



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# South Wales Fire and Rescue Authority

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

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The Auditor General intends to issue an unqualified audit report on your 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 South Wales Fire and Rescue Authority (the Authority) at 31 March 2017 and its income and expenditure for the year then ended. The Auditor General is also responsible for providing an opinion on the Authority's Fire Fighters' Pension Fund financial statements (the Fire Fighters' Pension Fund).
- 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 financial statements being misled.
- 3 The quantitative levels at which we judge such misstatements to be material is £1.792 million for the Authority and £0.483 million for the Fire Fighters' 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; or figures that need to be precise such as the remuneration of senior officials. We are required to consider and report all misstatements identified during the audit other than those that are clearly trivial. The trivial limit is £90,000 for the Authority and £24,000 for the Fire Fighters' Pension Fund.
- 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 thus far from the audit of the 2016-17 financial statements of the Authority and the Fire Fighters' Pension Fund, which require reporting under ISA 260.

## Status of the audit

- 6 The Authority prepared the draft financial statements for the year ended 31 March 2017 in accordance with the statutory deadline of 30 June 2017 and we have now substantially completed the audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Treasurer.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

# Significant issues arising from the audit

## Uncorrected misstatements

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

- **The incorrect treatment of transactions relating to the Joint Public Service Centre**

The Authority is working with Mid and West Wales Fire and Rescue Authority and South Wales Police to deliver the Joint Public Service Centre project. The Authority has incurred cumulative costs of £336,000 on the project's new 'command and control' system. Mid and West Wales Fire and Rescue Authority has contributed £168,000 towards these costs, and the Authority has classified their share of the costs as an intangible asset. However, and as reported last year, there is no signed collaboration agreement in place. The only collaboration agreement with the two partner organisations is still only a 'working draft' that has gaps and inaccuracies and is therefore unsigned. This absence of an agreement again makes it difficult for us to determine the appropriate accounting treatment.

- **Debtors and creditors are overstated in relation to a cost relating to 2017-18**

The Authority has included an invoice for services relating to 2017-18 within creditors at the balance sheet date. Given that the expenditure relates to a future accounting period, with the invoice remaining outstanding at the balance sheet date, the Authority should have reduced the creditor balance to nil. However, the Authority has set up a corresponding entry within debtor prepayments. Both debtor and creditor balances are therefore overstated by £128,000.

- **Pension liabilities are understated by £1,568,000 as the Actuary has accounted for pension payments relating to April 2017 in his estimate of the liabilities as at 31 March 2017**

In the Fire Fighters Pension Fund, it has been identified that the benefits payable accounted for in the 2016-17 accounts actually related to 1 May 2016 to 30 April 2017 instead of 1 April 2016 to 31 March 2017, as is required under the Code of Practice.

Whilst the material transactions relating to the correction of this mistreatment have been adjusted in the accounts, the impact on the IAS19 pension disclosures have not been corrected.

As the Actuary did not appreciate that the financial data he was using included benefits paid in relation to April 2017, the total pension liability will have been understated by this amount.

- **Fire fighter pension payments and contributions from members are understated by £136,000**

Some additional contributions from members have been incorrectly netted off expenditure in the Fire Fighter Pension Fund account.

## Corrected misstatements

- 11 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. These are set out with explanations in [Appendix 3](#).

## Other significant issues arising from the audit

- 12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the financial statements and report any significant issues arising to you. There were some issues arising in these areas this year:
- **We have some concerns about the qualitative aspects of your accounting practices and financial reporting.** Generally we found the information provided to be reliable. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased and fair. However, there is scope to improve the quality of the draft financial statements presented for audit. There is also scope to improve the audit trail and supporting documentation in some important areas. Our detailed findings and recommendations will be reported to you in the autumn. The more significant matters arising are as follows:
    - Overall, the financial statements provided for audit included many simple errors that should have been avoided. They included totals that did not cast, inconsistencies within the financial statements, incorrect note references, comparatives incorrectly headed up as restated and various typographical errors. These errors should have been picked up from a robust review of the financial statements by management.
    - Although improvements have been made since last year, some accounting practices and disclosures did not comply with the Code of Practice and other relevant guidance.
    - Our sample testing identified an issue with documentation available to support pension payments to members who transferred into the Fire Fighters' Pension Fund scheme from South Glamorgan County Council (on local government reorganisation in 1996). For one pension paid to a fire fighter's widow, no supporting records were

available. For another pension paid to a retired fire fighter, an unsigned note was available in a paper file but the origin and date of this note was not recorded on the file. Our audit work established that these two cases do not represent a material error in the financial statements.

- Last year we reported concerns that a large number of manual adjustments had been made outside of the Authority’s ledger and trial balance, with no analysis and explanation of them. Improvements have been made in the current year with adjustments processed in the ledger. However, we experienced difficulties in agreeing the Authority’s financial statements to the trial balance due to the audit trail being, in our view, unnecessarily complex and unclear.
  - Pension Fund transactions and disclosures recorded in the Authority’s financial statements did not strictly comply with the Code of Practice.
  - There is scope to streamline the information reported in the financial statement, to ensure it is relevant and material.
- **Other than those matters highlighted above, we did not encounter any significant difficulties during the audit.** Elements of engagement with the audit team require strengthening going forward. This is particularly important with early closing and the requirement for the 2018-19 financial statements to be certified by 31 July 2019.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **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**
  - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our financial audit work

- 13 We raised a number of important issues in our Audit of Financial Statements report for 2015-16, with 24 recommendations for improvement, all of which were accepted by officers. The Authority has made good progress in implementing the recommendations, but further work is required in some key areas, relating to the quality of the draft financial statements, audit trails and supporting documentation.
- 14 We will issue a separate report soon, setting out some of our detailed findings and the associated recommendations. This will include a summary of the progress made by the Authority in implementing the 2015-16 recommendations.

## Independence and objectivity

- 15 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 16 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

[Audited body's letterhead]

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

[Date]

### Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of South Wales Fire and Rescue Authority and the Fire Fighters' Pension Fund for the year ended 31 March 2017 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.
- 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 / or the Fire Fighters' Pension Fund 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. A summary of these items is set out below:

- The incorrect treatment of transactions relating to the Joint Public Service Centre (£168,000): In the ongoing absence of a more detailed collaborative agreement, South Wales Fire & Rescue Service is content with the accounting treatment of initial costs incurred in support of the new command and control system. As last year, the accounting treatment of costs incurred in this area will be considered in conjunction with the final draft of the collaborative agreement.
- Debtors and creditors are overstated in relation to a cost relating to 2017-18 (£128,000): South Wales Fire & Rescue Service consider the low value of this misstatement and the work involved in correcting this entry outweigh the impact on stakeholders.
- The pension fund liability is understated by £1,568,000, matched by a mis-statement in the pension reserve: South Wales Fire & Rescue Service consider this misstatement and the work involved in correcting this entry outweigh the impact on stakeholders. This will be taken forward in discussion with the actuary in 2017-18.
- Fire fighter pension payments and contributions from members are understated by £136,000: South Wales Fire & Rescue Service consider the low value of this misstatement and the work involved in correcting this entry outweigh the impact on stakeholders.

The comparative information in the South Wales Fire and Rescue Authority financial statements and the Fire Fighter Pension Fund financial statements has been restated to correct a material error in prior periods. Pension payments due to retired fire fighters are paid on the first day of each month in advance. However, pension payments due to pensioners for the month of April have historically been treated as March costs. Transactions and balances have therefore been restated to ensure that income and expenditure is recorded in the correct accounting period, and that year-end balances are accurate and complete. Further information is provided in Note 5 to the financial statements and the notes to the Fire Fighter Pension Fund account. We confirm that the restated transactions and balances are accurate and complete. No other prior year adjustments have been made in the financial statements and no other prior year adjustments are required.

## Representations by the South Wales Fire and Rescue Authority

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial

statements were approved by the South Wales Fire and Rescue Authority on 25 September 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Chris Barton

Treasurer

Date:

Signed by:

Councillor Tudor Davies

Chair

Date:

# Appendix 2

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

I have audited the accounting statements and related notes of:

- South Wales Fire and Rescue Authority; and
- Fire Fighters' Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

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

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 2016-17 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 12, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Fire Fighters' 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 the South Wales Fire and Rescue 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 Narrative Report, Annual Governance Statement and Sustainability Report 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 South Wales Fire and Rescue Authority**

In my opinion the accounting statements and related notes (including the Expenditure and Funding Analysis):

- give a true and fair view of the financial position of South Wales Fire and Rescue Authority as at 31 March 2017 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 2016-17.

### **Opinion on the accounting statements of Fire Fighters' 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 2017 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 2016-17.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report, Annual Governance Statement and Sustainability Report are 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 Annual Governance Statement does not reflect compliance with guidance.

**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.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
27 September 2017

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Summary of corrections made to the draft financial statements which should be drawn to the attention of the South Wales Fire and Rescue Authority

During our audit we identified the following non-trivial misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£850,000	Difference between historical cost depreciation and fair value depreciation classified as 'Other comprehensive expenditure' rather than within 'Cost of services'	To correctly disclose the full depreciation charge
£101,000 £162,000 (2015-16)	Movement relating to the PFI Equalisation Earmarked Reserve have been treated incorrectly in the Movement in Reserves Statement	To correctly disclose the movements and ensure consistency with the Expenditure and Funding Analysis
£582,000	Reclassification of elements of Property, Plant and Equipment as Intangibles accounted for as a reclassification in 2015-16 rather than 2016-17	To correctly account for the reclassification in the 2016-17 financial statements
£1,531,000 (2015-16)	Fire Authority debtor and creditor balances include fire fighter pension costs relating to the incorrect financial year	To correctly include fire fighter pension costs for the period from April to March, rather than the period from May to April.
£4,000,000	Movement in cash equivalents incorrectly accounted for as Investing Activities in the Cash Flow Statement Cash equivalent incorrectly disclosed as an Investment in the Financial Instruments disclosure	To correctly account for cash equivalents, and ensure consistency of treatment within the financial statements
£500,000 (£4,863,000 – 2015-16)	Fire Fighter Pension Fund past service costs omitted from the 'Adjustments between accounting basis and funding basis under regulations' analysis (no overall impact on total adjustment)	To correctly account for all pension costs
£328,000	Training expenditure incorrectly classified as Supplies and Services expenditure in Note 8, Expenditure and Income analysed by nature	To correctly classify expenditure
£621,000	Gross book value and Accumulated Depreciation of Vehicles and Equipment included amounts for assets that had been disposed of in previous years	To correctly disclose the gross book value and accumulated depreciation for assets in existence at the balance sheet date



£1,568,000 £1,531,000 (2015-16)	The top up grant debtor due from the Welsh Government and disclosed in the Fire Fighter Pension Fund Net Assets Statement included amounts due in respect of April 2017 pension costs (April 2016 for prior year)	To correctly account for the top up grant due to the Fire Fighter Pension Fund net assets statement at the year end
£1,568,000	Fire Fighter pensioners were paid in March 2017 for pension payments due in and relating to April 2017.	To correctly account for the payment in advance to pensioners in the Fire Fighter Pension Fund net assets statement at the year end
£546,000	Member contributions incorrectly classified as employer contributions in the Fire Fighter Pension Fund account	To correctly classify pension contributions
£36,000 £69,000 (2015-16)	Pension payments in the Fire Fighter Pension Fund account relate to the period from May to April rather than from April to March	To account for pension payments in the correct financial year
£1,000,000	Incorrect disclosure of the maturity profile of Invest to Save loans, due within 1 to 2 years and 2 to 5 years	To accurately disclose the maturity profile of Invest to Save loans
Remuneration disclosures	The remuneration totals disclosed for some senior officers were incorrect	To correctly disclose the remuneration of senior officers
Narrative report	There have been a number of changes to the narrative report to ensure consistency with the financial statements	To ensure consistency between the narrative report and the financial statements
Various amendments, presentation corrections and additional narrative	There have been a substantial number of minor amendments, presentational corrections and additional narrative to the financial statements and notes.	To ensure accurate disclosure and presentation, and to inform the reader

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