



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Annual Audit Letter 2005/2006

North Wales Fire Authority

Contents

Summary	4
Detailed Letter	
I gave an unqualified audit opinion on the Authority's accounts for the year ended 31 March 2006	6
The Authority's significant financial systems can be relied upon to produce materially correct outputs	8
The Authority has continued to apply appropriate governance arrangements	8
The Authority has established a balanced budget and has continued to monitor revenue and capital expenditure	9
I am satisfied as to the existence of the arrangements that the North Wales Fire Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006	10
Appendices	
1. Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2005/2006	13
2. Criteria for assessing North Wales Fire Authority arrangements during 2005/2006 for securing economy, efficiency and effectiveness in its use of resources	14
3. Reports delivered during the 2005/2006 audit	15
4. Audit fee	16

Status of this report

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

- In relation to audit, under the relevant enabling legislation and the responsibilities detailed in the Code of Audit and Inspection Practice, and in the context of the 'Statement of Responsibilities', issued by the Auditor General for Wales.
- In relation to inspection, following inspection work carried out under the Local Government Act 1999, as amended by the Public Audit (Wales) Act 2004, and in accordance with guidance issued by the National Assembly for Wales.

Reports are prepared by the staff of the Wales Audit Office and appointed auditors, and addressed to members or officers including those designated as accounting or accountable officers. They are prepared for the sole use of the named body, and no responsibility is taken by the Wales Audit Office or appointed auditors to any director/member or officer in their individual capacity, or to any third party.

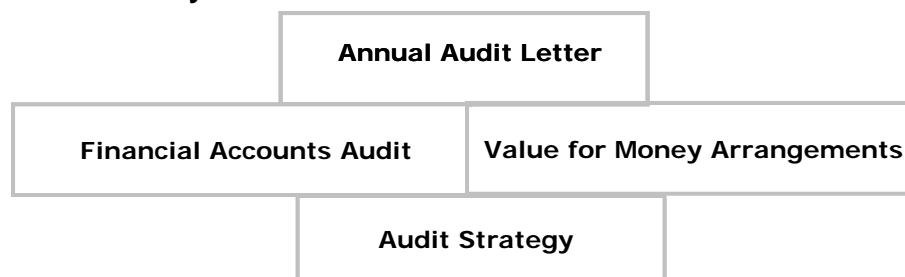
Summary

1. This Annual Audit Letter (AAL) to members of the North Wales Fire Authority (the Authority) summarises the conclusions from my 2005/2006 audit. The work planned for the year was set out in the Audit Strategy agreed for the period 2005/2006. The AAL reports for members the significant issues arising from my audit, together with my comments on other current issues.
2. More detail on the specific aspects of my audit can be found in the separate reports I have issued during the year. These reports have been discussed and agreed with officers. The reports issued are listed in Appendix 4 at the end of this AAL for information.
3. A number of references are made within this AAL to guidance and documentation issued by the Auditor General for Wales (the Auditor General), including the Code of Audit and Inspection Practice (the Code). This was relevant to the whole of the audit year and refers to the Statement of Responsibilities of Auditors and Inspectors and of Audited and Inspected Bodies (the Statement) summarising the key responsibilities of auditors. My audit has been conducted in accordance with the principles set out in that Statement. What I say about the results of my audit should be viewed in the context of that more formal background.
4. The AAL is prepared by me as the appointed auditor and is addressed to Authority members and officers. The AAL is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Authority member or officer in their individual capacity, or to any third party.

Objectives of the audit

5. My main objective is to plan and carry out an audit that meets the requirements of the Code. I adopt a risk-based approach to planning the audit, and the audit work has focused on your significant financial and operational risks that are relevant to my audit responsibilities.
6. The audit work is then structured around the key elements of my responsibilities as set out in the Code and shown in Exhibit 1.

Exhibit 1: Key elements of the audit



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7. The key issues arising from my audit are summarised as follows:

Financial Accounts audit

- I gave an unqualified audit opinion on the Authority's accounts for the year ended 31 March 2006;
- the Authority's significant financial systems have continued to operate effectively;
- the Authority has continued to apply appropriate governance arrangements; and
- the overall financial position is sound with regular budgetary control reports provided to the Authority.

Performance audit

- I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006.
 - The results of my programme of performance audit work have been used to help inform the above Value for Money (VFM) conclusion.
8. This AAL has been discussed and agreed with the Chief Fire Officer and the Treasurer. It will be presented to the Executive Panel meeting in January 2007 and a copy will be provided to every member of the Authority.
9. My aim is to deliver a high standard of audit which makes a positive and practical contribution to support the Authority's own agenda. I recognise the value of your co-operation and support in achieving this aim and I would like to express my appreciation for the assistance and co-operation provided during the course of the audit.

Anthony Barrett
Appointed Auditor

21 December 2006

The financial accounts

10. The financial statements are an essential means by which the Authority accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Code identifies that it is the responsibility of the Authority to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
11. As your appointed auditor, I am required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements present fairly the state of affairs of the Authority; that they have been prepared properly in accordance with relevant legislation, directions or regulations and applicable accounting standards; and that its expenditure has been lawfully applied.
12. My financial audit work covers the following areas:
 - financial statements;
 - financial systems;
 - financial management; and
 - financial health.

I gave an unqualified audit opinion on the Authority's accounts for the year ended 31 March 2006

13. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of the accounts audit. My report 'Audit of the Financial Statements – reporting to those charged with governance' was presented to the Authority on 23 October 2006. A summary of my findings is set out in Exhibit 2.

Exhibit 2: ISA 260 reporting requirements

Reporting requirement	Auditor's response
Modifications to the auditor's report.	There were no matters arising which would require me to modify the auditor's report.
Unadjusted misstatements.	The treatment of provisions amounting to £515,000 did not comply with the requirements of Financial Reporting Standard 12 and CIPFA's Statement of Recommended Practice. The treatment was consistent with that applied by the Authority since 1996 and it was accepted your approach was prudent and transparent. The amounts set aside are generally being utilised within a reasonable period and the constituent authorities are aware of the arrangements and are content with it. In addition, eight non-trifling errors were identified during the course of the audit. Appropriate amendments were made by management.
Material weaknesses in the accounting and internal control systems identified during the audit.	No significant accounting and internal control weaknesses were identified which have prevented me issuing an unqualified audit opinion.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	There were no matters arising which I need to report.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	There were no matters which affected the audit opinion.
Any other relevant matters relating to the audit.	There were no matters which affected the audit opinion.

14. The earlier dates set for the Whole of Government Accounts (WGA) initiative has been met by the Authority. The Authority's draft financial statements were prepared in accordance with CIPFA's Statement of Recommended Practice and approved on 19 June 2006, in advance of the 31 July 2006 deadline.
15. The Authority's supporting working papers were prepared to a good standard. This facilitated the completion of the audit of the financial statements and an unqualified auditor's report was issued on the Authority's accounts on 31 October 2006.
16. A summarised return as part of the whole government accounts initiative was submitted to the Welsh Assembly Government (Assembly Government) on 22 August 2006. My verification of the return confirmed that the data was correctly stated and fit for purpose.

The Authority's significant financial systems can be relied upon to produce materially correct outputs

17. My review of the Authority's financial systems has involved documenting the significant financial systems and where necessary testing the operation of internal controls.
18. I have concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. There are no specific matters I need to bring to the attention of members.

The Authority has continued to apply appropriate governance arrangements

19. To demonstrate financial stewardship the Authority needs to ensure it has effective financial arrangements including:
 - internal financial controls such as comprehensive standing orders and financial regulations, strong budgetary control and effective Internal Audit (IA);
 - the operation of recognised standards of financial conduct;
 - arrangements to ensure that the Authority only enters into transactions where there is specific legal provision for it to do so; and
 - well established and understood procedures to prevent and detect fraud and corruption.
20. My review revealed that the arrangements for ensuring that the Authority only enters into lawful transactions are in place and had continued to operate effectively. The Authority's ethical framework was also found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption as evidenced by both the anti-fraud and corruption strategy and whistleblowing policy.
21. IA is a key element to gaining assurance that the Authority's financial systems continue to operate effectively. Internal Audit is also a fundamental part of the audited body's governance arrangements. The Authority's IA service is provided by Conwy County Borough Council, under a Service Level Agreement.
22. My auditors assessed whether IA complied with the requirements of the CIPFA Code of Practice for IA in Local Government. I concluded that there remains scope for IA and the Authority to further develop its arrangements to ensure that it fully complies with all ten of the CIPFA IA standards. In particular:
 - there remains scope for the Head of IA to develop effective relationships with Fire Authority management;
 - Internal Audit did not produce an Audit Strategy which set out how its work will be delivered and developed over the medium term; and
 - the annual IA report did not fully comply with the guidance contained in the CIPFA Code of Practice.

23. In addition to my findings above, whilst the reporting of audit work to officers and the responses given are satisfactory there are no agreed arrangements for the presentation of audit findings to members of the Authority. To facilitate this and promote effective governance many public sector bodies have established Audit Committees.
24. I would recommend that the Authority establishes an Audit Committee to help raise the profile of internal controls, risk management and financial reporting as well as providing a forum for the discussions and monitoring of audit issues raised by internal and external audit. The prime role of an Audit Committee is:
- consideration and approval of the programme of internal and external audit work;
 - receipt and discussion of audit reports; and
 - ensuring that agreed recommendations are correctly and promptly implemented.

The Authority has established a balanced budget and has continued to monitor revenue and capital expenditure

25. I am responsible for assessing whether the Authority has put in place adequate arrangements to monitor, control and report its financial position. My audit was based on the review of the following areas:
- setting a balanced revenue budget and capital programme;
 - financial monitoring and reporting;
 - meeting financial targets; and
 - financial reserves.
26. My auditors examined budgetary reports and procedures and I am satisfied that suitable arrangements are in place. The Authority's revenue and capital budgets cover all relevant areas of income and expenditure and are based on realistic assumptions. The Authority also has in place sound arrangements for financial monitoring and reporting that should ensure that any potential material misstatements and variances will be identified.
27. The Authority has a good track record of operating within its budget and this continued in 2005/2006 with the reported outturn on both revenue and capital expenditure being in line with the agreed budget.
28. The Authority has continued to receive quarterly reports from the Treasurer on expenditure to date and position against budget. The report for the period ending 30 September 2006 shows a current underspend of £263,919 (0.9 per cent of the agreed budget). The main area of underspend relate to employee costs which have arisen due to vacancy rates and savings on day crew fees.

I am satisfied as to the existence of the arrangements that the North Wales Fire Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006

29. In examining the Authority's accounts each year, the Public Audit (Wales) Act 2004 (the Act) requires me to satisfy myself that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This requirement is also reflected in the Auditor General's Code. My formal conclusion on the Authority's arrangements for 2005/2006 is set out in Appendix 1.
30. The Code specifies how the work in this area should be undertaken. It requires auditors working on my behalf to review and, where appropriate, examine evidence that is relevant to an audited body's corporate performance management and financial management arrangements and report on these arrangements. It also states that the evidenced operation by the audited body of its whole system of internal control which would include these arrangements and as reported on in its Statement on Internal Control (SIC), should represent an important source of evidence by which auditors should arrive at their conclusion.

In reaching my conclusion, I assess the significance of any gaps in the arrangements expected to be in place

31. The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work, I have evaluated the Authority's systems against a number of separate 'questions' on proper arrangements that could reasonably be expected to be in place for an organisation of its size and role. This approach is set out in detail in Appendix 2. For each question, I consider whether there are gaps in the arrangements expected to be in place, and the significance of those gaps.
32. In considering significance, I look at the potential impact of the absence of expected arrangements. For example, an absence of budgetary control arrangements is likely to have a significant impact on an organisation's ability to secure value for money in its use of resources. Where I find significant gaps in the findings against a question on arrangements, then I may raise issues and make recommendations relating to the improvement of that aspect of the arrangements. The extent to which I raise issues and make recommendations is in relation to the significance of the impact of those issues on the overall achievement of proper arrangements.
33. Where one or more issues on arrangements have been identified, and the assessment is that these do impact significantly on the overall achievement of proper arrangements, or, if I am not satisfied that an audited body has made proper arrangements for securing VFM in its use of resources then I report accordingly. There are no matters arising from my work in this area for 2005/2006 that I wish to draw to your attention.

34. In addition to my work described above, other important sources of assurance have come from the Authority's annual review of the operation of its systems of internal control, and from the work of internal audit in this area. My auditors have worked closely with internal audit during the year, and other where they impact on the conclusion reported above, have not sought to replicate points raised by them.

The Authority has continued to work with the Assembly Government and the Wales Audit Office on proposals to introduce the Wales Programme for Improvement for Fire Authorities

35. The Assembly Government is currently finalising its draft Wales Programme for Improvement (WPI) framework for consultation. In advance of this it has been agreed that the framework is structured on the basis of self assessment, a Joint Risk assessment and an Improvement Plan and that it will cover 'operational' and 'non-operational' aspects of a Fire Authority. Consultation on the Assembly's operational assurance toolkit and the Wales Audit Office's non-operational WPI implementation guidance will be undertaken over the coming months. During this time the Wales Audit Office will be working with Fire Authorities to prepare for the introduction of WPI.
36. Circular W-FRSC (06) 32 issued by the Assembly Government on 13 October 2006 sets out the WPI Interim Arrangements for Fire Authorities for 2006/2007. Specifically the circular asked Fire Authorities to produce an Improvement Plan for 2006/2007 by 31 October 2006. The Wales Audit Office were asked to confirm whether the Improvement Plan fulfilled the requirements and audit the Best Value (BV) Performance Indicators for 2005/2006.
37. The Authority has complied with the circular by preparing its Improvement Plan by the due date. The Improvement Plan also meets the requirements of circular W-FRCS (06) 32 and includes:
- a summary of the Authority's strategic priorities for improvement;
 - arrangements for addressing the Authority's improvement priorities in 2006/2007;
 - a commentary on the Authority's performance in 2005/2006 supported by outturn performance information (data on best value performance indicators; and
 - targets for the current year (2006/2007) and future years if relevant.

The Authority has a performance management framework in place but it needs to be strengthened. The Authority has recognised what needs to be done but sufficient resources are required to ensure the plans can be fully implemented

38. Appropriate performance management will be a key aspect of WPI both in relation to obtaining operational and non-operational assurance. As part of my work to support development of WPI the Chief Fire Officer had asked me to review the proposed procedures and progress on implementing a new performance management framework. The objectives of the review were to:

- consider implementation of the performance management framework and its integration with other corporate processes including, budget setting, business planning and staff appraisals;
 - determine the extent to which there are clear meaningful corporate priorities and objectives that are understood and owned by staff;
 - review the extent to which directorate/station targets reflect corporate priorities (including how these have been selected);
 - examine arrangements that are in place throughout the organisation for managing the information needed to monitor achievement of targets;
 - examine arrangements that are in place throughout the Service for reporting performance information (including the role of the Fire and Rescue Authority);
 - assess if reporting arrangements are appropriate to users needs;
 - consider how the information is used to seek improvements and to meet objectives locally;
 - review how the information will be used to account for and explain activities to members, public and partners; and
 - review the framework and these arrangements against the emerging requirements of the WPI.
39. I have submitted a report on the completion of the review. It revealed that:
- there is a performance management framework in place but it needs to be strengthened;
 - the planning framework is developing but there is no single document that captures the main elements of the framework;
 - the reporting framework is in place but this needs to be enhanced; and
 - an 'operational champion' should be appointed to facilitate the implementation of the performance management software.

Performance indicators

40. Prior to the introduction of WPI, the Welsh Fire Authorities have continued to compile and publish an Improvement Plan which includes statutory indicators. The Authority completed their plan and placed it on the Authority's website by 31 October 2006.
41. My auditors have reviewed the statutory indicators contained in the Improvement Plan to ensure that they meet the guidance issued by the Assembly. I have concluded that they have been completed in accordance with the guidance and there are no specific matters I need to bring to the attention of members.

Appendix 1

Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2005/2006

Conclusion on the North Wales Fire Authority's arrangements for the year ended 31 March 2006 for securing economy, efficiency and effectiveness in its use of resources	
The Authority's responsibilities	
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Authority is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.	
Auditor's responsibilities	
<p>I have a responsibility under Section 17(2) of the Act to conclude from my audit of the Authority's annual accounts whether I am satisfied as to the existence of the arrangements that it had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in paragraph 48 of the Auditor General's Code.</p> <p>I report if significant matters have come to my attention which prevents me from concluding that the Authority has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing VFM during the year under review.</p>	
Conclusion	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2005/2006 accounts to establish, in all significant respects, what arrangements the Authority had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p> <p>In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered, the effectiveness of the arrangements in place in securing VFM during the year under review.</p> <p>Based on the Authority's SIC and as a result of the work carried out, as described above as part of my audit of the 2005/2006 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p>	
Anthony Barrett Appointed Auditor 21 December 2006	Wales Audit Office Unit 4, Evolution Lakeside Business Village St David's Park Ewloe, CH5 3XP

Appendix 2

Criteria for assessing North Wales Fire Authority arrangements during 2005/2006 for securing economy, efficiency and effectiveness in its use of resources

Corporate Performance Management and Financial Management Arrangements	Questions on arrangements
Establishing objectives, determining policy and making decisions	1. Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting needs of users and taxpayers	2. Has the Authority put in place channels of communication with patients and their representatives, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Compliance with established policies	3. Has the Authority put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Managing operational and financial risks	4. Has the Authority put in place arrangements to manage its significant business risks?
Managing financial and other resources	5. Has the Authority put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	6. Has the Authority put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?
	7. Has the Authority put in place arrangements to ensure that its spending matches its available resources?
	8. Has the Authority put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Authority?
	9. Has the Authority put in place arrangements for the management of its asset base?
Monitoring and reviewing performance	10. Has the Authority put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the Authority?
	11. Has the Authority put in place arrangements to monitor the quality of its published performance information, and to report the results to Authority members?
Proper standards of conduct etc	12. Has the Authority put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

Appendix 3

Reports delivered during the 2005/2006 audit

Report	Publication date
Audit strategy	March 2006
Performance Management Review	December 2006
Review of Internal Audit	December 2006
Financial Statements Memorandum (Draft)	December 2006
Annual Audit Letter	December 2006


Appendix 4

Audit fee

My Audit Strategy for 2005/2006 set out the proposed audit fee of £47,062 (plus VAT). The table below sets out my latest estimate of the actual fee for 2005/2006, on the basis that some work remains in progress, analysed between the main areas of the Code.

Analysis of proposed and actual audit fee 2005/2006

Code area	Planned fee 2005/2006 (£)	Actual fee 2005/2006 (£)
Financial Accounts	33,755	33,755
Performance	13,307	13,307
Total	47,062	47,062



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