

# AWDURDOD TÂN AC ACHUB GOGLEDD CYMRU



## NORTH WALES FIRE AND RESCUE AUTHORITY

The **AUDIT COMMITTEE** meeting will be held **MONDAY 26 JANUARY 2015** at the Fire and Rescue Headquarters, St Asaph at 2pm.

Yours faithfully

Colin Everett  
Clerk

### AGENDA

**1. Apologies**

**2. Declarations of Interests**

**3. Notice of Urgent Matters**

Notice of items which, in the opinion of the Chairman, should be considered at the meeting as a matter of urgency pursuant to Section 100B (4) of the Local Government Act, 1972.

**4. Minutes of the meeting held on 15 September 2014**

**5. Matters arising**

**6. Prudential Indicators, TM Strategy, Investment Strategy and Minimum Revenue Provision Policy**

**7. Internal Audit Strategy**

**8. Annual Audit Letter**

**9. Re-Employment Policy and Practice (presentation)**

**10. Urgent Matters**

To consider any items which the Chairman has decided are urgent (pursuant to Section 100B (4) of the Local Government Act, 1972) and of which substance has been declared under item 3 above.

### **PART II**

It is recommended pursuant to Section 100A (4) of the Local Government Act, 1972 that the Press and Public be excluded from the meeting during consideration of the following item(s) of business because it is likely that there would be disclosed to them exempt information as defined in Paragraph(s) 12 to 18 of Part 4 of Schedule 12A of the Local Government Act 1972.

None.



## **AGENDA ITEM: 6**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**26 January 2015**

#### **Prudential Indicators, Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision Policy**

**Report by Ken Finch, Treasurer**

#### **PURPOSE OF REPORT**

- 1 To present to Members the Prudential Indicators, Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision (MRP) Policy for 2015/16.
- 2 The Audit Committee has been tasked with ensuring effective scrutiny of the treasury management strategy and policies and based on their findings make recommendations to the Fire Authority.

#### **INTRODUCTION**

- 3 The draft budget for 2015/16 was presented to Members for approval on 15 December 2014 and the Prudential Indicators and Treasury Management Strategy have been prepared using the relevant data contained in the revenue and capital budgets approved by Members.
- 4 This report shows the Prudential Indicators for 2015/16 to 2017/18 and outlines the strategy to be followed regarding borrowing and investing the Authority's funds in the financial year 2015/16. The report also sets out proposals for the Authority's policy on MRP for 2015/16. The papers attached set out:-

- (i) a list of prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix A);
  - (ii) the Treasury Management Strategy outlining the strategy to be followed regarding short and long-term borrowing for 2015/16 in accordance with the CIPFA code of Practice on Treasury Management (Appendix B);
  - (iii) the strategy to be followed regarding the investment of Fire Authority funds (Appendix C);
  - (iv) Minimum Revenue Provision Statement (Appendix D).
- 5 The Committee should note that the strategies in the report have been prepared using guidance from the Treasury Management advisors, Arlingclose, used by Conwy County Borough Council who has the responsibility for the Fire Service Treasury function.

## **RECOMMENDATIONS**

- 6 The Audit Committee is recommended to approve each of the four key elements of these reports, and recommend these to the Fire Authority:
- (i) Prudential Indicators set out in appendix A;
  - (ii) Treasury Management Strategy for 2015/16 set out in appendix B;
  - (iii) Investment Strategy at appendix C;
  - (iv) the Minimum Revenue Provision Policy in appendix D.

## PRUDENTIAL INDICATORS AND CAPITAL INVESTMENT

### 1. INTRODUCTION

- 1.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2017/18. A revised code was issued in 2009 and this report complies with the new requirements, which have asked that this report be subject to greater scrutiny by those charged with governance - for the Fire Authority this is the Audit Committee.
- 1.2 The Capital Programme for 2015/16 was approved by the Fire Authority in December 2014 and these indicators support that programme. The Authority has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Audit Committee must approve, revise and monitor at least a basic range of Prudential Indicators for the forthcoming three years.

### 2. THE CAPITAL EXPENDITURE PLANS

- 2.1 The Authority's capital expenditure plans are summarised below and this forms the first of the prudential indicators to be approved by Members. All capital expenditure in the forward programme is currently unsupported and must be funded from the Authority's own resources.
- 2.2 However, the Government may decide to place limits on unsupported capital expenditure by introducing a long stop control on all Local Authorities plans or, in the event of an assessment by Central Government that local plans are unaffordable at a specific Authority, it may implement a local control to limit its capital expenditure plans. No such controls were implemented during 2014/15, and the situation for 2015/16 is unclear at the moment.

	2013/14 Actual £'000	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital expenditure	3,944	8,095	10,803	5,268	2,515
Financed by:					
Capital receipts	0	0	0	-500	0
Capital grants	0	0	0	0	0
Revenue	-543	-920	0	0	0
Net financing need for the year	3,401	7,175	10,803	4,768	2,515

### 3. The Authority's Borrowing Need (the Capital Financing Requirement)

3.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Members are asked to approve the CFR projections as below:

	2013/14 Actual £'000	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
<b>Capital Financing Requirement</b>					
Opening CFR	22,969	24,320	29,352	37,656	39,425
Closing CFR	24,320	29,352	37,656	39,425	38,868
Movement in CFR	1,351	5,032	8,304	1,769	-557

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	3,401	7,175	10,803	4,768	2,515
Less MRP/VRP	-2,050	-2,143	-2,499	-2,999	-3,072
Movement in CFR	1,351	5,032	8,304	1,769	-557

3.2 The Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

3.3 The expected impact of the capital expenditure decisions above on the Authority's debt and investment position are shown in the Treasury Strategy.

### 4. AFFORDABILITY PRUDENTIAL INDICATORS

4.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. Members are asked to approve the following indicators:

4.2 **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream. The estimates of financing costs include current commitments and the Capital Programme approved by members in December.

	2013/14 Actual %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Ratio	8.01	8.50	9.76	10.98	11.21

- 4.3 **Estimates of the incremental impact of capital investment decisions on the contributions from the Constituent Authorities** – This indicator identifies the revenue costs associated with the proposed three year capital programme recommended in the budget report.

	Proposed Budget 2015/16 £'000	Proposed Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Contribution Increase	135	1,038	1,654

## **Treasury Management Strategy for 2015/16 -2017/18**

### **1. Introduction**

- 1.1 The treasury management service is an important part of the overall financial management of the Authority's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Authority's overall capital framework. The treasury strategy considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.
- 1.2 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Authority adopted the CIPFA Code of Practice on Treasury Management and a Treasury Management Policy Statement on 15 December 2003. This adoption meets the requirements of the first of the Treasury Prudential Indicators. A revised policy was issued in 2011 which was approved by Members and this report is based on the new policy.
- 1.3 The Code requires an annual strategy to be reported to the Authority outlining the expected treasury activity for the forthcoming 3 years. A further mid-year monitoring report is produced and after the year-end a report on actual activity for the year.
- 1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. The strategy report will cover several areas as follows:
- (i) The Authority's debt and investment projections;
  - (ii) The Authority's estimates and limits on future debt levels;
  - (ii) The expected movement in interest rates;
  - (iii) The Authority's borrowing strategy;
  - (iv) The Authority's investment, counterparty and liquidity framework;
  - (vi) Treasury performance indicators.

### **2. DEBT AND INVESTMENT PROJECTIONS 2014/15 – 2017/18**

- 2.1 The current position as at 9 January 2015 is as follows:

Public Works Loan Board (PWLB)	- £16,445,032	Fixed Rate
Other Local Authorities	- £7,000,000	Fixed Rate

Investments - £3,580,000

2.2 The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

£'000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
<b>External Debt</b>				
Debt at 1 April	21,279	29,352	37,656	39,425
Movement in CFR	5,032	8,304	1,769	-557
Maturing Debt Replacement	8,000	9,000	7,000	11,000
Adjustment for prior years borrowing	0	0	0	0
Debt at 31 March	29,352	37,656	39,425	38,868
Annual change in debt	8,073	8,304	1,769	-557
<b>Investments</b>				
Total Investments at 31 March	2,000	2,000	1,500	1,000
Investment change	0	0	-500	-500

### 3. LIMITS TO BORROWING ACTIVITY

3.1 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

3.2 For the first of these the Authority needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Debt at 1 April	21,279	29,352	37,656	39,425
Expected Change in Debt	8,073	8,304	1,769	-557
Other Long Term Liabilities	0	0	0	0
Gross Debt at 31 March	29,352	37,656	39,425	38,868
CFR	29,352	37,656	39,425	38,868



- 3.3 The Treasurer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.
- 3.4 **The Authorised Limit** – this represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Fire Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.
- 3.5 **The Operational Boundary** – this indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached.
- 3.6 Members are asked to approve the following authorised limit and operational boundary:

	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Authorised Limit	31,352	39,656	41,425	40,868
Operational Boundary	29,352	37,656	39,425	38,868

#### 4. ECONOMIC BACKGROUND AND EXPECTED MOVEMENT IN INTEREST RATES

- 4.1 Interest rate movement can be linked to the economic activity of the major economies and to estimate the movement in rates economists will look at current conditions and estimate future economic growth to predict the changes in rates. Given the current conditions Arlingclose believes that the longer run trend is for PWLB rates to rise slowly and the bank rate to move up by 25 basis points by September this year. The advice from our Treasury Consultants is to delay borrowing activity as long as possible and use reserves and balances to temporarily fund loan debt. However, if there is a need to borrow any new debt should be for longer than 5 years due to the current maturity profile of the debt portfolio and the need to mitigate the risk of possible interest rate changes. A brief outline of the current economic outlook and the estimated movement in interest rates is discussed below.

- 4.2 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.
- 4.3 The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.
- 4.4 The prediction for the change in interest rates is shown in the table below:-

	<b>Base Rate</b>	<b>5-year Gilt</b>	<b>20-year Gilt</b>	<b>50-year Gilt</b>
2014/15	0.5%	1.7%	2.9%	3.0%
2015/16	1.0%	2.2%	3.2%	3.2%
2016/17	1.5%	2.6%	3.4%	3.4%
2017/18	1.7%	2.9%	3.5%	3.6%

## **5. BORROWING STRATEGY 2015/16**

- 5.1 Long-term fixed interest rates are at risk of being slightly higher over the medium term, and short term rates are expected to rise this year, though not by a great deal.
- 5.2 The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term. However, as detailed above (paragraph 4.1) Arlingclose have advised that any new borrowing should be for longer than 5 years due to the maturity structure of the current portfolio. The cost of new borrowing at a higher rate has been factored in to the budget for 2015/16.

- 5.3 The PWLB has structured its lending arrangements such that debt restructuring is difficult however with the likelihood of long term rates increasing any possible debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.
- 5.4 The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns. It should be appreciated that the Authority will have to borrow in the future to fund the capital programme.

## **6. INVESTMENT, COUNTERPARTY AND LIQUIDITY FRAMEWORK**

- 6.1 Regulatory changes in the banking sector increases the risks associated with treasury activity. These changes, as outlined in paragraph 4.3, will be fully implemented by July 2015. In light of the changes it is important that the portfolio of investments is diverse so as to spread the risk. As mentioned in paragraph 4.1 it would be prudent to use reserves and balances to temporarily fund loan debt so cash investments are kept to the minimum. It is not possible to entirely move away from investing as cash deposits to banks and building societies as some degree of liquidity is needed for cash flow purposes. It is prudent therefore to place any cash deposits short term and look at other vehicles for investing the Authority's surplus cash. To diversify the portfolio Repos (Reverse Repurchase Agreements) have been added to the list of counterparties. Repos will be discussed in more detail at the meeting.
- 6.2 The Treasurer will maintain a counterparty list in compliance with the following criteria:-

### **Banks £5m limit**

All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as

long term

BBB

### **Central Government £5m limit**

Debt management Office

### **Local Authorities £2m limit**

All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992.

### **Building Societies £2m limit**

Building societies with a rating (as for the banking sector).

### **Building Societies (Assets £1bn) -£2m /9mths limit**

Building societies without a rating but with assets of £1billion or more.

## **Reverse Repurchase Agreements - £1m limit per Repo**

Lending limit for a single institution

- 6.3 The criteria set out above for choosing counterparties provide a sound approach to investment and are designed to reduce the financial risks to the Authority of investing money on the money market. However, the criteria listed above is for general guidance, other factors are considered as to whether a counterparty is removed from the list for example a 'Negative Watch' or changes to an institutions balance sheet leverage. The Institutions on the Counterparty list are monitored closely by the Treasury Consultants and treasury staff will adjust activities at short notice to protect the Authority's position. The controls detailed in the framework are subject to change according to the market conditions. Currently investments are only made for a maximum of 6 months as advised by our Treasury Consultants, Arlingclose.

## **7. TREASURY PERFORMANCE INDICATORS**

- 7.1 There are three treasury prudential indicators the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.
- 7.2 It is recommended that the Authority sets upper and lower limits for the maturity structure of its fixed rate borrowings as follows:

	Upper Limit	Lower Limit
Under 12 Months	55%	0%
12 Months and within 24 Months	45%	0%
24 Months and within 5yrs	45%	0%
5 yrs and within 10 yrs	75%	0%
10 yrs and above	100%	0%

The upper limit for the short term borrowing position, under 12 months, remains at 55% to enable the Authority to take advantage of the low short term interest rates. The percentage of loans maturing in under 12 months is currently 35% due to the holding of £7m of short term loans with other Local Authorities. Any new borrowing will be over a longer term as advised by our Treasury Consultants in order to spread risk.

- 7.3 It is recommended that the Authority approve the following limits on Fixed and Variable interest rates.

	% Borrowing
Fixed Interest Rate	55 – 100
Variable Interest Rate	0 – 35

## **INVESTMENT STRATEGY**

### **1. CURRENT OUTLOOK**

- 1.1 **Key Objectives** - The Authority's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Regulatory changes to the banking sector may increase the risk to the Authority as outlined in paragraph 4.3 in appendix B.
- 1.2 Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.5% Base rate increasing to 0.75% by September 2016. The Authority's investment decisions are based on comparisons between the rises priced into market rates against the Authority's and advisers own forecasts.
- 1.3 There is a clear operational difficulty arising from the current market conditions. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparties and the regulatory changes suggests shorter dated would provide better security.
- 1.4 The money available for core investments is currently around £3m and arises from money held in reserves and the balance remaining from the pensions Top Up Grant.

### **2. NATIONAL ASSEMBLY FOR WALES INVESTMENT GUIDANCE**

- 2.1 The National Assembly for Wales issued Investment Guidance in March 2004, and this forms the structure of the Authority's policy below.
- 2.2 The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Authority to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 15 December 2003 and will apply its principles to all investment activity. In accordance with the Code the Treasurer has produced its treasury management practices, TMP 1(5), covering investment counterparty policy which requires approval each year.
- 2.3 Annual Investment Strategy - Approved Instruments

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- (i) The strategy guidelines for decision making on investments, particularly non-specified investments.

- (ii) The principles to be used to determine the maximum periods for which funds can be committed.
- (iii) Specified investments the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- (iv) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

2.4 The investment policy proposed for the Authority is:

- (i) Strategy Guidelines –  
The main strategy guidelines are outlined above with the emphasis on security and liquidity.
- (ii) Investment Periods –  
The Authority's policy is to lend funds for a maximum of 364 days.
- (iii) Specified Investments – These investments are sterling investments of not more than one-year maturity. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:
  - The Treasury Debt Management Office
  - Other Local Authorities (except rate capped)
  - All UK Banks and Building Societies with a high credit rating
- (iv) Non-Specified Investments –  
Non-specified investments are any other type of investment (i.e. not defined as Specified above). This includes Building Societies with no rating and lending for more than 364 days. The limit for "non-specified" investments had been set at £3m.

**Minimum Revenue Provision Statement**

**Background**

1. The Capital Financing Requirement (CFR) is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is essentially a measure of the Authority's underlying borrowing need. The Authority is required to pay off an element of the accumulated capital spend each year through a charge to the revenue account (the MRP) although it is also allowed to undertake additional voluntary payments.
2. Regulations have been issued which require the Fire Authority to approve an MRP statement in advance of each year.

**MRP Policy**

3. Members are recommended to approve the following MRP policy:

For capital expenditure incurred before 1 April 2015 and any subsequent expenditure the MRP policy will be to repay

- 4% of the outstanding balance of capital expenditure incurred on Land & Buildings
- and for Vehicles, Plant, Equipment and Infrastructure the MRP will be based on the estimated life of the assets.

4. The above policy is in line with the Regulations and also follows the practice operated by the Fire Authority for a number of years. The budget for 2015/16 approved by Members in December 2014 was set using the above practices.



## **AGENDA ITEM: 7**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**26 January 2015**

#### **INTERNAL AUDIT STRATEGY 2015 TO 2019**

**Report by Mike Halstead, Head of Audit and Procurement Services**

#### **STRATEGY STATEMENT**

1 The overall strategy of Internal Audit is:

**“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.”**

2 The terms of reference of Internal Audit are documented in the Service Level Agreement for the provision of financial services with Conwy County Borough Council for the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2019. The measures in place to deliver the specification and schedule of services contained in the SLA are expanded upon and set out below.

#### **STATUTORY BASIS FOR INTERNAL AUDIT**

3 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations (Wales) 2005 specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.



## **DEFINITION AND OBJECTIVE**

- 4 In compliance with the Public Sector Internal Audit Standards which came into force in April 2013, the Head of Internal Audit is required to develop and maintain a strategy for delivering the Internal Audit service. Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The control environment includes all authority operations, resources, services, and its responsibilities to other bodies.
- 5 The Accounts and Audit Regulations require the NWFRA to produce an Annual Governance Statement each year. The Head of Audit provides an annual report to those charged with governance to support the production of the Annual Governance Statement. This formal report includes an opinion on the overall adequacy and effectiveness of the risk management systems and the internal control environment; disclosure of any qualifications to that opinion together with reasons; a summary of the of the audit work upon which the opinion is based; the extent to which reliance upon the work of other assurance bodies has been placed; and any issues considered relevant to the preparation of the Annual Governance Statement.
- 6 Internal Audit operates in a consultancy role in advising managers in relation to issues within its remit, such as the implementation of appropriate controls in terms of new projects, developments and systems. The exact allocation of resources in respect of consultancy work is determined in the audit plan. Separate time allocations are allowed for consultancy activities, fraud related work and follow up audits.

## **STATUS**

- 7 Internal Audit is responsible to the Treasurer for line management purposes, and helps to discharge the statutory functions of the Chief Finance Officer as defined in Section 151 of the Local Government Act 1972. However Internal Audit is independent in its planning and operation.
  
- 8 The Head of Audit Services has direct access to the Chief Fire Officer, all levels of management and elected members. Internal Auditors have the authority to:
  - enter at all reasonable times any authority establishment.
  - have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary, for the purposes of audit review and/or investigations.
  - evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
  - request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
  - require any employee of the NWFRA to produce cash, materials or any other property belonging to the authority in their possession or under their control.
  - access records belonging to third parties, such as contractors or partners, when required and appropriate.

## **DELIVERY OF THE AUDIT SERVICE**

- 9 The Head of Audit Services is responsible for delivering the audit service in accordance with the Service Level Agreement. To ensure that this can be achieved, there are appropriate arrangements for:
  - determining and planning the work to be carried out based upon a Needs Assessment and a risk based planning process, an annual operational audit plan and monthly work plans. All plans are based on an assessment of risk.

- providing the resources required to deliver the audit plan, the necessary skills (both in general audit and technical areas) and support facilities, such as IT facilities, equipment and management and administration processes.
- 10 The Internal Audit service will be delivered on the basis of a Needs Assessment (**Appendix A**), a risk based approach to determining the needs of the Authority at the start of each year and detailed operational plans which will be presented to the Audit Committee on an annual basis for approval. The assessment sets out the number of days required for Internal Audit to adequately review the areas involved, and a risk assessment level for each planned audit assignment. The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks, including those identified through the Risk Management process and by the external auditor and the views of senior management on these issues. Where resources available are not considered by the Head of Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation through the Executive Panel.
- 11 The Plan balances the following requirements:
- the need to ensure the Audit Plan is completed to the target levels established by the section's performance indicators;
  - the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control on which External Audit will place reliance;
  - the need to appropriately review other strategic and operational arrangements;
  - the need to have uncommitted time available to deal with unplanned issues which may need to be reviewed or investigated;
  - the relative allocation of resources between assurance, fraud related and consultancy services provided by internal audit.

- 12 Progress against the operational plan and the content of the plan, will be kept under review by the Head of Audit Services in liaison with the Treasurer and through monitoring corporate and service developments. The Audit Committee will be advised of performance against the operational plan.
- 13 Internal Audit will comply with the Auditing Practices Boards Guidance for Internal Auditors as interpreted by CIPFA'S Code of Practice for Internal Audit in Local Government in the UK and all staff are expected to comply with any other appropriate professional standards. The Head of Audit Services will ensure that there is an up to date Audit Manual in place setting out expected standards for the service and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments.
- 14 Internal Audit implemented the CIPFA Audit Training Package in 2003 which was linked to the annual development and review process in respect of each staff member. CIPFA have recently updated this training package with the Excellent Auditor and this has been implemented for all staff since 2007/08. This training package is designed to ensure that relevant training is identified and provided to all auditors to enable them to acquire the level of skills necessary to undertake their roles. It supplements the authority's PDR scheme which is applied to all staff in the Internal Audit Section.
- 15 Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.
- 16 The reporting approach for Internal Audit is set out in the approved Service Level Agreement and Internal Audit will comply with this approach as the most efficient method of delivering the outcomes of its work.

- 17 In the delivery of each assignment Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management, such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

## **RECOMMENDATION**

- 18 The Internal Audit Strategy 2015–2019 be accepted by the Audit Committee.

**NORTH WALES FIRE AND RESCUE AUTHORITY**  
**Internal Audit Needs Assessment 2015/16**

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
<b>Risk Area – Strategic Management and Governance</b>						
1	Corporate Governance	Legal Compliance Arrangements; Policy and Decision Making; Scheme of Delegation; Codes of Conduct - Officers; Codes of Conduct - Members; Training and Awareness; Chief Officers Pay; Standing Orders and Financial Regulations; Anti-fraud and Whistle-blowing; Environmental Policy.	A			The Authority has established a Local Code of Governance, which is used as the standard to measure the Authority's performance against in a self-assessment carried out at the end of each year to form the Annual Governance Statement (AGS). KPMG confirmed that the Authority was up to date with new legislation and appropriate processes and procedures in place. <b>Corporate Governance Audit performed in 2013/14 – High Assurance</b>
2	Service Planning	Corporate Planning; IRMP; BVPP; Service Unit Plans; CPA Improvement Plan; Modernisation; Consultation; Risk Assessment; Resourcing and Financial Approval; Improvement Co-ordinating Unit	B			<b>WAO Performance Audit Work 2014/15</b> – Work to primarily focus on data quality work.

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment	2015/16 Days	Comments
3	Performance Management	Roles and Responsibilities; Target Setting; Data Collection; Data Quality Control; Reporting; Use of Management Information to support Service Improvement.	A		<b>WAO Performance Audit Work 2014/15</b> – Work to primarily focus on data quality work.
4	Risk Management, Emergency Planning and Business Continuity	Policy and Framework; Roles and Responsibilities; Training; Corporate Risk Register; Integration with Management Processes ; Monitoring and Assurance Mechanisms; Reporting; Emergency Planning; Risk Assessment; Business Continuity; Urban Search and Rescue; Compliance with CCA 2004; Working with Partner Agencies and Local Businesses; Resilience Forums; Mobile Conference Facilities;	A		<b>WAO Performance Audit Work 2014/15</b>  Corporate Governance Audit performed in 2013/14 included an assessment and recommendations with regard to risk management and Corporate Risk Register – <b>High Assurance.</b>
5	Equalities and Diversity	Compliance with Legislation; Policy, Practice and Procedure; Responsibilities; Awareness and Training; Performance Management.	C		

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
<b>Risk Area – Operational Service Delivery</b>						
6	Control Room Operations  Incident Response and management	Compliance with Key Risk Mitigation; Mobilisation Procedures; Incident Response Prioritisation; Monitoring and Measuring Performance; Staffing and Resources; Training; Incident Command System.	C			
7	Hoax Call Procedures	Policy and Procedure; Recording and Monitoring; Education; Communication.	C			
8	Community Fire Safety and Arson Task Force	Communication; Education; Resourcing Risk Profiling; Working with Business, LEAs, CYPT, YOT, other FRSs Sprinklers project; Smoke Alarms; Home Fire Safety Checks; Community Safety Events; Vehicle Recovery.	C			A review of Community Fire Safety's partnership working was undertaken during 2010/11. The Audit opinion was Adequate. Follow up audit performed July 2012 – revised audit opinion - Satisfactory.  <b>HFSC audit performed in 2014/15 – Audit Opinion - Satisfactory</b>
9	Inspection and Investigations	Compliance with Policy; Inspections Programme; Online assessments; Compliance with building control; Issue of licences/certificates; Income from inspections and Licences.	C			Income from inspections and licences covered as part of Income audit performed in 2013/14.



	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
10	Partnership Working	Partnership Governance; Risk Assessment; Crime and Disorder Reduction; Local Strategic Partnership; Local Area Agreements; LEAs and others.	B			<p>A review was undertaken during 2010/11 of the Authority's (CFS) partnership working evaluating the governance arrangements and the adequacy of the internal controls incorporated within each system, identifying any control weaknesses and areas of potential risk. <b>The Audit opinion was Adequate.</b></p> <p>Follow up audit performed July 2012 – revised audit opinion - Satisfactory.</p> <p><b>HFSC audit performed in 2014/15 – Audit Opinion - Satisfactory</b></p>
<b>Risk Area – People Management</b>						
11	Health and Safety	Compliance with Legislation; Policy, Practice, Procedure; Responsibilities Awareness and Training Performance Management Incident Monitoring and Reporting; Insurance (Public and Employers liability)	B			
12	Managing Attendance (uniformed and non uniformed)	Compliance with Policy; Reporting and recording absence; Performance Information.	C			<p>Special Investigation undertaken during 2011/12 of Time off in Lieu and other HR issues.</p> <p>Audit of <b>Sickness Absence</b> scheduled for 2015/16.</p>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
13	Staff Training and Development (uniformed and non uniformed)	Implementation of IPDS; Skills Assessment; Development Portfolios; Personal Development Reviews; Performance Appraisal; Training Facilities; Joint Training Schemes; Succession Planning; Leadership Development (Service Improvement); Value Centred Training.	C			WAO performance work performed 2011/12 – Themed Study – HR and workforce planning.  <b>Staff Training and Development audit scheduled for 2014/15.</b>
14	Recruitment and Selection	Compliance with Recruitment Policies and Procedures; Equalities and inclusion; Pre-employment checks; Performance Management.	C			Pre-employment checks eg. references, CTB checks covered as part of <b>Starters and Leavers audit 2014/15 – Audit Opinion - Satisfactory.</b>
<b>Risk Area – Project Management</b>						
15	Project Management	Special Projects Unit; Roles and Responsibilities; Project Prioritisation; Risk Assessment; Compliance with Prince 2; Training in Project Management; Monitoring and Delivery; Financing.	B			The Head of Facilities and Logistics Management Department for North Wales Police Authority proposed that the Final Account at Rhyl Community Fire Station be assessed for any irregularities. <b>As part of the 2011/12 audit plan Conwy's Internal Audit Service performed a review of this contract. Audit Opinion – Satisfactory</b>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
<b>Risk Area – Financial and Fraud Risks</b>						
16	Financial Planning and Budgetary Control	Funding Arrangements Resource Allocation Medium Term Financial Planning Budget setting and approval Financial delegations Budget Monitoring Financial Forecasting/Reporting	A			<p><b>WAO's Annual Financial Audit Outline 2013/14.</b></p> <p><b>WAO's Performance Audit Work 2014/15</b> includes study of levels of investment in fire and rescue services over last few years – <b><i>Delivering with less</i></b> and a <b>Financial Position Summary</b>, a study to summarise local work on councils' financial position and provide an all-Wales picture of financial resilience.</p>
17	Payroll	Starters, Leavers, Amendments; Payment Control; Certification; Accuracy; Monitoring; Reporting.	A			<p>Payroll Amendments to Pay audit 2008/09 - Audit Opinion was Satisfactory. Payroll CAATS Audit 2008/09 - Audit Opinion was Good. Retained Pay - Review of new electronic FIN 8 procedures undertaken during 2011/12 – Audit Opinion - Satisfactory.</p> <p><b>Payroll Starters and Leavers audit performed in 2014/15 – Audit Opinion - Satisfactory.</b></p>
18	Employee and Members Allowances	Claims, authorisation and Travel and Subsistence; Long Service Awards; Residential Allowances;	D			<p>Internal Audit Review of Members Allowances 2005/06. Audit Opinion was Good. Employee Allowances included in Payroll amendments to Pay audit 2008/09.</p>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
19	Pensions	Notification to Administering Authority; Verification of Changes; Unfunded Charges.	C			<b>Financial Audit Outline 2013 /14</b> – A review was performed of the accounting and disclosure of pension schemes to ensure they are in line with the relevant IFRS requirements and review actuarial assumptions to ensure that they are in line with KPMG actuary assumption ranges.
20	Procurement and Purchasing	Procurement Strategy; Efficiency and Value for Money; E Procurement; Compliance with Financial regulations and Contract Standing Orders; Purchasing and Payment Procedures; Credit Card Expenditure; Cash Expenditure.	B			WAO Annual Opinion in respect of VFM.  <b>Creditors audit performed 2012/13 – High Assurance.</b>
21	Capital Strategy and Accounting	Strategy and Programme Setting/Approval; Monitoring; Capitalisation/ Authorisation of Expenditure ; Prudential Borrowing; Fixed Asset Management and Accounting; Fixed Asset Register; Asset Valuation/Depreciation; Insurance; PFI Schemes incl VAT.	A			<b>WAO's Annual Financial Audit Outline 2013/14.</b>
22	Fleet Management and Fuel	Procurement/Leasing; Management and Strategic Alignment; Maintenance and Inspection; Fuel Issues and Usage; Disposal; Insurance.	C			Internal Audit review of Fuel 2007/08. Audit Opinion was Satisfactory. Regulatory Plan 2007/08 – KPMG review of Fleet and Vehicle Asset Management.  <b>Fuel Management audit performed 2014/15. Audit Opinion - Satisfactory</b>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment	2015/16 Days	Comments
23	Income Collection and Banking	Receipt of Funds; Grant Income; Precept Income: Collection and Accounting Procedures; Miscellaneous Income; Compliance with Charging Policy; Inspection Certificate Income; Cash Security and Banking; Insurance.	C		Internal Audit of the collection, receipt and banking procedures in respect of all income generated by NWFRA was undertaken during 2009/10. <b>Audit Opinion - Satisfactory.</b>  <b>Income audit performed 2013/14 – High Assurance.</b>
24	Stores	Stock Control, Valuation and Recording; Purchasing and Receipt; Security of Stores; Security of IT System; Issue and Returns Procedures; Insurance.	D		<b>Stores audit performed 2012/13 – Audit Opinion – High Assurance</b>
25	Equipment Security and Inventory	Inventory Level; Recording and Reviewing; Marking of Equipment; Loan of Equipment; Physical Security of Location; Insurance.	C		Internal Audit Review 2007/08. Included in Retained Stations audits 2009/10 – 2013/14.
26	Utility Costs and Service Contracts	Tendering and Value for Money; Monitoring Energy Costs; Compliance with Financial Regulations.	C		
27	National Fraud Initiative	Payroll Download; Creditors Download; Investigation of Output from National Matching Exercise.	B		NFI data matching of payroll and creditors data to be conducted every 2 years. NFI work undertaken during 2011/12. Audit Opinion - Good <b>NFI work performed 2013/14 – High Assurance</b>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
28	Main Financial Systems <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Creditors</li> <li>• Debtors</li> <li>• Treasury Management</li> <li>• Accounting System</li> <li>• Anti Fraud</li> </ul>	Completeness, Accuracy and Validity of Transactions; Correct Accounting; Monitoring and Reporting; Efficiency; Value for Money; Documentation of Systems; Compliance with Financial Regulations and Procedures.	A			Covered by Audit of CCBC Systems on an annual basis. Review of NWFRA Creditors System 2008/09. Audit Opinion was Adequate.  <b>Creditors audit performed 2012/13 – High Assurance</b>
<b>Risk Area – Reputation and Public Confidence</b>						
29	Complaints Procedures	Policy, Procedure, Best Practice; Compliance; Monitoring and Reporting; Service Improvement; Compensation.	C			
30	Corporate Communications	Communications Strategy; Marketing and Media; Responsibilities; Incident monitoring.	C			
<b>Risk Area – Information Management and Technology</b>						
31	IT Strategy and Management	Strategy Development and Resourcing; Policies and Management Framework; Internet and Email Control; Responsibilities; ICT Procurement and Development; Insurance.	C			The audit assessed the degree of control over the key risks for accessing information on the organisation's IT systems and will specifically review the following areas for compliance with ISO 27000 information security standards. <ul style="list-style-type: none"> <li>• User access control</li> <li>• Computer access control</li> <li>• Application access control</li> <li>• Monitoring system access and use</li> </ul> Access control over personal information

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
32	Network Management	Security and Control; Physical and Logical Security; Back Up and Disaster Recovery; Performance; Hardware, Media, Topology; Security and Control: Management Support: Communications Software; Wireless Connections.	C			Network Management audit undertaken 2008/09. <b>Audit Opinion - Satisfactory.</b>  Audit of IT Security undertaken in 2010/11. <b>Audit Opinion - Satisfactory.</b>
33	Telecomms (non control room)	Security and Control; Physical and Logical Security; Back Up and Disaster Recovery.	C			
34	E Government	Strategy; Resourcing; Initiatives; Performance.	C			Internal Audit undertaken 2009/10 - the aim of the audit was to determine the degree of control over risks for the following: e-Government vision Collaborative working, e.g. between authorities Customer requirements Funding Technical solutions Capacity – people and skills Business processes Focus is on strategic controls over the key risks threatening the e-Government vision/programme.  <b>Audit Opinion – Good</b>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
35	Control Room IT	Cell Phones; Radio System; Call Out System; Physical Security; Back Up and Disaster Recovery; Performance Monitoring.	C			
36	Data Protection / Freedom of Information	Compliance with Legislation; Staff Awareness; Information requests; Monitoring and Performance.	C			Audit undertaken during 2009/10 to determine whether activities involving the processing of personal data are carried out in accordance with the Authority's data protection policies and procedures, and whether this processing meets the requirements of the Data Protection Act 1998. Audit Opinion – Satisfactory.  Freedom of Information audit undertaken during 2010/11 to ensure compliance with the statutory requirements of the Freedom of Information (Fol) Act 2000. <b>Audit Opinion - Satisfactory</b>
<b>Risk Area – Other Systems</b>						
37	Canteen Operation	Agreement and Monitoring; Food Hygiene and cleanliness; Staff Training; Income Collection and Banking; Ordering Procedures.	C			
38	Welfare Funds	Written procedures; Welfare Fund Records; Bank Reconciliations; Independent Audits.	C			Welfare Funds audit undertaken 2008/09. Audit Opinion was Unsatisfactory. Follow up undertaken 2009/10 – <b>Audit Opinion – Adequate.</b>



	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2015/16 Days	Comments
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<b>Risk Area – Other Audit Work</b>						
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	Audit Planning, Annual Report and Management					
	Follow up of Previous Recommendations					
	Contingency Reserve					
			<b>Total 2015/16 Coverage</b>		<b>50</b>	

**Risk Assessments – The Needs Assessment documents each project and allocates a risk rating in respect of each auditable area, based on the completion of a risk matrix held on the Internal Audit Section’s Apace Audit Planning and Control System. The risk assessment dictates the degree of risk and the subsequent frequency of each audit. Where an area has not been recently reviewed by either Internal Audit or WAO a ‘C’ risk rating is allocated until such time as an audit review is performed and an informed opinion can be made. The current risk ratings are as follows:**

- Risk Rating A - High Risk Requiring an Annual Review
- Risk Rating B - High Risk Requiring a review every 2 years
- Risk Rating C - Medium Risk Requiring a review every 3 years
- Risk Rating D - Low Risk Requiring a review every 4 years



## **AGENDA ITEM: 8**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**26 January 2015**

#### **ANNUAL AUDIT LETTER**

**Report by Dawn Docx, Deputy Chief Fire Officer**

#### **PURPOSE OF REPORT**

- 1** The purpose of this report is to present to Members the Annual Audit Letter.

#### **BACKGROUND**

- 2** Following the introduction of the Local Government Measure 2009 the Wales Audit Office has changed how it reports its findings from the financial and performance audits. The majority of the issues that were traditionally reported in the Annual Audit Letter are now included as part of the Annual Improvement Report.

#### **INFORMATION**

- 3** The Annual Audit Letter attached at Annex 1 summarises the key messages arising from the Auditor's statutory responsibilities. The letter is a standalone document but will be presented to the Authority and the public as part of the Annual Improvement Report and therefore discharging the Auditor's reporting responsibilities under the Code of Audit Practice.

#### **RECOMMENDATION**

- 4** The Audit Committee is recommended to accept the Annual Audit Letter and note that it will be presented to the Authority and the public as part of the Annual Improvement Report.



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Reference AJB871/mh  
Date 05 January  
2015  
Pages

Dear Simon

## Annual Audit Letter – North Wales Fire Authority 2013-14

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

### The Authority complied with its responsibilities relating to financial reporting and use of resources

It is the Authority's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 29 September 2014, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Authority's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on 15 September 2014, and a more detailed report will follow in due course.

**I am satisfied that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the Authority's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

**I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2014.**

The financial audit fee for 2013-14 is currently expected to be in line with the agreed fee set out in the Annual Audit Outline.

Yours sincerely

**Anthony Barrett**  
**For and on behalf of the Appointed Auditor**