



WALES AUDIT OFFICE  
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# Annual Financial Audit Outline

## North Wales Fire Authority

**Audit year:** 2013-14

**Issued:** June 2014

**Document reference:** NWFRSA2014

**This document is a draft pending further discussions with the audited body. The contents of this draft may not yet have been fully verified and should not be distributed beyond those at North Wales Fire Authority who have a business need to access it.**

# Status of document

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This document was produced by KPMG LLP on behalf of the Appointed Auditor, Anthony Barrett.

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# Annual Financial Audit Outline

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## Introduction

1. This Annual Financial Audit Outline has been prepared by KPMG on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are 'true and fair'; and
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
  - My audit team's approach to:
    - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
    - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
  - The planned timetable, fees and audit team.
  - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

## Financial statements audit

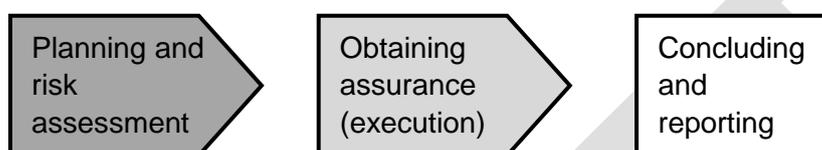
5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
  - Whether or not the accounts give a 'true and fair view' of North Wales Fire Authority's (the Authority) financial outturn and position. This provides assurance that the accounts:
    - are free from material misstatement, whether caused by fraud or error;
    - comply with statutory and other applicable requirements; and
    - comply with all relevant requirements for accounting presentation and disclosure.
  - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

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## Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: Our audit approach



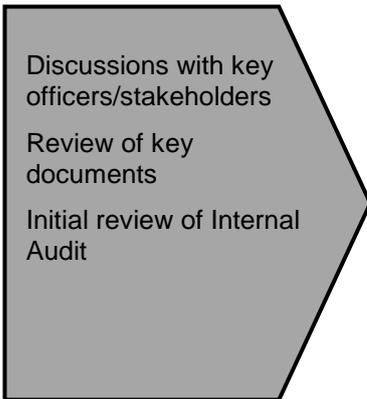
8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

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Exhibit 2: Our audit approach

**Planning and risk assessment**

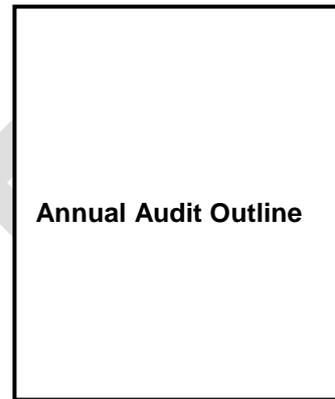
Key tasks



Objectives

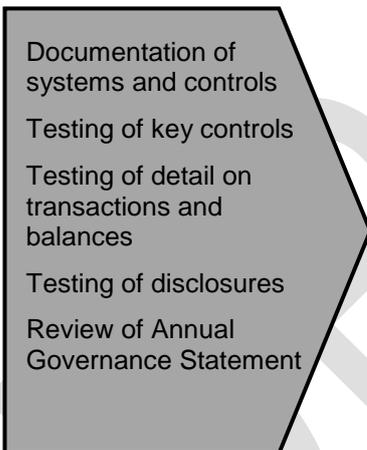


Output

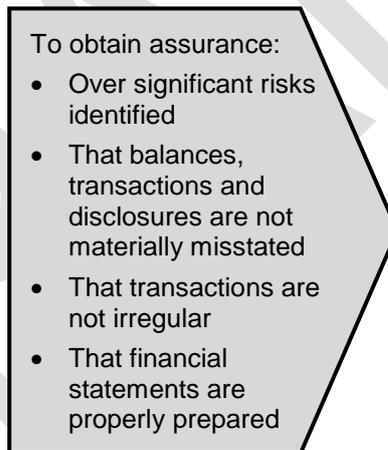


**Obtaining assurance (execution)**

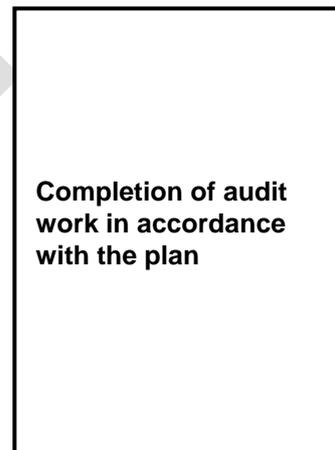
Key tasks



Objectives

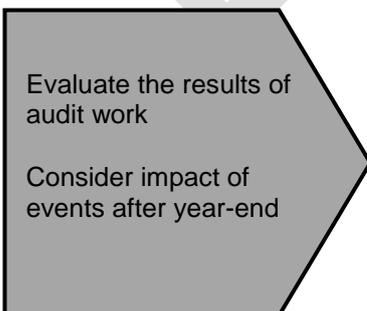


Output

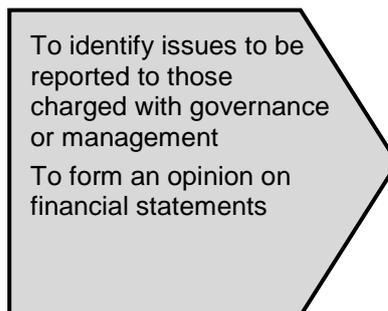


**Concluding and reporting**

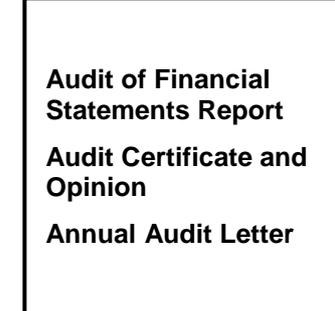
Key tasks



Objectives



Output



- 
11. In planning my work and obtaining an understanding of the Authority I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
  - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

## Audit risks and issues

### Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Authority that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

### Exhibit 3: Summary of main audit risks and proposed responses

| Risks  | Action proposed   |
|--|---|
| <b>Control environment risks</b>   |   |
| <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>  | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>review accounting estimates for biases;</li> <li>evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul> |
| <p>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.</p> | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>review the process for setting the revenue and capital budgets and discuss with management how performance against budget is monitored;</li> <li>review the performance against budget in the current financial year and projections for 2014-15.</li> </ul>                      |
| <p>The Authority is required to prepare a Governance Statement for inclusion in the 2013-14 Financial Statements, setting out the high level arrangements for prevention and detection of fraud and corruption and standards of conduct.</p>   | <p>My audit team will review the Annual Governance statement to ensure it complies with best practice and reflects the Authority's governance arrangements.</p>   |
| <p>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, I am required to report this in my audit opinion on the financial statements.</p>  | <p>My audit team will discuss the procedures in place to ensure proper arrangements are in place.</p>   |
| <p>North Wales Fire Authority's Internal Auditors for 2013-14 were provided by Conwy County Borough Council. The results of internal audits during the year may indicate risks of material misstatement in the financial statements.</p>   | <p>My audit team 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.</p>   |

| Risks   | Action proposed   |
|---|---|
| <b>Financial systems risks</b>  |   |
| While my audit team has not identified any significant changes to the financial systems in place during the year, any weakness in the control environment could lead to a significant misstatement in the financial statements. | My audit team will document and test as appropriate the procedures in place (such as account reconciliations) to ensure that significant errors are detected.   |
| <b>Preparation of the accounts risks</b>  |   |
| The finance team have continued to work with the two other Fire Authorities in Wales to produce an accounts template which should ensure more consistency of financial reporting of the 3 Welsh Fire Authorities.               | My audit team has discussed key accounting changes with the Fire Authority and will review the accounts template accordingly.   |
| As in prior years, the Authority has to complete a consolidation pack to support the consolidation of public sector resource accounts (Whole of Government Accounts).   | My audit team will work with the finance team to ensure WGA audit packs are complete and any updates required to the consolidation pack as part of our audit work are promptly made.  |
| <b>Financial statements risks</b>   |   |
| 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. | My audit team will review the accounting and disclosure of the pension schemes to ensure they are in line with the relevant IFRS requirements and review actuarial assumptions to ensure they are in line with KPMG actuary assumption ranges.<br>Final accounts testing based on work undertaken during the year and review of the draft financial statements. |

### Accounting and reporting issues

- In addition to the significant audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

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## Exhibit 4: Significant accounting and reporting changes for 2013-14

### Accounting and reporting change

#### **IAS 1 *Presentation of Financial Statements***

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now includes 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.

#### **IAS 19 *Employee Benefits***

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

## Use of resources audit

15. To discharge my responsibilities regarding the arrangements that the Authority has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
  - the Authority's system of internal control, as reported in the Annual Governance Statement and my report thereon;
  - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
  - the results of the work of other external review bodies where relevant to my responsibilities; and
  - any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

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## Other work undertaken

16. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about North Wales Fire Authority to support preparation of Whole of Government Accounts.

## Auditor General's Regulatory Programme

17. A separate document, the Auditor General's Regulatory Programme for Performance Audit, will be issued setting out the work to be delivered by the Auditor General under the Measure.

## Fee, audit team and timetable

### Fee

18. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provided further information about the new legislative requirements.
19. The proposed fee for 2013-14 financial audit work is £34,500 (plus VAT) (2102-13: £32,900). Overall, the 2013-14 financial audit fee represents a 3% inflationary increase in the total fees, as the performance audit fees will be reduced accordingly.
20. In previous years, there have been no formal objections to the Authority's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time will be included within the fee to deal with minor queries, as part of the overall management of the audit.
21. 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 the Authority, prior to undertaking the work.
22. Further information on the Auditor General's fee scales and fee setting can be found on our website at: [www.wao.gov.uk/aboutus/4240.asp](http://www.wao.gov.uk/aboutus/4240.asp).

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## Audit team

### Exhibit 7: My team

| Name               | Role                            | Contact number                  | E-mail address               |
|--------------------|---------------------------------|---------------------------------|------------------------------|
| Anthony Barrett    | Appointed Auditor               | 029 2032 0500/<br>012 4452 5970 | Anthony.barrett@wao.gov.uk   |
| Virginia Stevens   | Financial Audit Engagement Lead | 029 2046 8000                   | Virginia.stevens@kpmg.co.uk  |
| Victoria de Zouche | Audit Manager                   | 029 2046 8000                   | Victoria.dezouche@kpmg.co.uk |
| Emma Maidment      | Financial Audit Team Leader     | 029 2046 8000                   | Emma.maidment@kpmg.co.uk     |

23. I can confirm that my team members are all independent of the Authority, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

24. I will provide reports, or other outputs as agreed, to Audit Committee covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

### Exhibit 8: Timetable

| Planned output  | Work undertaken         | Report finalised |
|---|-------------------------|------------------|
| <b>Annual Financial Audit Outline for 2014</b>  | March – May 2014        | June 2014        |
| <b>Financial accounts work:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li><li>• Financial Accounts Memorandum</li><li>• Whole of Government Accounts</li></ul> | August – September 2014 | September 2014   |
| <b>Use of Resources Work</b>  | August – November 2014  | November 2014    |
| <b>Annual Audit Letter 2014</b>   | December 2014           | January 2015     |
| <b>Outline of Audit Work for 2015</b>   | March – May 2015        | May 2015         |

# Appendix 1

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## Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides North Wales Fire Authority] (the Authority) with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Authority's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Authority. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Authority's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them;
- that proper practices have been observed in the compilation of the accounts; and
- that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Authority of its responsibility to:

- establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Authority's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.

The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.



WALES AUDIT OFFICE  

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