



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2005/2006

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Audit Strategy 2005/2006

North Wales Fire Authority

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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.

Introduction

- 1 As your external auditors our objective is to carry out an audit which discharges our statutory duties set out in the Public Audit (Wales) Act 2004 (the 2004 Act) and meets the requirements of the Code of Audit and Inspection Practice (the Code) issued by the Auditor General for Wales (the Auditor General) under Section 16 of the 2004 Act.
- 2 We have prepared this Strategy on the basis of an assessment of the financial and operational risks that you are facing. We also intend to produce a Financial Accounts Plan and individual Terms of Reference for each piece of performance work as they are agreed.

Our roles and responsibilities

- 3 The Office of the Auditor General was established under the Government of Wales Act 1998. The Wales Audit Office was established on 1 April 2005 and comprises the Auditor General and his staff.
- 4 We are required to examine and certify that the statement of accounts present fairly the financial position of the North Wales Fire Authority (the Authority). In undertaking this duty we are also required to satisfy ourselves, that the expenditure to which the accounts relate has been incurred lawfully. We are also required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of its resources.

North Wales Fire Authority

- 5 The Authority provides a Fire and Community Safety service to the general public. It helps to protect a population of around 670,000 people, covering an area over 2,400 square miles.
- 6 The Authority was established as part of the reorganisation of Local Government on 1 April 1996. It comprises 28 councillors from the six unitary authorities of North Wales, with the number of representatives from each constituent authority being determined on the basis of population.
- 7 The Authority's revenue budget for 2004/2005 required contributions of almost £27 million from the constituent authorities. Actual expenditure was contained within available resources and was approximately £1 million lower than the budget, primarily relating to retained fire-fighters.
- 8 The initial budget requirement for 2005/2006 was calculated at £29.4 million, some 9.5% higher than 2004/2005. The Authority recognised that such an increase was unlikely to be acceptable to the constituent authorities. After taking account of the amount to be set aside in 2004/2005, the fact that Transitional Funding did not have to be repaid and other deliverable savings, including a 1% efficiency saving, the contribution required from constituent authorities was set at just under £28 million, a 4% increase over 2004/2005.

- 9 The latest budget monitoring report, submitted to the Authority in December 2005 indicates that expenditure will be contained within available resources. It is possible, depending upon activity levels in the final quarter that a small surplus will be available to supplement available resources in 2006/2007.

Our approach

- 10 This Strategy is produced in accordance with the International Standard on Auditing (ISA) (UK and Ireland) 300 and sets out how we will conduct our work in accordance with the Code. One of the prime requirements of the Code is that we design a programme of work to address the significant operational and financial risks you face.
- 11 The Code now consolidates our work into two distinct areas as follows:
- financial audit; and
 - performance work.

Financial audit

- 12 It is the Authority's responsibility to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 13 The Authority is also responsible for preparing and publishing a statement made by those charged with governance, relating to their review of the effectiveness of the system of internal control, with its financial statements.
- 14 We are also required to issue an audit report on the financial statements which includes an opinion on:
- Whether the financial statements present fairly the state of affairs of the Authority. This will provide assurance that the financial statements:
 - are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all the relevant requirements for accounting presentation and disclosure.
 - Whether the Statement of Internal Control (SIC) has been presented in accordance with the relevant requirements and is not inconsistent with our knowledge of the Authority.

- 15 In order to issue the audit report and opinion, we must ensure that all the risks associated with the above are addressed. We have undertaken an initial risk assessment of the risks which is set out below.

Exhibit 1: Financial accounts

Financial accounts risk	Proposed work
<p>The new Accounts and Audit Regulations for Wales came into effect on 1 April 2005, and apply from the 2005/2006 financial year. The Regulations introduce a number of new requirements including:</p> <ul style="list-style-type: none"> revised timetable for the production and audit of the statement of accounts; the preparation and disclosure of the SIC; and the requirement for the financial statements to be signed by the Chief Executive and the member presiding at the meeting where they were approved. 	<p>We will continue to work with the Authority to identify the key issues to ensure compliance with the regulations. In particular, we will also work closely with finance staff to develop a closedown and audit programme to ensure that the revised deadlines are met. We will also consider areas of the accounts where work can be undertaken in advance of the submission of the draft financial statements.</p>
<p>Internal Audit is the key element of your internal control arrangements including providing assurance over the operation of key financial systems.</p>	<p>We will review the work undertaken by Internal Audit against CIPFA standards.</p>
<p>New International Auditing Standards (ISAs) place additional responsibilities on auditors in relation to their opinion work.</p>	<p>Our work will be planned and delivered to meet these new requirements.</p>

- 16 We will be updating the risk assessment during the year and will produce a more detailed Final Accounts Plan for you prior to any work being undertaken in July 2006.

Performance audit

- 17 Our Code requires us to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 18 The Authority is responsible for establishing arrangements to secure economy, efficiency and effectiveness in its use of resources by:
- establishing strategic and operation objectives;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - identifying, evaluating and managing operational and financial risks, and opportunities, including those arising from involvement in partnerships and other forms of joint working or contracting;
 - managing financial and other resources, including arrangements to safeguard its financial standing;
 - monitoring and reviewing performance; and
 - ensuring that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

- 19 The appointed auditor has a statutory responsibility to satisfy himself that you have made proper arrangements in this area. The main focus of this work will be to review the key corporate performance management and financial management arrangements that you are required to put in place as part of your Systems of Internal Control.
- 20 Our review will draw primarily on evidence secured as part of our work on your financial statements. In arriving at a conclusion, we will also take into consideration any other available relevant sources of evidence, such as the results of performance work undertaken during the year. This latter evidence will include the following work we will be undertaking to address the risks identified for 2005/2006.

Exhibit 2: Performance work

Performance code risk	Proposed work
The Authority is implementing a new Performance Management Framework (PMF) in 2005/2006 in preparation for the Wales Programme for Improvement (WPI) agenda.	Review the implementation of the new PMF.
Information Management and Technology (IM&T).	We will complete a detailed assessment of arrangements for the provision of IM&T based services to identify areas which may benefit from an independent review.
Fire authorities have produced a Best Value Performance Plan (BVPP) for the period ending 31 March 2006. The Welsh Assembly Government intends that the WPI will apply to fire authorities from 1 April 2007.	We will review the 2005/2006 BVPP. We will also review the arrangements that are being established to implement the requirements of the WPI.
Use of resources conclusion.	We will review the procedures to assess whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of its resources.

Communication of audit matters to those charged with governance – ISA (UK and Ireland) 260

- 21 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 to:
- ensure that there is mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
 - share information to assist both auditors and those charged with governance to fulfil their respective responsibilities; and
 - provide those charged with governance with constructive observations from the audit process.

- 22** It requires us to report to those charged with governance (as distinct from management) certain matters before we give an opinion on the financial statements. The ISA defines relevant matters as:
- relationships that may bear on the auditors' independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on qualitative aspects of the entity's accounting and reporting.
- 23** The first issue is covered in this Audit Strategy. The second will be covered when we complete the detailed financial accounts planning and the third relates to the findings from the audit of the financial statements which will be reported during the course of the audit covering each of the following aspects:
- expected modifications to the auditors' report;
 - unadjusted misstatements;
 - material weaknesses in the accounting and internal control systems identified during the audit;
 - their views about the qualitative aspects of the entity's accounting practices and financial reporting; and
 - matters specifically required by other auditing standards to be communicated to those charged with governance.
- 24** We will discharge our responsibility to report to those charged with governance by submitting our reports to the Authority in a timely manner, prior to completing the audit.

Our fee

- 25** Your audit fee has been determined on the basis of the work agreed with you to address the risks identified above, using both national risks identified by the Wales Audit Office and our local risk assessment. Planning will be ongoing, and changes in the Strategy may be required if any significant new risks emerge. No changes will be made without first discussing them with the Chief Fire Officer and Chief Executive and the Treasurer to the Authority.
- 26** The proposed fee for 2005/2006 is £47,072 (plus VAT) and will be charged in 12 equal instalments. This fee represents an increase of 2% on the fee for 2004/2005 which is in line with the increase set out in the fees letter issued by the Auditor General.
- 27** The fee is analysed between relevant Code areas as follows.

Exhibit 3: Our fee

Code area	Planned fee 2004/2005 ⁽¹⁾ £	Actual fee 2004/2005 ⁽¹⁾ £	Planned fee 2005/2006 £
Accounts	12,734	12,734	12,989
Performance (now includes financial aspects of corporate governance)	33,415	33,415	34,083
Total	46,149	46,149	47,072

⁽¹⁾ The 2004/2005 fee has been adjusted for comparable purposes with the new code structure

Our team

Exhibit 4: Our team

Name	Role	Contact Number	E-mail address
Anthony Barrett	Appointed Auditor	01244 525970	anthony.barrett@wao.gov.uk
Matthew Edwards	Assignment Manager	01244 525970	matthew.edwards@wao.gov.uk
Mark Roberts	Team Leader	01244 525970	mark.roberts@wao.gov.uk
Andrew Doughton	IT Lead	01244 525977	andrew.doughton@wao.gov.uk


- 28** We can confirm that our team members are all independent of the Fire Authority and your officers. In addition, we are not aware of any potential conflicts of interest which we need to bring to your attention.

Delivering our work

- 29** We will provide reports, or other outputs as agreed, to the Authority for each of the risk areas identified above. Our key milestones are set out below.

Exhibit 5: Delivering our work

Planned output	Planned start date	Report finalised with Fire Authority
Audit strategy	February 2006	March 2006
Final Accounts work		
• Financial accounts plan;	April 2006	July 2006
• Interim Accounts Memo;	April 2006	July 2006
• ISA 260 Report; and	September 2006	September 2006
• Final Accounts Memo.	September 2006	September 2006
Performance work	March 2006	To be confirmed
Annual Audit Letter	October 2006	November 2006



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