

Audit of Financial Statements Report and Management Letter

North Wales Fire Authority

Audit year: 2014-15

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This audit was delivered by KPMG LLP on behalf of the Appointed Auditor. The audit team comprised Virginia Stevens (Financial Audit Engagement Lead), Katherine Spooner (Financial Audit Manager) and Rob Andrews (Auditor).

Contents

This document summarises the conclusions on the 2014-15 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Recommendations arising from our 2014-15 audit work	7
Independence and objectivity	7

Appendices

Final Letter of Representation	8
Proposed audit report of the Auditor General to North Wales Fire Authority	11
Recommendations arising from our 2014-15 audit work	13

Summary report

Introduction

1. The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of North Wales Fire Authority (“the Authority”), for 2015, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
2. The Auditor General’s responsibilities were set out in our audit plan along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. We confirm we have undertaken the audit as planned and our performance against the agreed measures and the proposed fee is in line with our planning document. We have no other issues to report to you other than in this report.
4. We are particularly grateful to North Wales Fire Authority and staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.
5. 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 North Wales Fire Authority at 31 March 2015 and its income and expenditure for the year then ended.
6. 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.
7. The quantitative levels at which we judge such misstatements to be material for North Wales Fire Authority are £315,000 for income and expenditure items and working capital balances, and £315,000 for other balances. 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.

Status of the audit

8. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015, zero days prior to the agreed deadline of 30 June 2015, and have now substantially completed the audit work.
9. 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 Dawn Docx (Deputy Chief Fire Officer) and Sandra Forrest (Principal Accountant).

Proposed audit report

10. 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](#).
11. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

12. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

13. There are no corrected misstatements which we consider should be drawn to your attention, there were a number of presentational and numerical changes to the financial statements, none of which had an impact on the Comprehensive Income and Expenditure Statement and Balance Sheet.

Other significant issues arising from the audit

14. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, there is a need to consider the frequency of the Council's valuation of its property portfolio to ensure that the processes followed ensure, and can demonstrate, that the carrying value of assets is not materially different to fair value (see recommendation in [Appendix 3](#) for further detail).
 - **We did not encounter any significant difficulties during the audit.**

We received information in a timely and helpful manner and were not restricted in our work.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**

Key financial statement audit risk	Findings
Management override of controls	<ul style="list-style-type: none"> • We used a risk based approach to select journals made throughout the year and tested these back to supporting documentation. • We reviewed accounting estimates including provisions and depreciation to assess if there were any management biases. • We did not identify any significant transactions which were outside of the normal course of business.
Valuation of the Fire fighter Pensions Scheme and the Local Government Pension Scheme, of which North Wales Fire Authority is a member	<ul style="list-style-type: none"> • We have reviewed the information provided by the pension scheme actuary and confirmed that the Statement of Accounts appropriately reflected this information. • We reviewed the data provided by the Authority to the actuary to confirm its accuracy. • We liaised with the Appointed Auditor for the pension scheme to gain assurance over the data and process undertaken by the scheme on the Council's behalf. • We concluded that the pension liability was fairly stated at the year-end with no adjustments proposed to the balance.

- **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 material weaknesses in your internal controls that we have not reported to you already.**

We report any significant control deficiencies where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment, in [Appendix 3](#).

- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2014-15 audit work

15. The recommendation arising from our audit work is set in [Appendix 3](#). 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 years report.

Independence and objectivity

16. As part of the finalisation process, we are required to provide you with representations concerning our independence.
17. 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, KPMG LLP and North Wales Fire Authority that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff Bay
CF10 4AX

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

30 September 2015

Representations regarding the 2014/15 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of North Wales Fire Authority and the Fire Fighters Pension Fund for the year ended 31 March 2015 for the purpose of expressing an opinion on their truth and fairness.

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 Code of Practice on Local Authority Accounting in the United Kingdom 2014/15; in particular the financial statements give a true and fair view in accordance therewith.
- 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 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. There are no uncorrected audit misstatements.

Representations by North Wales Fire 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 21 September 2015.

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:

Chair of the Authority

Date:

Signed by:

Treasurer to the Authority

Date:

Appendix 2

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

I have audited the accounting statements and related notes of:

- North Wales Fire Authority; and
- Fire Fighters Pension Fund

for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

North Wales Fire Authority's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 7 the responsible financial officer is responsible for the preparation of the statement of accounts, including of the Fire Fighter's Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to North Wales Fire Authority and the Fire Fighters Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of North Wales Fire Authority

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of North Wales Fire Authority as at 31 March 2015 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

Opinion on the accounting statements of Fire Fighter's Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Fire Fighters Pension Fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword is consistent with the accounting statements and related notes.

Matters on which I report by exception

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 accounting 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;
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of North Wales Fire Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of

Anthony Barrett

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

30 September 2015

Appendix 3

Recommendations arising from our 2014-15 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:

Matter arising 1 – Review of property plant and equipment valuation policy

Findings	<p>The accounting policies state that the latest full property revaluation was carried out by Wilks Head and Eve on 1 April 2009. A number of properties were revalued on 1 April 2012 due to works undertaken on these properties and these were part of the policy introduced by the Authority to value their property on a rolling basis rather than carry out a full valuation every five years. One property was revalued in 2014-15 due to minor works undertaken on the property. To comply with the Code of Practice the valuer estimated residual lives for all the Authority's buildings so that a charge for depreciation could be calculated. Other assets are recognised at historic cost which is a proxy for current cost on short life assets and depreciated over their useful lives.</p> <p>Per the Code of Practice it is stated that items within a class of property, plant and equipment should be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. Although, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations should be carried out at intervals of no more than five years.</p>
Priority	Medium
Recommendation	The Authority should review the current revaluation policy to ensure the approach to valuation of property, plant and equipment is consistent with the requirements of the Code. The Authority should assure themselves that the policy adopted ensures assets are revalued with sufficient regularity to capture material changes in asset valuation, with the balance recognised in the financial statements being an accurate reflection of the fair value as at the year end date.
Benefits of implementing the recommendation	Regular review of the valuation of property plant and equipment will provide assurance that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

Matter arising 1 – Review of property plant and equipment valuation policy

<i>Accepted in full by management</i>	Not all properties in the portfolio have been revalued within the 5 year timescale and the Policy agreed by the Authority to value property on a rolling basis has worked where there has been a new build or refurbishment on a property but has not captured those properties where there have been no major works within the period.
<i>Management response</i>	It is proposed that the policy is amended so that a full valuation is carried out every 5 years to ensure all properties are revalued in line with the Code of Practice. Any properties that are new builds or have had a major refurbishment will also be re-valued at the time the asset comes in to use by the Authority.
<i>Implementation date</i>	Amended Policy approved by Members in September 2015. Full revaluation undertaken as at 1 April 2016.

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