All-Wales grants administered by North Wales FRA was established as an agency arrangement. As a result these sums have now been excluded from the income and expenditure of the Authority.	To correctly account for agency arrangements
£3,935,000	Note 30 Agency Services Additional disclosure note added to reflect agency services	To comply with the Code of Practice
£116,000	Note 33 Leases The value of Finance leases was incorrectly disclosed	To disclose the correct amount.
£numerous	Note 35 – Transactions relating to post-employment benefits Extensive restatement of the transactions relating to retirement benefits recognised in the accounts to correctly disclose the pension information provided by the actuary	To comply with the Code of Practice
Various	A number of below material, narrative, presentational and other amendments were made to the accounts. The disclosures affected were: Narrative Report Comprehensive Income and Expenditure Statement Balance Sheet Note 3 Material Items to Note Note 5 Expenditure and Funding Analysis Note 6 Reconciliation of Service income and Expenditure Note 12 Property Plant and Equipment Note 20 Usable Reserves Note 21 Capital Adjustment Account Note 27 Officers Remuneration Note 32 Capital Expenditure and Financing Note 35 Transactions relating to post-employment benefits Note 38 Accounting Standards that have been issued but not yet adopted Accounting Policies	

Value of correction	Nature of correction	Reason for correction
narrative	<p>Annual Governance Statement</p> <p>A number of changes were made to the AGS to better reflect the arrangements at the Fire Authority.</p>	To improve the content of the governance statement.

Appendix 4

Recommendations arising from our 2017-18 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 4: matter arising 1

Matter arising 1 – insufficient financial and non-financial information held in the asset register	
Findings	The asset register does not hold sufficient financial and non-financial information, both current and historical, to support accounting entries.
Priority	High
Recommendation	The Authority should revise its asset register so that it includes all relevant information. The Authority should also consider using a more formal asset register system.
Benefits of implementing the recommendation	To ensure that the necessary accounting entries are easily established and supported by underlying records.
Accepted in full by management	Partially
Management response	We will work with the Wales Audit Office to more fully understand the audit requirements to ensure that a full and comprehensive audit trail is in place. This will include due consideration of the financial costs and benefits associated with purchasing a dedicated Fixed Asset register.
Implementation date	March 2019

Exhibit 5: matter arising 2

Matter arising 2 – insufficient analysis of individual equipment and IT assets in the asset register	
Findings	Equipment and IT assets, purchased before 2017-18, are not recorded in the asset register in sufficient detail to ensure that individual assets, or groups of assets, can be identified.
Priority	High

Matter arising 2 – insufficient analysis of individual equipment and IT assets in the asset register	
Recommendation	The Authority should revise its asset register to include assets at an individual or group level, to ensure that they can be easily identified and to ensure that the asset register reconciles to departmental records.
Benefits of implementing the recommendation	To ensure that the asset register, and therefore the financial statements, accurately reflects the assets held by the Authority.
Accepted in full by management	No
Management response	The asset register fully records capital expenditure which can be traced and reconciled to individual assets. The 2017/18 process was amended in line with previous recommendations but a risk based decision has determined that retrospective revision will not be undertaken. Work will be undertaken within the Authority to consider assurances on existence of assets which have been fully depreciated.
Implementation date	Not applicable

Exhibit 6: matter arising 3

Matter arising 3 – asset disposals have been incorrectly accounted for	
Findings	The Authority has incorrectly accelerated depreciation of assets in the year of disposal and recognised proceeds as a gain on disposal.
Priority	Medium
Recommendation	The Authority should account for asset disposals in accordance with the Code of Practice on Local Government Accounting.
Benefits of implementing the recommendation	To ensure that gains/losses on disposal are correctly accounted for and recognised in the financial statements.
Accepted in full by management	Yes
Management response	Accounting processes will be revised to ensure that they are fully compliant with the Code of Practice.
Implementation date	March 2019

Exhibit 7: matter arising 4

Matter arising 4 – core statements included non-relevant adjustments to ensure they balanced	
Findings	The Authority's cash flow and movement in reserves statements included adjustments that were not relevant to ensure that they balanced. As a result these core statements did not provide assurance on the overall integrity of the financial statements.
Priority	High
Recommendation	The Authority should prepare the statements in accordance with the Code of Practice.
Benefits of implementing the recommendation	To ensure the integrity of the overall statements.
Accepted in full by management	Yes
Management response	The process will be reviewed
Implementation date	March 2019

Exhibit 8: matter arising 5

Matter arising 5 – grant income and expenditure is inappropriately managed outside the revenue account	
Findings	Grant income and expenditure is being managed in balance sheet holding accounts and transferred to the revenue account at the year-end. This is unnecessarily complicated, duplicates work, and increases the risk of error.
Priority	High
Recommendation	The Authority should set up appropriate revenue codes to correctly account for grant income and expenditure.
Benefits of implementing the recommendation	To ensure that the financial statements correctly record grant activities relating to the financial year.
Accepted in full by management	Yes
Management response	The Assistant Chief Officer (Finance and Resources) will lead on a full review of this issue.
Implementation date	March 2019

Exhibit 9: matter arising 6

Matter arising 6 – the working papers need significant improvement and were not readily available at the start of the audit	
Findings	<p>Working papers in support of the financial statements were poor and required explanation. It is essential that working papers are improved to provide a clear and understandable audit trail between the financial ledger and the accounting statements.</p> <p>In addition, the working papers were not readily available along with the draft statements and were provided on a piecemeal basis upon request.</p>
Priority	High
Recommendation	The Authority should prepare good quality working papers that clearly support the financial statements and are self-explanatory to someone with accounting knowledge. The working papers must be available, alongside the draft financial statements, at the commencement of the audit.
Benefits of implementing the recommendation	To provide clear and understandable working papers in support of the financial statements on a timely basis. This will provide a clear audit trail for both officers and auditors.
Accepted in full by management	Yes
Management response	The development of working papers will be a key feature of future close down arrangements to ensure full compliance with the revised timetable for the production of the accounts.
Implementation date	March 2019

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