



COMBINED FIRE AUTHORITY

19 MARCH 2019

SUBSIDIARY COMPANIES AUDIT EXEMPTION AND FINANCIAL GUARANTEE

REPORT OF TREASURER

Purpose of Report

1. The purpose of this report is to:
 - a) Notify members of a change to the Authority's accounting and audit arrangements to include group financial statements incorporating the subsidiary companies Vital Fire Solutions Limited (VFS) and County Durham and Darlington Fire and Rescue Community Interest Company (CIC).
 - b) Seek members approval for the provision of parent undertaking guarantees for both VFS and the CIC.

Background

2. Currently the accounts of VFS and the CIC are subject to separate audits which are undertaken by Mazars on an annual basis. Following discussions with Mazars around the amount of audit input and the associated fees it was suggested that this could be reduced if the Authority decided to produce group financial statements. This would eliminate the requirement for separate audits of the accounts of VFS and the CIC if the Authority agreed to provide a financial guarantee on behalf of the two companies.

Group Financial Statements

3. It is proposed that the Authority produces group financial statements which consolidate the accounts of VFS and the CIC with those of the Fire Authority on an annual basis commencing with the 2018/19 financial year. Whilst this will involve an element of additional work for the finance team this will be more than offset by the time saved in responding to audit queries and the financial saving resulting from the reduction in audit activity.

Audit Arrangements

4. Mazars will be responsible for the audit of the group financial statements which will result in an increase of £1,475 in the Authority's 2018/19 audit fee to reflect the additional work. This will be offset by a saving of £5,800 in the audit fees for the two companies resulting in a net saving of £4,325.

Parent Undertaking Guarantee

5. In order to qualify for audit exemption for VFS and the CIC, in accordance with the requirements of the Companies Act 2006 Pt 16, Section 479C, the Authority is required to provide a declaration of guarantee to Companies House on an annual basis. The terms of the guarantee are as follows:
 - a) the Authority guarantees all outstanding liabilities to which the subsidiary company is subject at the end of the financial year to which the guarantee relates, until they are satisfied in full and
 - b) the guarantee is enforceable against the Authority by any person to whom the subsidiary company is liable in respect of those liabilities.
6. Previously the Authority has provided similar assurance to Mazars in relation to VFS and the CIC around its intention to provide ongoing financial support to the companies should the need arise albeit this was not a legally binding commitment.

Recommendations

7. Members are requested to:
 - (a) **note** the change to the Authority's accounting and audit arrangements to include group financial statements which consolidate the accounts of VFS and the CIC with those of the Fire Authority.
 - (b) **Delegate authority** to the Treasurer to provide parent undertaking guarantees for 2018/19 and subsequent years on behalf of VFS and the CIC to Companies House as set out in paragraph 5 above.