

Annual Audit Letter

North Wales Fire Authority

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KEY MESSAGES FOR MEMBERS

Accounts

We anticipate issuing an unqualified opinion on the accounts by 31 December 2004, in accordance with the statutory timetable.

Financial aspects of corporate governance

Revenue expenditure was in line with the contribution made by constituent authorities in 2003/2004.

The closing balance sheet includes over £3 million which has been retained to meet anticipated expenditure in 2004/2005 and future years.

Capital expenditure in the year was £936,000. The spend was financed by utilising available basic credit approvals and £22,000 from usable capital receipts.

Our overall conclusion is that the Authority has appropriate governance arrangements in place.

Use of resources

Our review of the 2004/2005 Best Value Performance Plan (BVPP) confirmed that:

- it complied with statutory requirements; and*
- Performance Indicators are consistently and accurately calculated.*

Introduction

1. The Fire and Rescue Service is undergoing a significant period of change. Following on from the Bain report, negotiations on fire service pay and conditions were concluded on 13 June 2003 and the agreement was published by the National Joint Council. Subsequently, the Government published the White Paper 'Our Fire and Rescue Service' (30 June 2003). This confirmed the direction of travel for modernising the service.
2. The implementation of the modernisation agenda placed significant demands on both the members and the officers. In particular, it has required the Authority to prepare an Integrated Risk Management Plan, develop a strategy for the move from Rank to Role and the introduction of an Integrated Personal Development System. In addition, the Authority has had to deal with the impact of the industrial dispute.
3. The relatively small size of the North Wales Fire Authority (NWFA) means that a number of its responsibilities are undertaken in partnership with other public bodies. Accountancy services are provided under a Service Level Agreement by Conwy County Borough Council Finance department. The Director of Finance and Property Services at Conwy County Borough Council is Treasurer to the Fire Authority and Section 151 Officer. The Internal Audit function is provided by the Internal Audit department of Conwy County Borough Council. Legal services are provided under a Service Level Agreement by Denbighshire County Council's Legal Services department. The Chief Executive of Denbighshire County Council is Clerk and Monitoring Officer to the Fire Authority.
4. During November 2004, responsibility for the Fire and Rescue Services in Wales was devolved to the Welsh Assembly Government, creating a single line of responsibility for fire authorities and contributing to the effective management, planning and delivery of fire services in Wales.
5. The Assembly's Minister for Social Justice and Regeneration has consulted on a National Framework for Wales that clearly sets out the policy and direction for the Welsh Fire and Rescue Service and a template for future planning and budgeting by Fire and Rescue authorities. As part of that framework, the Audit Commission in Wales (ACiW) will become responsible for the independent inspection of the Fire and Rescue Service in Wales undertaken through the new Wales Audit Office.
6. The framework sets out that Fire and Rescue Services will be subject to the Wales Programme for Improvement and the Assembly is shortly to consult on the detailed approach to WPI for Fire and Rescue Services. This has been developed in consultation with ACiW, Fire and Rescue authorities and the WLGA. Subject to the outcome of that exercise, the framework will be finalised for implementation from 1 April 2005 and will be supported by ACiW's implementation guidance.

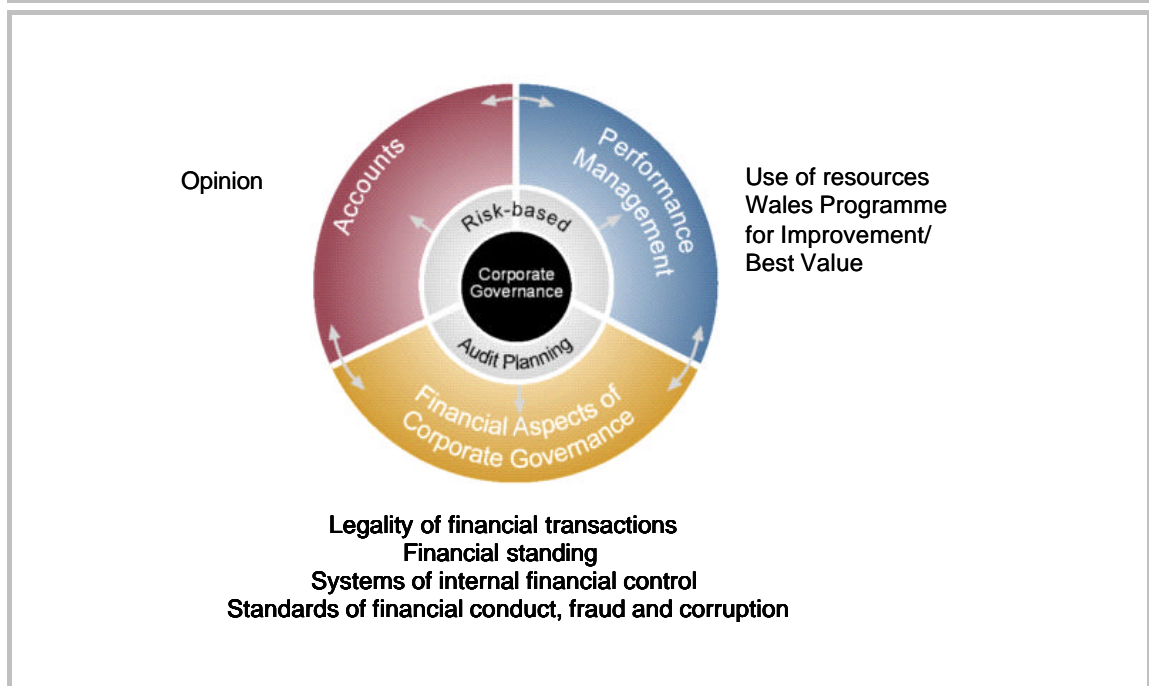
The purpose of this Letter

7. This Annual Audit Letter summarises for members the more important matters arising from the audit for 2003/2004 and comments on other current issues, including the work completed on the Authority's 2004/2005 BVPP. We have produced separate reports on specific aspects of our work, which have been discussed in detail with officers and presented to members. A list of these reports is provided in Appendix 1.
8. The Audit Commission has circulated to all audited bodies a statement which summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit objectives

9. The audit has addressed the requirements of the Code of Audit Practice by adopting a risk-based approach to planning. It focused on the relevant significant financial and operational risks that the Authority faces. Central considerations during the audit are the corporate governance arrangements operated by the Authority.

EXHIBIT 1: THE MODEL OF PUBLIC AUDIT



Audit fee

10. The agreed combined fee for the 2002/2003 and 2003/2004 Code of Practice Audit was £80,697. The audit fee was analysed over the three Code of Practice areas as follows:

Code of Practice area	Planned fee 2002-2004	Expected actual fee 2002-2004
Accounts	£20,349	£20,349
Financial aspects of corporate governance	£31,271	£31,271
Performance	£29,077	£29,077
Total fee	£80,697	£80,697

11. No additional charges have been made in respect of the certification of Government grants and returns.
12. The Audit Plan for 2004/2005 has been discussed with and agreed by officers. The fee is £46,149.
13. During the 2003/2004 audit year, the Audit Commission carried out Phase 1 of a study under Section 33 of the Audit Commission Act 1998 to assess progress in implementing the modernisation of the Fire Service in line with the changes outlined in the National Pay Agreement. That study was carried out by the appointed auditor acting as an agent of the Audit Commission and not under the Code of Audit Practice and was billed separately to the Code of Audit Practice audit. The fee charged for Phase 1 of the study was £19,000.

Translation

14. This Letter is available in Welsh and English and copies have been provided to the Authority and to each member of the Authority.

Accounts

We anticipate issuing an unqualified opinion on the accounts by 31 December 2004, in accordance with the statutory timetable.

Core process review

15. Our overall conclusion is that your core financial processes provide a sound basis for the preparation of financial statements. There is, however, some scope to further enhance the quality of the draft accounts.

Financial statements and reporting

16. The Authority has continued with its excellent record of producing the financial statements well within the statutory deadlines. The 2003/2004 financial statements were approved by members before the end of July 2004. This means that the Authority is in a sound position to implement the requirement of the Whole of Government Accounts to approve the 2006/2007 financial statements by the end of June 2007 and to publish them by the end of September 2007.
17. Some issues were discussed with officers during the course of our review and some amendments have been made to the financial statements presented for audit. The audit of the financial statements is complete and we can confirm that, in our view, they are free from material errors and mis-statements. We anticipate issuing an unqualified opinion on the financial statements before 31 December 2004, in accordance with the statutory timetable.
18. Statement of Auditing Standards 610 (SAS 610) 'Reporting to those charged with governance' was issued to establish standards and provide guidance on the communication of relevant matters relating to the audit of financial statements between auditors, and those charged with governance of an audited body. The standard requires auditors to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements. These relevant matters are:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.
19. The first two matters were reported to you in the Audit Plan. At the Authority meeting on 20 December 2004 we expect to confirm that we anticipate issuing an unqualified audit opinion on the financial statements. We will draw members' attention to amounts retained in the Authority's balance sheet in relation to Pension Liabilities, Pay Award, the Human Resources system and Transitional Funding (see paragraphs 17 to 23 in Section 2 of this Letter). We will also confirm that there are no other issues that we need to bring to the attention of members.

Financial aspects of corporate governance

Revenue expenditure was in line with the contributions made by constituent authorities in 2003/2004.

The closing balance sheet includes over £3 million which has been retained to meet anticipated expenditure in 2004/2005 and future years.

Capital expenditure in the year was £936,000. That spend was financed by utilising available basic credit approvals and £22,000 from usable capital receipts.

Our overall conclusion is that the Authority has appropriate governance arrangements in place.

Overall arrangements

20. We are satisfied that the Authority has appropriate Standing Orders and Financial Regulations in place to provide sound governance arrangements. Arrangements have been enhanced by the introduction of a scheme of reservation and delegation.

Financial standing

Revenue account

21. Actual expenditure in 2003/2004 was £25.198 million, following an increase in the Provision for Pension Liabilities of £0.160 million in line with the Authority's policy. The actual spend was therefore £0.106 million less than the amount levied on constituent authorities, £25.304 million.
22. The budget for 2003/2004 included £0.100 million for a new Human Resources Management system. The purchase of this new system was delayed and will now be made in 2004/2005. The £0.100 million has therefore been carried forward to 2004/2005. The balance of the underspend, £0.006 million, has been retained to assist in the Repayment of Transitional Funding provided by the Assembly.
23. The Authority has also made adjustments to amounts retained to 31 March 2003 during 2003/2004. At 31 March 2004 the Authority held the following amounts:

Purpose	Value (£'000)
Pension Liabilities	1,955
Pay Award	954
Repayment of Transitional Funding	281
Purchase of Human Resources Management system	100

24. The above amounts are disclosed as 'Provisions' in the Authority's balance sheet. The CIPFA Statement of Recommended Practice (SoRP), which complies with Financial Reporting Standard 12, requires provision to be made when an authority has a present obligation (legal or constructive) as a result of a past event. Note 10 to the Consolidated Balance Sheet (CBS) makes it clear that the Provisions retained by the Authority are to meet future, rather than past, expenditure that is certain, or likely, to be incurred.

25. The purpose of the amount retained in relation to Pension Liabilities is to smooth the impact on the constituent authorities of fluctuations in the payment of pension lump sums. The Directors of Finance of the constituent authorities have endorsed this arrangement.
26. The amount retained for the Pay Award is to meet the additional costs arising from the pay settlement, thereby avoiding a significant increase in the contribution required from the constituent authorities in 2004/2005. Current projections indicate that the majority of this amount is likely to be utilised in 2004/2005.
27. The amount retained in relation to Transitional Funding will not now be required, because the Welsh Assembly Government has recently indicated that repayment will not be required. The Authority will, therefore, keep the need for these monies under review and adjust the contributions required from constituent authorities as appropriate in future years.
28. Whilst the amounts retained do not comply with the requirements of the SoRP, it is accepted that the approach adopted by the Authority is both prudent and transparent. The constituent authorities are aware of the arrangements and are content with it. An alternative approach, which would comply with the SoRP, would be to show any amounts unspent as creditors, however that would be far less transparent than the current arrangement, since the monies would not actually be repaid.
29. The approach adopted by this and other fire authorities in Wales arises from the fact that they are currently prohibited from holding revenue reserves. We anticipate working with the Welsh Assembly Government and fire authorities in Wales to regularise the position in future years.

Capital programme

30. The Authority's Basic Credit Approval (BCA) for 2003/2004 amounted to £0.709 million. The return of £0.227 million transferred to Newport City Council as a result of an underspend in 2002/2003 resulted in the total BCA available in 2003/2004 being £0.936 million.
31. The actual spend on capital projects in 2003/2004 was £0.958 million. Following utilisation of the available BCA, the balance, £0.022 million was financed from usable capital receipts.

Risk management

32. The Authority developed an Integrated Risk Management Plan in line with the requirements of the modernisation agenda. In view of the fact that risk management was a key element of the Verification Study undertaken by the Audit Commission in 2003/2004, the planned work in relation to risk management was deferred. We shall be reviewing the broader risk management issues through our work relating to the Wales Programme for Improvement agenda.

Legality of financial transactions

33. We are satisfied that the overall arrangements to ensure the legality of financial transactions are appropriate.
34. We have not received any questions or objections from members of the public relating to the Authority's accounts.

Systems of internal financial control

Overall arrangements

35. We are satisfied that the systems of internal financial control that the Authority has in place are appropriate to ensure that proper accounting records are maintained. We had planned to follow up issues arising from an earlier review of arrangements relating to sickness absence,; that work will now be undertaken in the coming months.

Internal Audit

36. We are content that Conwy County Borough Council provided the Fire Authority with an effective Internal Audit function in 2003/2004. Recommendations made during the 2002/2003 audit relating to the adoption of a risk-based approach to audit planning and evidencing of review have both been addressed. Also, Internal Audit provided the Treasurer with a Statement of Assurance relating to internal financial controls, in line with recommendation made in last year's Annual Audit Letter.

Standards of financial conduct and prevention and detection of fraud and corruption

37. Our work on updating our assessment of the arrangements which the Authority has in place to identify fraud and corruption risks concluded that that they are generally sound. There is, however, scope to improve staff awareness of the provisions of the Public Interest Disclosure Act.

Use of resources

Our review of the 2004/2005 Best Value Performance Plan confirmed that:

- *it complied with statutory requirements; and*
- *Performance Indicators are consistently and accurately calculated.*

Best Value

38. The Authority continued to operate within the Best Value framework of fire authorities in England and Wales in 2003/2004, whilst being mindful of the Welsh Assembly Government's Improvement Programme for local government.
39. Following the recent enactment of the Fire and Rescue Services Act 2004, and the transfer of responsibility for Fire and Rescue Services in Wales to the National Assembly for Wales, the Authority will operate within the Wales Programme for Improvement framework in future years.
40. Our review of the 2004/2005 BVPP confirmed that it complied with statutory requirements. Our statutory report on the Plan, which the Authority must publish within 30 working days of the date of this Letter, is attached as Appendix 2.

Performance

Performance Indicators

41. Our review of the performance information contained within the BVPP concluded that, with the exception of minor discrepancies, all Performance Indicators are consistently and accurately calculated.
42. The targets set for 2004/2005 generally reflect local circumstances, but remain challenging.
43. The Authority has achieved improvements in performance between 2002/2003 and 2003/2004 in a number of key areas, in particular:
 - working days/shifts lost to sickness;
 - percentage of uniformed staff from ethnic minorities;
 - reduction in the number of primary fires per 10,000 population;
 - reduction in the number of accidental fires in dwellings per 10,000 population;
 - reduction in the number of injuries from accidental fires in dwellings per 10,000 population;
 - increase in the percentage of accidental fires in dwellings confined to the room of origin; and
 - reduction in the average number of days to issue safety certificates.
44. There are also areas where the Authority's performance has failed to improve. Initiatives designed to address these issues need to be developed.

Other work

45. An overview of the Authority's approach to partnership working was planned for 2002-2004. This is an issue that featured in the Verification Study work that we undertook on behalf of the Audit Commission and so we took the opportunity of reviewing the arrangements that the Authority has in place. We concluded that the Authority has a positive attitude to partnership working. The Authority has had a long standing collaborative relationship with both of the other fire authorities in Wales and is committed to continued joint working and partnership with them. It was also confirmed that the Authority contributes widely to the general agendas of social inclusion, neighbourhood renewal and crime reduction. It is an active participatory member of the North Wales Community Safety Chief Officers Group, its subsidiary practitioners forum and associated working groups and the local community groups within each unitary authority area dealing with crime, drug and alcohol abuse, Communities First and social inclusion.
46. The strategic approach to partnership is based on the overriding principle that providing the objectives of the partnership are consistent with the aims and objectives of the Fire Authority and will assist in meeting locally identifiable needs, then local managers are permitted to assist and commit to the partnership on behalf of the Authority.

Closing remarks

47. Finally, we would like to take this opportunity to express our appreciation for the assistance received from officers and members during the course of our work. Our aim is to provide a high standard of audit and inspection which makes a practical and positive contribution to the work of North Wales Fire Authority. We recognise the value of your co-operation and support in achieving this aim.



Anthony Barrett
District Auditor

13 December 2004

Schedule of reports issued for 2003/2004

Report	Date
Regularity Memorandum	November 2004 (Draft)
Best Value Performance Plan 2004/2005	December 2004 (Final)
Final Accounts Memorandum	December 2004 (Draft)

Auditors' Report to North Wales Fire Authority on its Best Value Performance Plan for 2004/2005

Certificate

I certify that I have audited North Wales Fire Authority's Best Value Performance Plan in accordance with Section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Authority and the auditor

Under the Local Government Act 1999 (the Act) the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the Plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived. The form and content of the Best Value Performance Plan are prescribed in Section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditor, I am required under Section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the Plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements; and
- to recommend:
 - where appropriate, procedures to be followed in relation to the Plan;
 - whether the Audit Commission should carry out a Best Value Inspection of the Authority under Section 10 of the Local Government Act 1999; and
 - whether the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the Plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the Plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. My work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

Included in the Plan are the Authority's estimates for the year ending 31 March 2004. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the Plan are estimates, my audit work comprised an assessment as to whether the estimates made by the Authority had been properly compiled in all significant respects on the basis of the assumptions stated by the Authority, as at the date at which the Plan was prepared.

Where I have qualified my audit opinion on the Plan I am required to recommend how the Plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Unqualified opinion

In my opinion, North Wales Fire Authority has prepared and published its Best Value Performance Plan in all significant respects in accordance with Section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a Best Value Inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of my/our work:

- I do not recommend that the Audit Commission should carry out a Best Value Inspection of North Wales Fire Authority under Section 10 of the Local Government Act 1999; and
- I do not recommend that the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

Signature:



Date: 13 December 2004