

Report to	<b>Executive Panel</b>
Date	<b>29 July 2019</b>
Lead Officer	<b>Ken Finch – Treasurer</b>
Contact Officer	<b>Ken Finch (01745 535286)</b>
Subject	<b>Audited Statement of Accounts and Annual Governance Statement 2018/19</b>

## **PURPOSE OF REPORT**

- 1 This report is to present to members the audited Statement of Accounts for 2018/19 including the Annual Governance Statement. This report also presents the findings of the Auditor General for Wales which confirms an unqualified audit opinion.
- 2 The Audit Committee has been tasked with ensuring effective scrutiny of finance reports and, based on its findings, make recommendations to the Executive Panel.

## **EXECUTIVE SUMMARY**

- 3 The draft accounts were submitted for audit on 31 May 2019. These confirmed net expenditure of £34.141m resulting in a contribution from reserves of £0.649m. The final audited position remains unchanged.
- 4 The Authority's Annual Governance Statement is set out in Appendix 2 and demonstrates compliance with the CIPFA/Solace Delivering Good Governance in Local Government Framework (2016).
- 5 The report issued by the Wales Audit Office on behalf of the Auditor General for Wales confirms an unqualified audit opinion.
- 6 In compliance with the Accounts and Audit (Wales) (Amendment) Regulations 2010, it is a requirement that the audited accounts and annual governance statement are approved by Members by 31 July 2019.

## **RECOMMENDATION**

- 7 Members are asked to:
  - (i) note the recommendations of the Audit Committee;
  - (ii) approve the audited outturn position and performance as detailed within the 2018/19 Statement of Accounts (Appendix 1);

- (iii) approve the governance arrangements and action plan as outlined within the 2018/19 Annual Governance Statement (Appendix 2);
- (iv) note the report of the Auditor General for Wales which confirms an unqualified audit opinion (Appendix 3).

## **OBSERVATIONS FROM AUDIT COMMITTEE**

- 8 The 2018/19 Statement of Accounts and the Annual Governance Statement were considered by the Audit Committee at its meeting of the 29 July 2019. A verbal update will be provided by the Chair of the Audit Committee at the meeting.

## **BACKGROUND**

- 9 In compliance with the Accounts and Audit (Wales) (Amendment) Regulations 2010, the Authority has produced a statement of accounts and governance statement which have been subject to external audit.

## **INFORMATION**

### **REVENUE EXPENDITURE**

- 10 Members of the Authority were presented with a financial performance report for 2018/19 at the Fire and Rescue Authority meeting on 17 June 2019. This confirmed the draft out-turn position of net expenditure of £34.141m, resulting in an in year contribution from general reserves of £0.649m. The final audited position remains unchanged.

### **BALANCE SHEET**

- 11 The Balance Sheet provides further information on the Authority's long term financial position and is contained on page 16 of the Accounts (set out in Appendix 1). The following paragraphs provide further information.

#### **Fixed assets**

- 12 The Authority held assets of £48.8m as at 31 March 2019 which included in year additions of £1.9m. The value of borrowing as at 31 March 2019 was £32.6m which is in line with the limits set by the Authority.

## **Pension Liabilities**

- 13 The Authority is required to account for the estimated liabilities relating to its pension schemes. The Authority has two schemes; the Firefighters' Pension Scheme and the Local Government Pension Scheme. The value of future liabilities is calculated by the actuary for each scheme.
- 14 The Pensions Act 2013 introduced changes to the public sector pension arrangements. The key change related to the way in which employees accrued their pension entitlement. Historically this had been calculated using their final salary at retirement and the changes required adoption of a career average salary. Transitional arrangements were put in place nationally for each pension scheme with the aim of providing protection to those closest to retirement.
- 15 The Fire Brigades Union (FBU) raised a legal challenge to the transitional arrangements which was heard by the Court of Appeal during November 2018. The Court of Appeal found that the UK Government had indirectly discriminated in applying the age related transitional arrangements. The UK Government sought leave to appeal this judgment and on 27<sup>th</sup> June 2019 this was refused and the matter will now revert to an Employment Tribunal for remedy.
- 16 Whilst the outcome of the Employment Tribunal is not known the UK Government considers that this will result in increased liabilities for all public sector pension schemes. The Government Actuary's Department (GAD) has undertaken modelling to assess the potential impact.
- 17 In light of the UK Government losing its application to appeal it was necessary to increase the liabilities of the pension fund from those included in the draft accounts. Consequently an increase of £12.883m was made which resulted in year-end liabilities of £332.209m.

## **Usable reserves**

- 18 The Authority's reserves as at 31<sup>st</sup> March 2019 were £2.145m which included £1.375m of general fund reserves and £0.77m of earmarked reserves.

## **ANNUAL GOVERNANCE STATEMENT**

- 19 Since 2010/11 all local government bodies have been required to prepare an Annual Governance Statement which is published as part of the Statutory Accounts.

- 20 The Annual Government Statement has been prepared in accordance with the seven principles set out in the guidance document *Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE 2016)*.
- 21 The Annual Governance Statement for 2018/19 is set out in Appendix 2. It provides an overview of the governance arrangements and confirms the work plan for 2019/20.
- 22 The Annual Governance Statement is reviewed by the Wales Audit Office to confirm that it is consistent with its knowledge of the Authority and no issues were noted.

## **AUDIT OF THE FINANCIAL STATEMENTS**

- 23 The Auditor General for Wales is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial performance and position of the Authority for the year ended 31 March 2019.
- 24 In performing the audit work, the Wales Audit Office does not seek to provide absolute assurance but considers whether there are any material issues which may result in a reader of the accounts being misled. When an error or misstatement is identified the Wales Audit Office will consider whether an amendment is required. Guidance on the approach is set out in Appendix 4.
- 25 The Auditor General for Wales proposes to issue an unqualified audit opinion which means that the accounts present a true and fair view of the financial transactions of the Authority. The report is contained within Appendix 3 and the following is noted:
- The audit report recognised that significant improvements had been made in relation to the quality of the financial statements and associated working papers. The report identifies further areas for improvements and actions have been agreed.
  - The audit identified a number of amendments which were agreed with management. The amendments did not impact on the Authority's reported position and included a number of adjustments necessary to fully comply with the Code of Practice on Local Authority Accounting.
  - The audit identified one error which remained uncorrected. This related to the way in which the tax due on lump sum payments had been accounted for within the Pension Fund Account. Management assurance has been provided that these amounts will be paid to HMRC when they become due and are not material to the opinion.

## IMPLICATIONS

<b>Wellbeing Objectives</b>	This report links to NWFRA's long-term well-being objectives. Funding for the Service benefits the communities of North Wales and ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
<b>Budget</b>	Budget is set annually in accordance with the proposed service delivery which includes emergency response and prevention work.
<b>Legal</b>	It is a legal requirement that the Authority produces the Statement of Accounts and Annual Governance Statement in accordance with the prescribed standards.
<b>Staffing</b>	None
<b>Equalities/Human Rights/Welsh Language</b>	None
<b>Risks</b>	Income and expenditure is closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members.