



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

2004/2005

Date: 25 October 2005

David Jones

Ref 001A2005

Final Accounts – Schedule of issues  
arising (2)

**North Wales Fire Authority**

This document is a draft version pending further discussions with the client body. Information may not yet have been fully verified and should not be widely distributed.

Issue	Audit comment / Recommendation	Officer comment / response
<b>GENERAL</b>		
<p>The Statement of Accounts contains a number of references to 'Fire and Rescue Authority'. In our view, although the authority is a fire and rescue authority (type) its name continues to be Fire Authority, until the Combination Order is amended.</p>	<p>That all references to 'Fire and Rescue Authority' included in the Statement of Accounts be amended to 'Fire Authority'</p>	<p>Agreed</p>
<p>Can you kindly confirm that the Authority has determined a 'de-minimis' level for capital expenditure and advise me what that level is. I have a figure of £10,000 in my mind, but I am wondering whether the impact of the decision to purchase rather than lease vehicles has been considered.</p>	<p>See issue.</p>	<p>FA to determine de-minimus level with budget</p>
<b>EXPLANATORY FOREWORD</b>		
<p>The Table in Paragraph 3(ii) of the Explanatory Foreword correctly includes 'Human Resources System'. However it is desirable that that item be disclosed as an intangible asset.</p>	<p>Include a further Heading, Intangible Assets, prior to 'Human Resources System'</p>	<p>Agreed</p>
<p>Note 3(ii) to the Explanatory Foreword states "New loans of £3.15m were raised in the year". In fact, loans raised amounted to £3.7m, with repayments of £0.55 m being made in the year.</p>	<p>That consideration be given to amending the wording of the note to state "Loans of £3.7m were raised in the year, whilst £0.55m was repaid. The Authority's borrowing therefore increased by £3.15m during the year" so that this disclosure reconciles with the Cash Flow Statement.</p>	<p>Agreed</p>
<p>Paragraph 3(v) in the Explanatory Foreword includes: "The Authority has a Provision for Pension Liabilities of £1,954,566 to meet future liabilities. The Pension position is monitored regularly and reported to the Authority as a separate agenda item."</p>	<p>That this extract be amended to read: "The Authority has a Provision for Pension Liabilities of £1,954,566 to meet liabilities arising from the past service of current employees. The Pension liability position is monitored regularly and reported to the Authority."</p>	<p>Agreed</p>

Issue	Audit comment / Recommendation	Officer comment / response
<b>STATEMENT OF ACCOUNTING POLICIES</b>		
<p>Accounting Policy 6 BASIS FOR PROVISION FOR REDEMPTION OF DEBT states:                      "The Authority has taken out long-term loans of variable duration to finance the purchase of fixed assets. Provision for redemption of debt is a calculation based on the opening credit ceiling value, with that element relating to transitional costs being charged to the revenue account over seven years and the balance of the credit ceiling being charged to the revenue account as an amount equivalent to 4% of its value. This year additional provision has been made for the redemption of debt to reflect the new category of assets being financed through borrowing. The additional provision is based on the economic life of the asset and the charge to the revenue account is calculated on that basis."</p>	<p>Consideration should be given to amending the wording to:                      "The Authority has taken out long-term loans of variable duration to finance the purchase of fixed assets. Provision for redemption of debt is a calculation based on the opening adjusted capital financing requirement. The element relating to transitional costs is charged to the revenue account over seven years and the balance of the adjusted capital financing requirement generally being charged to the revenue account as an amount equivalent to 4% of its value. However, additional (voluntary) provision has been made for the redemption of debt to reflect the increase in short life assets that are now being financed through borrowing, instead of operational leases. The additional provision is based on the economic life of the asset and the charge to the revenue account is calculated on that basis."</p>	<p>Agreed</p>
<p>Accounting Policy 11 Debtors and Creditors states:                      "The Revenue Account of the Authority is maintained on an accruals basis in accordance with the Code and SSAP 2; that is to say that sums due to or from the Authority during the year are included in the revenue account whether or not the cash has actually been received or paid in the year. Material capital expenditure accruals are also made at the year end. Previously, the financing of capital expenditure was based on the actual cash spent during the year, however, from 1 April 2004 the SORP requires that capital income be accounted for on an accruals basis."</p>	<p>Consideration should be given to amending the wording to:                      "The Authority's accounts are presented on an accruals basis in accordance with the SORP and SSAP 2; that is to say that sums due to or from the Authority during the year are included in the revenue account whether or not the cash has actually been received or paid in the year. Whilst the SORP has required material capital expenditure accruals to be made at the year end, the financing of capital expenditure has traditionally been based on the actual cash spent during the year. However, from 1 April 2004 the SORP requires all capital expenditure, including accruals, to be financed."</p>	<p>Agreed</p>

Issue	Audit comment / Recommendation	Officer comment / response
<b>CONSOLIDATED REVENUE ACCOUNT</b>		
<p>CRA contains "Transfer to Capital Reserve £476k". Note 8 to the CRA states that this was 'to finance the capital programme for 2004-2005'. The closing balance sheet appears to confirm that the balance was in fact used in the year.</p>	<p>The description of this transaction should be changed to "Appropriation to Capital Financing Account - Capital expenditure financed from revenue" and included following the Net Cost of Services line of the CRA.</p>	<p>Agreed</p>
<p>The CRA contains "Contribution from Capital Financing Account". This is the difference between depreciation charged and the required MRP.</p>	<p>Consideration should be given to changing the description of this transaction to "Appropriation from Capital Financing Account"</p>	<p>Agreed</p>
<p>Note 2 Lease rentals states: "Finance lease payments during the year amounted to £3,936; the original purchase price of the vehicles was £359,048. The finance lease has entered the secondary rental period, which lasts for the useful life of the vehicles; it is estimated that the vehicles will remain in service until 2005."  Did the finance leases enter 'secondary rental period' in 2004/2005? Also, note 8 to CRA refers to 'buyout' of 'secondary lease' £37,660. Are these the same assets?</p>	<p>The position needs to be clarified and consideration may need to be given to the wording of this note being amended</p>	<p>Para changed exclude from 'it is estimated that...' No clarification needed  No buy out of operating leases</p>
<p>Note 11 Members Allowances does not highlight the fact that no Members Allowances paid by F&amp;RS prior to 1 April 2004.</p>	<p>Consideration should be given to amending that note to highlight the fact that no Members Allowances paid by F&amp;RS prior to 1 April 2004.</p>	<p>Agreed</p>
<p>The calculation of the Capital Financing Requirement at 31 March 2005 appears to take account of a revenue underspend of £373k. The entry in the CRA suggests that the amount was £476k.</p>	<p>Please provide an explanation – Now understood – £373k + £65k (provision) + £37k (Leasing from Revenue).</p>	<p>No explanation needed</p>

Issue	Audit comment / Recommendation	Officer comment / response
<b>CONSOLIDATED REVENUE ACCOUNT (Continued)</b>		
<p>Note 10 to the CRA refers to the audit fees paid to Wales Audit Office in 2004/2005. The Wales Audit Office was not established until 1 April. The majority of the fees referred to were in fact paid to the Audit Commission in Wales, with the fees relating to the verification study being paid to the Audit Commission.</p>	<p>The note should be amended to state that £46,149 was paid to the Audit Commission in Wales (now incorporated into Wales Audit Office) and that £16,500 was paid to the Audit Commission.</p>	<p>Agreed + NFI £450</p>
<b>STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL</b>		
<p>Para 4 states "Internal Audit Services (IA) are provided to the Fire &amp; Rescue Service, under contract, by Conwy County Borough Council.</p>	<p>Please clarify whether the service is provided to the 'Authority' or the 'Service'?</p>	<p>Agreed</p>
<p>Para 7 states " In accordance with the findings of the external review of Internal Audit of the Fire &amp; Rescue Service, the planning of Audit coverage for 2005/06 is based upon a risk assessment to ensure that audit resource is deployed most effectively."</p>	<p>Consider amending wording to "In accordance with the recommendation of the District Auditor the planning of Internal Audit coverage for 2005/06 is based upon a risk assessment to ensure that audit resource is deployed most effectively".</p>	<p>Agreed</p>

Issue	Audit comment / Recommendation	Officer comment / response
<b>CONSOLIDATED BALANCE SHEET</b>		
<p>Note 9 to the Consolidated Balance Sheet includes:                      “The Provision for Pension Liabilities was established to meet future demand in terms of disproportionate increases in pension payments.”</p>	<p>Consideration should be given to amending the wording of that Note to:                      “The Provision for Pension Liabilities was established to smooth the impact of the liabilities, arising from past service, to make future pension payments.”</p>	<p>Agreed</p>
<p>Please provide a schedule of capital receipts received in year together with supporting documentation regarding the valuation of the significant disposal, East Division HQ.</p>	<p>See Issue</p>	<p>Received</p>
<p>Note 2 to the Consolidated Balance Sheet is headed “SOURCES OF FINANCE FOR FIXED ASSETS ACQUIRED”. The following table does however show the financing of fixed and intangible assets. Also, the table does not provide the prior year comparative figures. The Guidance Notes for Practitioners does however suggest it is appropriate to link the requirements of the SoRP with the Prudential Indicators. The Guidance Notes for Practitioners contain an illustration of how this can be achieved.</p>	<p>That consideration be given to including a Statement of Capital Expenditure and Financing, as outlined in the Guidance Notes for Practitioners, in place of the existing Note 2 to the Consolidated Balance Sheet.</p>	<p>Agreed</p> <p>DJ to contact WAG for Supported Borrowing for FA’s as not issued.                      Ok Done</p>
<p>A zero should be shown in relation to Intangible Assets at 31 March 2004.</p>	<p>See issue.</p>	<p>Agreed</p>

Issue	Audit comment / Recommendation	Officer comment / response
<b>STATEMENT OF TOTAL MOVEMENT IN RESERVES</b>		
<p>The Capital Financing Account in this statement shows "Net (Deficit)/Surplus for year - appropriation to / from revenue" as (£711). The correct amount is (£311), ie net difference between provision for depreciation and MRP, being the amount reflected in CRA as an appropriation from the CFA.</p> <p>The actual amount charged to the CRA in relation to Capital Expenditure was £476k. The disclosure "Financing Fixed Assets" currently states £877k and needs to be amended.</p>	<p>Amend "Net (Deficit)/Surplus for year - appropriation to / from revenue" from (£711) to (£311).</p> <p>Also, amend "Financing Fixed Assets" from £877 to £477.</p> <p>The closing balance remains at £1,824.</p>	<p>Agreed</p>
<p>The Usable Capital Receipts Account in this statement shows "Net (Deficit)/Surplus for year - appropriation to / from revenue" as £272k. This is actually the amount generated by disposals and should therefore be shown on the "disposals" line.</p>	<p>Amend "Net (Deficit)/Surplus for year - appropriation to / from revenue" to 0 and "Disposals" to £272. (Subject to the following issue)</p>	<p>Agreed</p>
<p>Regulation 9 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 states that where the disposal of an asset generates less than £10,000 then that receipt must not be treated as a capital receipt.</p>	<p>Any receipts of less than £10,000 should be credited to the CRA. An appropriation can then be made to Capital Receipts Unapplied if desired.</p>	<p>Trifling – no amendment</p>
<p>Please provide a schedule of the capital receipts received in the year, together with supporting documentation, eg valuations.</p>	<p>See issue.</p>	<p>Provided previously</p>
<p>The Government Grants Deferred account in this statement shows "Net (Deficit)/Surplus for year - appropriation to / from revenue" as £108. In my view, that entry should be shown as "Financing Fixed Assets". When that balance is amortised to the AMRA to offset depreciation is should be recorded as "Net (Deficit) /Surplus for year - appropriation to / from revenue"</p>	<p>Consider amending the "Net (Deficit)/Surplus for year - appropriation to / from revenue" to 0 and "Financing Fixed Assets" to £108.</p>	<p>Agreed</p>

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