



WALES AUDIT OFFICE
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Authors: Anthony Barrett and Gilbert Lloyd

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Financial Audit Strategy

North Wales Fire Authority

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Status of this report

This document has been prepared for the internal use of North Wales Fire Authority as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

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Audit work at the North Wales Fire Authority

1. This Financial Audit Strategy has been prepared to meet the requirements of the auditing standards and proper audit practices. It sets out the work to be undertaken by the Appointed Auditor at North Wales Fire Authority under the Public Audit (Wales) Act 2004.
2. A separate document, the Auditor General Regulatory Programme for Performance Audit, has been prepared to outline work to be delivered by the Auditor General under the Local Government Measure 2009. This also includes work under the remaining functions of the Local Government Act 1999.
3. The formal roles and responsibilities of the Appointed Auditor are outlined in Appendix 1. Under the Auditor General's Single Appointed Auditor arrangements, the Appointed Auditor is Anthony Barrett, who will be supported by Gilbert Lloyd as Engagement Partner.
4. The Appointed Auditor is required to examine and certify the accounts of the North Wales Fire Authority, satisfying himself that the accounts:
 - give a true and fair view of North Wales Fire Authority's financial position¹;
 - comply with all the relevant legal requirements; and
 - have been prepared in accordance with proper practice.
5. In addition, the Appointed Auditor is required to:
 - satisfy himself that the North Wales Fire Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) 2004 (in particular in relation to electors' rights).
6. As well as satisfying the legal requirements, the Appointed Auditor must comply with International Standards on Auditing (ISA). The ISA require formal reporting at various stages during the audit to those charged with governance (see Appendix 1). In particular, as part of the audit planning arrangements, auditors must report:
 - relationships that may bear on the auditor's independence; and
 - audit planning information.
7. Appendix 2 highlights the key elements of the audit engagement at North Wales Fire Authority, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.

¹ This is subject to the anticipated changes to the Accounts and Audit Regulations.

Audit of the accounts

8. In planning their work, auditors are required to identify and report significant risks that relate to the accuracy and reliability of the financial statements. Exhibit 1 contains the identified risks and the actions proposed to address them.

Exhibit 1: Financial accounts risks

Control environment risks	Action proposed
<ul style="list-style-type: none"> Given the current economic environment, there is significant pressure on the Authority to reduce costs in the current financial year and future years. If budgeting and forecasting procedures are not robust, this could result in disruption in service delivery and prevent the Authority from achieving its objectives. The Authority is required to have proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources. If appropriate procedures are not in place, we are required to report this in our audit opinion on the financial statements. North Wales Fire Authority has an Internal Audit function outsourced to Conwy County Council. The results of internal audits during the year may indicate risks of material misstatement in the financial statements. 	<ul style="list-style-type: none"> We will review the process for setting the revenue and capital budgets and discuss with management how performance against budget is monitored. We will review the performance against budget in the current financial year and projections for 2010-11. We will discuss the procedures in place to ensure proper arrangements in this area including considering how value for money is achieved in significant projects being undertaken by the Authority. We will review the reports produced by internal audit during the year and follow up any areas which may have an impact on the financial statements or our value for money conclusion.
Financial systems risks	Action proposed
<ul style="list-style-type: none"> Whilst there have been no significant changes in the financial systems during the year, the Information Technology (IT) environment is a significant control in the processing of transactions and production of data for the financial statements. Any weakness in the environment could lead to a significant misstatement in the financial statements. 	<ul style="list-style-type: none"> We will perform an IT General Controls review which considers areas such as access to key systems, data integrity and change management procedures. We will also document the procedures in place (such as account reconciliations) to check outputs from the system to ensure that significant errors are detected.

Preparation of the accounts risks	Action proposed
<ul style="list-style-type: none"> • The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (SoRP) introduces further changes to Fire Authority accounting from 1 April 2009. There are no significant changes for North Wales Fire Authority. • The Authority will move to accounting under International Financial Reporting Standards (IFRS) from year ended 31 March 2011. As part of the conversion process, the balance sheets for 31 March 2009 and 2010 and the results for the year ended 31 March 2010 will need to be converted to IFRS as they will form the opening balance sheet and comparative numbers within the first set of IFRS financial statements. IFRS will also require the accounts for the year ended 31 March 2011 to include additional disclosures. • The Authority has to complete a consolidation pack to support the consolidation of public sector resource accounts (Whole of Government Accounts), which will be published for the first time in 2009-10. 	<ul style="list-style-type: none"> • We will complete the 2009 SoRP checklist to identify any areas where the financial statements do not comply with the SoRP. • Whilst IFRS is outside of the scope of the 2009-10 audit, we will discuss the progress of the IFRS conversion with finance and agree a timetable with the review of the opening balance sheet and comparative numbers prepared under IFRS in order to ensure that the transition is conducted as efficiently as possible. • We will agree the consolidation pack to the audited financial statements and discuss any differences with management. • We will also agree significant transactions with other public sector bodies to agreed confirmations.
Financial statements risks	Action proposed
<ul style="list-style-type: none"> • In December 2009, the Combination Order was amended to enable Fire Authorities to hold reserves and to provide a degree of flexibility in terms of forward financial planning. • Fixed asset accounting is a complex area which results in an increase in the risk of error in the financial statements. The current economic environment also means there is a risk of impairment of assets if their value has declined. 	<ul style="list-style-type: none"> • We will review the Authority's accounting policies, paying particular attention to the establishment and use of reserves. • We will review the accounting for fixed assets and management's consideration of impairment. • We will consider whether the useful lives of significant assets remain appropriate.

Financial statements risks	Action proposed
<ul style="list-style-type: none"> • The Authority participates in defined benefit pension schemes for both uniformed and non-uniformed employees. The accounting for these schemes is complex increasing the risk of error or omission in the financial statements. • There are also discussions ongoing as to the extent of compensation payments that retained fire fighters are entitled to following the ruling that they are entitled to participate in the Firefighters Pension scheme which could result in a significant future liability for the Authority. 	<ul style="list-style-type: none"> • We will review the accounting for the pension schemes and ensure that disclosures have been provided in line with the SoRP requirements. • We will discuss the current status of the discussions regarding compensation payments for retained firefighters to determine and review the disclosure and any provision included in the financial statements.

Electors' rights

9. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the North Wales Fire Authority's financial statements, to ask the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
10. Whilst in previous years there have been no queries regarding the North Wales Fire Authority's financial statements, if queries are raised any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with Dawn Docx prior to undertaking the work.

Working with the Authority

11. The planned work addresses identified risks and is based on the information currently available. Changes to the Strategy may be required if any significant new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Financial audit fee

12. The proposed fee for 2009-10 financial audit work is £26,400 (plus VAT) and will be charged in equal instalments between November 2009 and October 2010. This fee is in line with the Auditor General's fees letter and is based on the Auditor General's new zero-based fee model for financial audit.
13. The 2009-10 financial audit fee represents an 1.7 per cent increase on the equivalent element of Appointed Auditor's responsibilities included as part of our 2008-09 fee.

International Financial reporting Standards (IFRS)

14. The Auditor General's local government audit and inspection 2009-10 fees letter (the fees letter) issued in September 2009 highlighted the impact on audit fees of the introduction of the IFRS. There are two main elements:
- the recognition of PFI/PPP schemes based on the principles of IFRIC 12 in 2009-10; and
 - the introduction of an IFRS based Code of Practice on Local Authority Accounting in 2010-11 (the Code).
15. The changes in relation to PFI/PPP schemes are not relevant to the Authority.
16. Any audit work undertaken in reviewing the restated opening IFRS Balance Sheet at 1 April 2009 and the restatement of the 2009-10 comparative figures will be preparatory work relating to the 2010-11 accounts. Although that work may be undertaken during the current year, the fee will be included in the 2010-11 audit fee (as outlined in the fees letter).

Financial audit team

Exhibit 2: The financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500	Anthony.barrett@wao.gov.uk
Gilbert Lloyd	Financial Audit Engagement Partner	029 2046 8179	Gilbert.Lloyd@kpmg.co.uk
Jo West	Audit Senior Manager	029 2046 8138	Joanne.west@kpmg.co.uk

Note: All queries should be directed to Gilbert Lloyd or Jo West in the first instance

Delivering the work

17. We will provide reports, or other output as agreed, and our key milestones are set out below.

Exhibit 3: Key milestones

Planned output	Planned start date	Report finalised
Financial Audit Strategy	1 February 2010	28 February 2010
Financial statements report – to those charged with governance	1 August 2010	31 August 2010
Annual Audit Letter	1 September 2010	31 October 2010

Appendix 1

Roles and responsibilities

The office of the Auditor General was re-established under the Government of Wales Act 2006. From 1 April 2005, the Public Audit (Wales) Act 2004 extended the Auditor General's functions to include the appointment of external auditors for local government bodies.

Appointed auditors

Appointed auditors must carry out an audit that discharges the statutory duties placed upon them by the Local Government Act 1999 and the Public Audit (Wales) Act 2004. The Auditor General publishes a Code of Audit and Inspection Practice (the Code) which prescribes the way in which auditors are to carry out their functions. The Auditor General is currently consulting on a revised Code.

Regulation 7 of the Accounts and Audit (Wales) Regulations 2005 requires local government bodies in Wales to produce annual statements of accounts², prepared in accordance with the proper practices set out in the relevant *Code of Practice on Local Authority Accounting in the United Kingdom – a statement of recommended practice* (SORP).

The Assembly Government's Social Justice and Local Government Department also supplements these regulations with guidance to assist local government bodies in their operation of the accounting regime. That guidance is not intended to be part of the statutory framework but is an informal commentary that includes ideas of good practice and practical advice and provides details of where generally recognised published codes setting out proper practice may be found.

Section 13 of the 2004 Act requires local government bodies in Wales to ensure that their accounts are audited by one or more auditors appointed by the Auditor General under section 14 of the Act. Sections 17 and 23 of the Act require appointed auditors to examine and certify the accounts, satisfying themselves that:

- the accounts;
 - give a true and fair view of the Authority's financial position and transactions³;
 - comply with legislative requirements; and
 - have been prepared in accordance with proper practice.
- the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- the audited body has made such arrangements for collecting, recording and publishing information on standards of performance as are required by any direction under Section 47 of the Act.

² These regulations are made by the Assembly under the statutory powers contained in section 39 of the 2004 Act.

³ This is subject to the anticipated changes to the Accounts and Audit Regulations.

Communication of audit matters with those charged with governance – International Standards on Auditing (UK and Ireland) 260

The ISA (UK and Ireland) 260:

- provides 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; and
- requires the auditor to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements.

The Appointed Auditor will discharge the responsibility to report to those charged with governance by submitting reports to the Audit Committee and where necessary to the full Authority in a timely manner, prior to the completion of audit.

Appendix 2

Key elements of the audit engagement

Key elements	Requirements	Position at North Wales Fire Authority
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors outlined above and in Appendix 1. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english/documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement partners	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement partner.	Under the Auditor General's Single Appointed Auditor arrangements, the Appointed Auditor is Anthony Barrett, who will be supported by Gilbert Lloyd as the Engagement Partner.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited and inspected bodies.	No 'non-statutory' work has been requested or is proposed.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	We can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and we have complied with the Wales Audit Office rotation policy.
Engagement performance	Engagement partners need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Engagement Partner has established appropriate review levels based on the experience of the staff undertaking the audit work.



Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660
E-mail: info@wao.gov.uk
Website: www.wao.gov.uk