

## Audit Plan

# North Wales Fire Authority

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## **Status of our reports to the Authority**

*This report has been prepared for the internal use of the named body. Our reports are prepared:*

- *In relation to performance audit, under the Audit Commission Act 1998, in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.*
- *In relation to inspection, following inspection work carried out under Section 10 of the Local Government Act 1999 and in accordance with the guidance issued by the National Assembly for Wales in Circulars 14/2000 and 18/2002. The inspection report is issued in accordance with the duty under Section 13 of the 1999 Act.*

*Reports are prepared by appointed auditors and inspectors, and addressed to members or officers. They are prepared for the sole use of the named body, and no responsibility is taken by auditors or inspectors to any director/ member or officer in their individual capacity, or to any third party.*

## Introduction

1. This Plan refers to the work to be undertaken in the 2004/2005 audit year. With the exception of our work on the Authority's financial statements, we anticipate completing the work outlined in this plan by June 2005.
2. A Welsh language version of this document has also been produced.

## Our responsibilities

3. Our principal objective as your appointed auditor is to carry out an audit which meets the Audit Commission's Code of Audit Practice.
4. One of the prime requirements of the Code of Audit Practice (the Code) is that we design a programme of work to address the significant operational and financial risks you face which impact on our responsibilities.
5. The Code requires us to review whether you have adequate arrangements for:
  - ensuring the legality of transactions with a significant financial consequence;
  - ensuring your financial standing is soundly based;
  - satisfying yourselves that your systems of internal financial control are both adequate and effective;
  - ensuring proper standards of financial conduct and to prevent and detect fraud and corruption; and
  - securing economy, efficiency and effectiveness in the use of your resources.
6. We must also give an opinion:
  - as to whether your accounts present fairly the financial position of the Authority; and
  - on your Best Value Performance Plan.
7. The Audit Commission's publication 'Statement of Responsibilities of Auditors and Audited Bodies' gives further information on our respective responsibilities under the Code of Audit Practice.

## The fee

8. Your audit fee has been determined on the basis of the risks we have identified and the work we have agreed with you that we should undertake to assist in addressing those risks.
9. Planning must be ongoing and changes to the Plan may be required if any significant new risks emerge or circumstances change. No changes will be made without first discussing them with you.

10. The actual fee for the 2004/2005 Code of Practice audit is £47,307 (excluding VAT) and is outlined below.

	Planned fee 2002/2003 and 2003/2004 £	Estimated actual fee 2002/2003 and 2003/2004 £	Planned fee 2004/2005 £
Accounts	20,349	20,349	12,734
Financial aspects of corporate governance	31,271	31,271	16,566
Performance	29,077	29,077	18,008
<b>Total fee</b>	<b>80,697</b>	<b>80,697</b>	<b>47,307</b>

11. In addition to the above fee, we must charge the actual time taken to undertake the work at skill related fee rates to certify your Government grant claims and returns. We do not currently anticipate the need to levy any charge for grant claims and returns.
12. We have not agreed to undertake other work, which is outside the Code of Audit Practice.

## Accounts

13. We are required to give an opinion on the Authority's annual accounts. We will discharge our duties by, firstly, reviewing your core financial processes:
- the main accounting system;
  - the budgetary control procedures; and
  - the final accounts close down procedures.
14. We will then utilise a combination of analytical review and substantive testing to assess the accuracy of the figures contained in the financial statements.
15. It should be noted that our accounts audit does not seek either to obtain absolute assurance that the financial statements present fairly your financial position or assurance that they are accurate in every regard. In this context, we adopt a concept of materiality. We seek, in planning and conducting our audit of the accounts, to identify material errors in your financial statements. Material errors are those which might be misleading to a reader of the financial statements.
16. Statement of Auditing Standards (SAS) 610 has introduced mandatory requirements relating to the reporting of errors or mis-statements identified during the course of the audit of the annual financial statements. We shall continue to bring any errors or mis-statements to the attention of the Treasurer. SAS 610 does, however, require us to report to those charged with responsibility for governance any 'non-trifling' errors and mis-statements which are detected but unadjusted.

## Financial aspects of corporate governance

17. We are required to determine whether the Authority has adequate arrangements for:
  - ensuring the legality of financial transactions;
  - monitoring its financial standing;
  - internal financial control;
  - standards of financial conduct and preventing and
  - detecting fraud and corruption.
18. Appropriate testing will be undertaken to ensure that those arrangements are working effectively in practice.
19. In addition, we will undertake work to address specific risks that we have identified.

Area	Action proposed
Sickness Absence	Follow-up issues arising from our earlier review and assess progress made. (This was included in the 2002/2004 Audit Plan but deferred as a result of the Verification Study.) (No further fee charged.)
Compliance with legislative requirements	Undertake an overview of the arrangements in place to ensure compliance with the requirements of the Human Rights Act and the Welsh Language Act and highlight any issues requiring further action. (This was included in the 2002/2004 Audit Plan, but deferred as a result of the Verification Study.) (No further fee charged.)
Risk Management	Follow-up issues arising from our earlier review. (This was included in the 2002/2004 Audit Plan, but deferred as a result of the Verification Study.) (No further fee charged.)
Prudential Code	Review arrangements established by the Authority in relation to the Prudential Code.
Asset Management	Undertake a brief overview of the arrangements that the Authority has in place relating to the management of its assets.

20. We are also required to complete annual returns on stewardship and governance for the Audit Commission.

## Performance

21. We will review:
  - the overall arrangements which you have in place to secure economy, efficiency and effectiveness in the use of resources; and
  - the systems for collecting, recording and publishing specified performance information.

22. In addition, we shall carry out the following work:

Area	Action proposed
Best Value Reviews	Provide an independent assessment of the progress being made in implementing actions arising from Best Value Reviews. (This was included in the 2002/2004 Audit Plan, but deferred as a result of the Verification Study.) (No further fee charged.)
Partnership working	Provide an independent assessment of the arrangements for Partnership working. (This was included in the 2002/2004 Audit Plan, but deferred as a result of the Verification Study). (No further fee charged). We shall take account of the findings from the Verification Study when undertaking this review.
Wales Programme for Improvement	Assist the Authority in preparing for the introduction of the Wales Programme for Improvement.
Human Resources	Undertake an overview of the arrangements in place relating to Human Resources issues.
Modernisation Agenda	We shall follow-up issues arising from the Verification Study undertaken by the Audit Commission.

**The team**

23. The team comprises:

Name	Position	e-mail	Telephone
Anthony Barrett	District Auditor	a-barrett@audit-commission.gov.uk	Office: 01244 288530 Mobile: 07771 505882
David Jones	Audit Manager	d-jones@audit-commission.gov.uk	Office: 01244 288530 Mobile: 07970 760221
Mark Roberts	Principal Auditor	m-roberts@audit-commission.gov.uk	Office: 01244 288530

- 24. In addition, we have a pool of specialists and auditors who may carry out detailed work.
- 25. We are required to identify any matter that may reasonably be thought to impact on our independence. We are not aware of any relationships that may bear on the independence and objectivity of the team which are required to be disclosed.
- 26. In relation to the audit of your financial statements we will comply with the Audit Commission’s requirements in respect of independence and objectivity, as set out in Appendix 1.

**Further details of our respective responsibilities**

27. The Audit Commission’s publication ‘Statement of Responsibilities of Auditors and Audited Bodies’ gives further information on our respective responsibilities under the new Code of Audit Practice.

## Status of our reports to the Authority

28. We will provide reports, or other output as agreed, to the Authority for each of the areas identified above.
29. SAS 610 also requires us to report 'relevant matters relating to the audit to those charged with governance'. Appendix 1 also shows how we will address this requirement.
30. In simple terms, the status of our reports will be:
  - the Annual Letter which must be made available to the public; and
  - other audit reports and memoranda which are prepared for the Authority, although you may decide to make them available to the public.
31. We would remind you that our audit reports and memoranda are:
  - prepared for the sole use of the Authority; and
  - written without assuming any responsibility by ourselves to any other person, including members and officers, or to any third party.

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with Statements of Auditing Standards (SAS) when auditing the financial statements. SAS 610.3 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The SAS defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of North Wales Fire Authority it has been agreed, that the appropriate addressee of communications from the auditor to those charged with governance is the full Authority.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a de-minimus amount (currently the higher of £25,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the de-minimus amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with.

These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Director General.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the Body's own staff without having discussed and agreed a local protocol with the body concerned.



- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every 5 years with effect from 1 April 2003 (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## Planned outputs

The table below shows the reports we plan to produce and to whom we intend to issue those reports. It should be noted that all reports will be discussed with officers to ensure they are accurate before they are presented to those charged with governance. Anthony Barrett as District Auditor has overall responsibility for the delivery of your audit, with David Jones as Audit Manager having day to day responsibility.

Expected output from the audit is as follows (to be completed when the Plan is discussed).

Planned audit output 2004/2005	Indicative start date	Draft due date	Addressed to
<b>Accounts</b>			
Core Financial Processes Review Memorandum	April 2005	30 June 2005	ACO (Corporate Services) and Treasurer
Annual Accounts – Audit Opinion	July 2005	31 October 2005	
Final Accounts Memorandum	July 2005	30 November 2005	ACO (Corporate Services) and Treasurer
<b>Financial aspects of corporate governance</b>			
Annual Review of Internal Audit Memorandum	April 2005	30 June 2005	ACO (Corporate Services) and Treasurer
Financial Aspects of Corporate Governance Memorandum	April 2005	30 June 2005	ACO (Corporate Services) and Treasurer
Review of Compliance with the requirements of Human Rights Act and Welsh Language Act	January 2005	March 2005	ACO (Corporate Services) Clerk and Treasurer
Review of Sickness Absence	January 2005	March 2005	ACO (Corporate Services) and Treasurer
Risk Management	January 2005	March 2005	ACO (Corporate Services) and Treasurer
Prudential Code	January 2005	March 2005	ACO (Corporate Services) and Treasurer
Asset Management	February 2005	April 2005	ACO (Corporate Services) and Treasurer

<b>Planned audit output 2004/2005</b>	<b>Indicative start date</b>	<b>Draft due date</b>	<b>Addressed to</b>
<b>Performance</b>			
Review and assessment of arrangements adopted for working in partnership with other organisations	February 2005	April 2005	ACO (Corporate Services) and Treasurer
Follow-up of Best Value Reviews	February 2005	April 2005	ACO (Corporate Services) and Treasurer
Overview of Human resources arrangements	March 2005	April 2005	ACO (Corporate Services) and Treasurer
Review of progress in implementing the Modernisation Agenda	April 2005	June 2005	ACO (Corporate Services) and Treasurer
Preparations for Wales Programme for Improvement	To be agreed	To be agreed	
<b>General</b>			
Annual Audit Letter		31 October 2005	Chief Fire Officer and Treasurer