



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

2006/2007

September 2007

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Ref: 633A2007

Financial Accounts Memorandum

North Wales Fire Authority

The Appointed Auditor intends issuing an unqualified opinion on North Wales Fire Authority's accounts by the due date.

Contents

Summary and Recommendations	4
Detailed Report	
The Authority has established and maintains a sound control environment	6
The high-level controls maintained by the Authority can be relied upon for the preparation of the final accounts	7
The draft accounts were prepared to a high standard	8
Appendices	
Action Plan	10
Summary of non-trivial amendments	12

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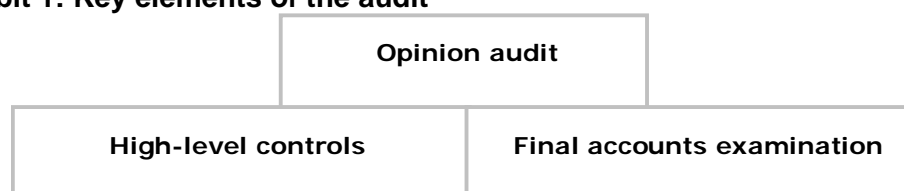
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Summary

1. Under the Wales Audit Office's Code of Audit and Inspection Practice, the Appointed Auditor has a responsibility to provide an opinion on whether the Financial Statements of North Wales Fire Authority (the Authority) present fairly the financial position of the Authority for the year.
2. Our Accounts Audit is undertaken in two stages to enable us to discharge this duty that includes:
 - a review of the high-level controls (or core processes) to ensure that they can be relied upon for the preparation of the final accounts; and
 - detailed testing of the figures and disclosures in the draft financial statements.

Exhibit 1: Key elements of the audit



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3. The prime objective of this audit is to obtain sufficient evidence to support an opinion that:
'...the accounting statements present fairly, in accordance with relevant legal and regulatory requirements, and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007, and its income and expenditure for the year then ended.'
 4. Our approach as required by the International Standards on Auditing (ISAs) is to:
 - obtain an understanding of the accounting and internal control systems sufficient to enable us to plan the audit and develop an effective audit approach;
 - evaluate and test the operation of key controls within the main accounting and budgetary control systems, and ensure that sound year-end closedown procedures are in place;
 - use our findings to inform our Risk Assessment for planning detailed work required in the audit of your 2006/2007 financial statements;
 - undertake a detailed Risk Analysis of the statements, using audit tools such as Analytical Review, with the aim of ensuring that our testing is targeted at areas of higher risk;
 - undertake detailed substantive audit work on the accounts tailored to reflect national and local issues; and

- report our findings to officers and the Executive Panel in order to summarise the findings of the audit and to highlight any scope for improving procedures for compiling future years' accounts.
5. Overall we concluded that the Authority has effective high-level internal controls which provide a sound basis for the preparation of the financial statements.
 6. The deadline for the submission of audited accounts was achieved. The draft accounts submitted to us in accordance with the requirements of the Accounts and Audit Regulations (Wales) 2005 by the due date of 30 June 2007 were of a high standard. It is the Appointed Auditor's intention to issue an unqualified certificate and report on the financial statements once the Authority has provided us with the Letter of Representation as set out in our 'Report to Those Charged with Governance'.
 7. Our Detailed Report sets out our findings arising from our Interim Audit including the high-level controls and the issues arising from our audit of the Financial Statements. We have made six recommendations as set out below.
 8. We also wish to extend our thanks to the Finance Team for their co-operation and support during the audit.

Recommendations

R1	Statements agreeing disputed invoices should be maintained by the Authority for audit purposes.
R2	System procedures notes should be developed for the Fixed Asset System.
R3	Stock control procedures should be issued to all individual fire stations.
R4	The Authority's Treasury Management Policy should be updated to reflect a requirement to maintain all investments in the name of the Authority.
R5	The Authority should resolve the adjusting debtor balance of £109 contained in the General Ledger.
R6	The Authority should ensure that returns identifying related parties should be obtained from all members prior to the completion of the draft Financial Statements.

The Authority has established and maintains a sound control environment

9. The financial statements, which comprise the published annual accounts, are an essential means by which the Authority accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. As referred to in our Audit Strategy 2006/2007, it is the Authority's responsibility to:
- put systems of internal control in place to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
10. An essential prerequisite to our Opinion Audit is to ensure that the right conditions have been set by the Authority in the discharge of these responsibilities. Our assessment shows that the Authority has established and maintains an effective control environment with good internal controls.

Exhibit 2: Assessment of the Authority's responsibilities

Key factors	Assessment
Organisational structure and assignment of authority and responsibility	Procedures and processes are well documented and are adhered to in practice, and officers' roles and responsibilities are clearly defined.
Effectiveness of the Authority's key financial systems	<p>We documented the key systems that have been identified for producing the financial statements to provide us with a clear understanding of the Authority's accounting and internal control systems. The key systems reviewed include payroll, creditors, debtors, fixed assets, stock and treasury management.</p> <p>Our review identified that appropriate controls have been established in most areas, but there remains scope to improve:</p> <ul style="list-style-type: none"> • creditors – statements supporting the agreement of disputed invoices are not maintained by the Authority to facilitate the audit of the financial statements; • fixed assets – system procedures notes have not been developed; and • stock – There are no stock control procedures in place at individual fire stations.

Key factors	Assessment
Effectiveness of the Audit Committee	The Executive Panel's terms of reference were revised in January 2007, to include those of an Audit Committee. The Executive Panel is in its infancy as a steward of the Authority's internal controls. We will continue to work with the Executive Panel and monitor its progress over the coming year.
Effectiveness of Internal Audit	Overall arrangements for Internal Audit are fully compliant with seven of the 10 Internal Audit standards, but work is still ongoing to develop its arrangements further including the development of an Audit Strategy for 2007/2008 in accordance with the requirements of the Chartered Institute of Public Finance Accountant's (CIPFA) standards.

R1	Statements agreeing disputed invoices should be maintained by the Authority for audit purposes.
R2	System procedures notes should be developed for the Fixed Asset System.
R3	Stock control procedures should be issued to all individual fire stations.

The high-level controls maintained by the Authority can be relied upon for the preparation of the final accounts

Controls within the Main Accounting System are operating as intended and this forms a reliable basis for preparing the financial statements

- The Main Accounting System is being operated as intended. It forms a reliable basis for preparing the financial statements. Review of suspense account balances and journal transfers either side of the year-end provided assurances that they were recorded in the correct period.

High-level controls within the Budgetary Control System are operating effectively

- The high-level controls established by the Authority are operating effectively. The controls should enable the Authority to detect any significant divergence from the Financial Plan.

The Authority's delivered its draft accounts in accordance with its early closure timetable

- The Authority has adequate arrangements and a good track record of producing its accounts in accordance with the early closure timetable. A review of the guidance issued to staff provides assurances that the Authority's closedown process is sufficiently comprehensive.

The draft accounts were prepared to a high standard

14. The draft accounts submitted to us in accordance with the requirements of the Accounts and Audit Regulations (Wales) 2005 by the due date of 30 June 2007 were of a high standard. The Authority's working papers in support of the Financial Statements were comprehensive and were produced to a good standard. The Authority also made good use of cross-referencing between the accounts and the supporting working papers.
15. The Authority's draft accounts were prepared, in all significant respects, in accordance with the CIPFA/LASAAC joint committee's 'Code of Practice on Local Authority Accounting in United Kingdom 2006: A Statement of Recommended Practice'. This was achieved despite fundamental changes to the requirements of the 2006 Statement of Recommended Practice, which included the disclosure of an Income and Expenditure Account, A Statement of Movement on the General Fund Balance and the Statement of Recognised Gains and Losses.

An Authority investment was held in Conwy County Borough Council's name

16. Review of Note 23 'Investments' revealed that one Authority investment was held in Conwy County Borough Council's (the Council) name. This is in accordance with the Authority's Treasury Management Policy which specifies that 'due to the relatively small amounts of surplus cash held by the Authority some investments are invested under the name of the Council for simplicity and detailed records of the investments are maintained by the Treasury Management staff'.
17. Whilst the Council maintains a clear audit trail to vouch and verify all investments held on behalf of the Authority, all investments should be held in the name of the Authority.

R4 The Authority's Treasury Management Policy should be updated to reflect a requirement to maintain all investments in the name of the Authority.

The General Ledger includes an adjusting debtor balance of £109

18. Review of debtor balances contained in Note 21 'Debtors' revealed an adjusting balance of £109. This is an historical balancing item which is offset with a corresponding balance in the Council's General Ledger.

R5 The Authority should resolve the adjusting debtor balance of £109 contained in the General Ledger.

Six members failed to complete related party returns

19. Review of the process in place to identify all transactions with 'related parties', in accordance with the requirements of Financial Reporting Standard (FRS) 8 revealed that returns from six members of the Authority remained outstanding at the time of audit.

R6 The Authority should ensure that returns identifying related parties should be obtained from all members prior to the completion of the draft Financial Statements.

Appendix 1

Action Plan


Page	Issue	Recommendation	Intended outcome/benefit	Agreed	Responsibility and actions	Date
7	Statements supporting the agreement of disputed invoices are not maintained by the Authority to facilitate the audit of the Financial Statements.	R1 Statements agreeing disputed invoices should be maintained by the Authority for audit purposes.	Improved financial control.	Yes	The Finance Manager will keep a more detailed record of disputed invoices.	30 September 2007
7	System procedures notes have not been developed.	R2 System procedures notes should be developed for the Fixed Asset System.	Improved financial control.	Yes	The principal accounts will produce procedure notes.	31 October 2007
7	There are no stock control procedures in place at individual fire stations.	R3 Stock control procedures should be issued to all individual fire stations.	Improved stock control.	No	Very small amounts of stock are held at fire stations and the cost of implementing stock control procedures outweighs the inherent risk involved.	-
8	An Authority investment was held in the Council's name which is in accordance with the Authority's Treasury Management.	R4 The Authority's Treasury Management Policy should be updated to reflect a requirement to maintain all investments in the name of the Authority.	Improved financial control.	No	Some investments are made under the name of the Council for practical purposes due to the small amounts the Authority has to invest. This ensures that the Authority maximises the return on their investments. There is no risk to the Authority as all the risk lies with the Council.	-

Page	Issue	Recommendation	Intended outcome/benefit	Agreed	Responsibility and actions	Date
8	The General Ledger contains an adjusting debtor balance of £109 which offset with a corresponding balance in the Council's General Ledger	R5 The Authority should resolve the adjusting debtor balance of £109 contained in the General Ledger.	Maintain the accuracy of the General Ledger.	Yes	Further investigation will be undertaken and an adjusting entry made to resolve the imbalance.	31 October 2007
9	Six member returns to support the 'Related Parties Disclosure' note remained outstanding at the time of audit.	R6 The Authority should ensure that returns identifying related parties should be obtained from all members prior to the completion of the draft Financial Statements.	Support related party disclosures contained in the financial statements.	Yes	Reminders have been sent out to members but a further reminder will be issued to those members who have not yet submitted a return.	30 September 2007

Appendix 2

Summary of non-trivial amendments

Nature of correction	Reason for correction
<p>Note 7 'External Audit Fees' was amended from £55,857 to £51,192. Fees payable under Section 16 of the Public Audit Wales Act 2004 was amended from £32,478 to £41,452. Fees payable in respect of statutory inspection under Section 10 of the Local Government Act 1999 was amended from £23,379 to £9,740.</p>	<p>'External audit fees' was misstated in the draft financial statements. This amendment had no effect on any other disclosures in the accounts.</p>
<p>Sundry creditors included in Note 22 'Creditors' was amended from £1,065,000 to £886,000.</p>	<p>Receipts in advance disclosed within the Sundry creditors balance was misstated in the draft Financial Statements. A corresponding entry was included with the debtors balance disclosed in Note 21. This amendment had no effect on any other disclosures in the accounts.</p>
<p>'Net Pension Deficit' disclosed in Note 24 'Assessment of pension liabilities for FRS 17 disclosures' was amended from £169,094,000 to £171,268,000.</p>	<p>The 'Estimated liabilities in the Firefighters' Pension Scheme' and the 'Share of assets in the Clwyd Pension Fund' were misstated in the draft Financial Statements as the amounts did not correspond to notification from actuaries. The 'Pension Liability' and 'Pension Reserve' disclosed in the Balance Sheet were amended to reflect the adjustment. This amendment had no effect on any other disclosures in the accounts.</p>
<p>'Contribution to/(from) various provisions' disclosed in Note 25 Cash flow – Reconciliation to Income and Expenditure Account was amended from £503,000 to £533,000 with a corresponding adjustment in Note 25 to Government Grants Deferred which was amended from £0 to £30,000.</p>	<p>Contribution from provisions in the 'Cash Flow Statement' was misstated in the draft Financial Statements. This amendment had no effect on any other disclosures in the accounts.</p>



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