

Annual Audit Letter
North Wales Fire Authority

INSIDE THIS LETTER

PAGES 3-5

- Introduction
- The purpose of this Letter
- Background to this year's work programme
- Our objectives
- Key messages for members

PAGES 6-12

Section 1:

- Accounts

Section 2:

- Financial aspects of corporate governance

Section 3:

- Performance management

Section 4:

- Closing remarks

PAGES 13-15

Appendices

- Reports produced during the year
- Audit Certificate on Best Value Performance Plan

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KEY MESSAGES FOR MEMBERS

Accounts

We issued an unqualified audit opinion on the Authority's accounts on 24 December 2003.

Financial aspects of corporate governance

Revenue expenditure was contained within available resources in 2002/2003 and permitted £748,000 to be retained to meet budgetary pressures arising from the recent pay settlement.

Capital expenditure was again significantly lower than the programmed spend, highlighting the need for better management of capital projects.

Our overall conclusion is that the Authority has appropriate governance arrangements in place. There are, however, opportunities to further enhance the arrangements relating to:

- scheme of reservation and delegation;
- an annual assurance relating to internal financial control by the Internal Audit service;
- guidelines for non-uniformed staff on gifts and hospitality issues.

Performance management

Our review of the Authority's 2003/2004 Best Value Performance Plan has confirmed that it complied with statutory requirements. Moreover, we concluded that performance indicators are consistently and accurately stated.

Introduction

The context in which public services are delivered has changed significantly in recent years and continues to change. Investment in public services has increased, and with it, the perceived need for assurance that taxpayers' funds are being properly applied and that services are improving.

Regulators have a major role to play in achieving this improvement and the regulatory landscape is changing. During the year, in Wales, District Audit combined with the Audit Commission's Inspection Service to form the Audit Commission in Wales (ACiW). This development anticipated the creation from 2005 of the Wales Audit Office, which is expected to see ACiW combine with the National Audit Office in Wales. Structural changes also require ACiW to forge links with new partners in order to deliver a strategic approach to regulation.

These changes reflect a shift in strategic direction for ACiW as set out in our draft strategy for 2004-2007, 'Aligning the Levers of Change'. At the core of our plan is strategic regulation; a move to a new, more focused and more risk-based approach to delivering our remit. Our approach to strategic regulation embodies four key principles:

- a force for continuous improvement;
- focused on outcomes for services users;
- proportionate to performance and risk;
- delivered in partnership.

The purpose of this Letter

This Annual Letter summarises for members the more important matters arising from our audit for 2002/2003 and comments on other current issues. We have produced separate reports on completion of specific aspects of our work, which have been discussed with officers.

The Audit Commission has circulated to all authorities a statement, which summarises the key responsibilities of auditors. Our audit work referred to in this Letter has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Background to this year’s work programme

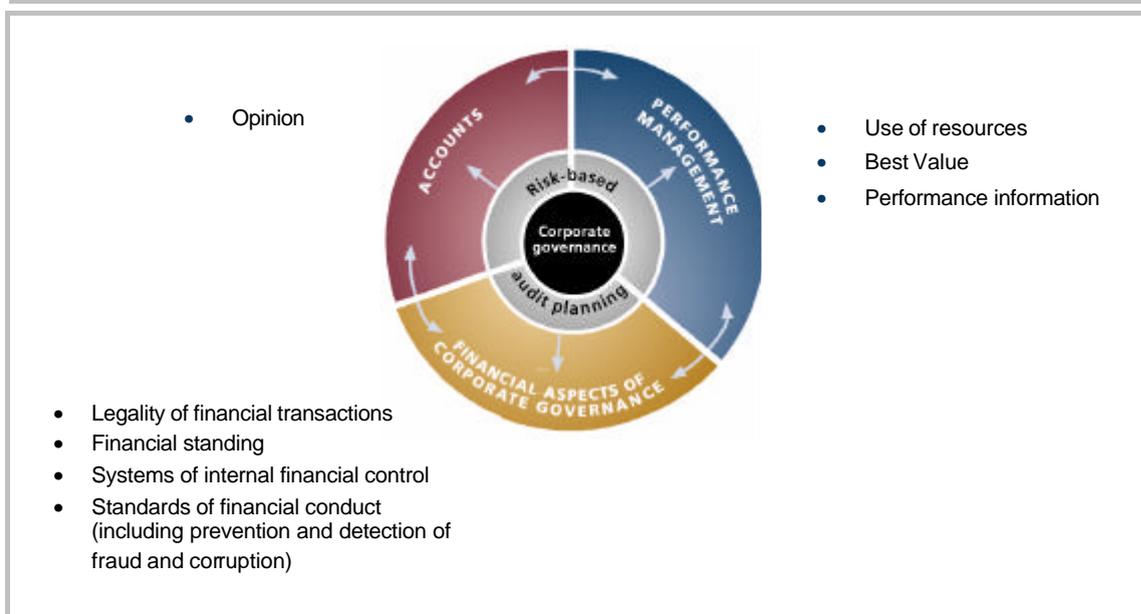
In another demanding year, the Authority has faced major issues that include:

- operating within the Best Value framework of fire authorities in England (but in the context of the Welsh Assembly Government’s Improvement Programme);
- preparing an integrated risk management plan;
- implementing changes to the structure of the Fire Service;
- preparing for and dealing with industrial action by fire-fighters.

Our objectives

Our work programme concentrates on the significant financial and operational risks that the Authority faces. It is structured around three main elements of the Code of Audit Practice:

EXHIBIT 1: THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

We issued an unqualified opinion on the Authority's accounts on 24 December 2003.

Our review of your core financial processes concluded that they provided a sound basis for the preparation of the financial statements.

Our review of your annual accounts confirmed that they were free from material errors and mis-statements. A small number of issues were, however, raised with officers and some amendments to the financial statements presented for audit. The outcome of our review of the financial statements was reported to members in the 'Communication to those Charged with Governance', as required by SAS610, on 15 December 2003.

Financial aspects of corporate governance

Revenue expenditure was contained within available resources in 2002/2003 and permitted £748,000 to be retained to meet budgetary pressures arising from the recent pay settlement. It is anticipated that £350,000 of that retained surplus will need to be utilised in 2003/2004.

Capital expenditure was again significantly lower than the programmed spend, highlighting the need for better management of capital projects.

Our overall conclusion is that the Authority has appropriate governance arrangements in place. There are, however, opportunities to further enhance the arrangements relating to:

- *scheme of reservation and delegation;*
- *an annual assurance relating to internal financial control by the Internal Audit service;*
- *guidelines for non-uniformed staff on gifts and hospitality issues.*

Financial standing

Revenue account

The Authority's net revenue expenditure in 2002/2003 amounted to £22.943 million, compared with a budget of £23.955 million. This resulted in an underspend of £1,012,000, which is larger than underspends in previous years.

The Treasurer's report identifies the most significant underspend as being employee costs, which were underspent by £434,000. This underspend was primarily due to the number of incidents attended being less than those budgeted. This underspend is net of £271,000 paid to the Office of the Deputy Prime Minister in respect of deductions made from fire-fighters pay for days not worked and provision being made, £208,000, for the impact of the pay award on 2002/2003.

In view of the level of the underspend in 2002/2003, it was deemed prudent to retain £748,000 for the impact that the pay award will have on the revenue account in 2003/2004 and future years. Moreover, the provision for unfunded pension liabilities was increased by £200,000, in line with the Authority's agreed policy.

As a result, after taking account of these provisions, the Authority's net revenue expenditure equalled the amount levied on the six constituent unitary authorities.

The budget for 2003/2004 was agreed at £25.3 million. In December 2003, the projected out-turn was £25.5 million. It is therefore anticipated that £217,000 of the surplus retained in 2002/2003 will need to be utilised in 2003/2004.

Capital expenditure

The initial capital programme for 2002/2003 was budgeted at £903,000, which was to be financed by Basic Credit Approval (BCA). Supplementary Credit Approvals (SCAs) of £81,000 were subsequently awarded to the Authority.

The actual capital spend in 2002/2003 in respect of those projects included in the initial programme was £410,000, which is almost £500,000 below the programmed level of expenditure. The 2002/2003 capital programme included two major capital schemes, Llanfairfechan Fire Station and Dolgellau Training Facilities. Expenditure on these schemes during the year amounted to £405,000, whilst the budget was £775,000.

An additional £100,000 of expenditure on operational equipment and other small schemes which met the CIPFA definition of capital expenditure, was therefore financed from capital resources, with the revenue resources being used to enhance the capital provision.

The total capital spend needing to be financed from BCA in 2002/2003 was £676,000. Following the return of the £100,000 BCA 'loaned' to Conwy County Borough Council in 2001/2002, a balance of £576,000 remained to be financed from the 2002/2003 BCA. The Authority was therefore not in a position to utilise all of its 2002/2003 BCA of £803,000. Arrangements were therefore made to transfer the remaining BCA of £227,000 to Newport City Council. That BCA will be returned to the Fire Authority in 2003/2004.

This is the second year in succession that the Authority has been unable to utilise its BCA due to slippage on capital projects. The situation has again been managed by capitalising items which were intended to be charged to the revenue account and 'loaning' BCA to other authorities. It is clear that greater attention needs to be given to the project management of schemes. This is an issue that we shall be reviewing in the coming months.

Overall arrangements

The Authority has appropriate standing orders and financial regulations which form a sound basis for general governance arrangements.

We are, however, of the view that existing arrangements will be enhanced by the scheme of reservation and delegation that is being developed in accordance with the legislative and modernisation agendas.

Legality of financial transactions

We have reviewed the arrangements that the Authority has in place to ensure the legality of its financial transactions and satisfied ourselves that those arrangements are adequate.

We have not received any questions or objections from members of the public relating to the Authority's accounts.

Systems of internal financial control

Internal Audit

In accordance with the requirements of the Code of Audit Practice, we carried out a review of the Internal Audit arrangements, provided by Conwy County Borough Council, which the Authority has in place.

We are content that the Fire Authority had effective Internal Audit arrangements in place, which generally complied with the requirements of the CIPFA Code of Practice, in 2002/2003.

It would be helpful to the Treasurer, members and ourselves if Internal Audit provided assurance regarding the effectiveness of the internal financial controls as part of its Annual Report. That Statement of Assurance would provide evidence to support the Statement of Internal Financial Control included within the Authority's Statement of Accounts.

Key financial systems

We have confirmed, by reference to our files and discussions with appropriate officers, that up-to-date procedure notes are in place for each of the key financial systems. We have also gained assurance from our review of Internal Audit files, confirming that they had undertaken appropriate testing regarding the adequacy and application of the controls in the key financial systems.

Tax related issues

We have satisfied ourselves that the arrangements that the Authority has in place for managing tax-related issues are sound.

Standards of financial conduct and the prevention of fraud and corruption

Our review of the Authority's overall arrangements suggests that there are appropriate arrangements in place to prevent and detect fraud.

Although the Authority made efforts to establish a Standards Committee in 2001/2002 and 2002/2003, it was subsequently realised that the proposed arrangements did not meet with statutory requirements. Difficulties in attracting members for the Standards Committee were subsequently experienced. The Standards Committee did however meet for the first time on 21 November 2003.

Whilst the financial regulations and standing orders cover issues relating to offers of gifts and hospitality, we are of the view that there is potential to provide clearer guidance to non-uniformed staff.

Risk management

Risk management is the process of identifying significant risks that may prevent the achievement of an authority's strategic and operational objectives, evaluating their potential consequences and determining and implementing the most effective way of controlling and monitoring them.

The Authority has continued to develop its approach to risk management. In addition to developing a risk management strategy in response to our previous report, the Authority has responded to the Fire Service Modernisation agenda through the development of its Integrated Risk Management Plan.

Performance management

Our review of the 2003/2004 Best Value Performance Plan confirmed that it complied with statutory requirements. Moreover, we concluded that performance indicators are consistently and accurately calculated.

Best Value

The Authority operates within the Best Value framework of fire authorities in England and Wales, but also needs to be mindful of the Welsh Assembly Government's Improvement Programme for Local Government.

Our review of the 2003/2004 Best Value Performance Plan confirmed that it complied with statutory requirements. Our statutory report on the Plan is attached as an appendix to this Letter. The Authority must publish this report within 30 working days of the date of this Letter.

Progress has been made on the majority of recommendations included in the 2002/2003 Best Value Performance Plan Audit Report. The Authority has also continued to make progress in integrating the principles of Best Value into the day to day working of the organisation. Recommendations intended to assist in achieving further improvements are contained in a report issued to officers.

Performance information

Our review concluded that, with the exception of minor discrepancies, all performance indicators are consistently and accurately calculated.

The targets set for 2003/2004 continue to reflect the Government's advice that targets should be appropriate to local circumstances, but remain challenging.

Closing remarks

Finally, we would like to take this opportunity to express our appreciation of the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of North Wales Fire Authority. We recognise the value of your co-operation and support.



Anthony Barrett
District Auditor
24 December 2003

Reports produced during the year

Review of Internal Audit Memorandum
Core Process Review Memorandum
Financial Aspects of Corporate Governance Memorandum
Communication Concerning Financial Statements to Those Charged with Governance
Best Value Audit Report – Best Value Performance Plan 2002/2003

Audit Certificate on Best Value Performance Plan

Auditor's report to North Wales Fire Authority on its best value performance plan for the year ended 31 March 2004

Certificate

I certify that I have audited North Wales Fire Authority's Best Value Performance Plan in accordance with Section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Authority and the Auditor

Under the Local Government Act 1999 (the Act), the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the Plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived. The form and content of the Best Value Performance Plan are prescribed in Section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditor, I am required under Section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the Plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the Plan;
 - whether the Audit Commission should carry out a Best Value Inspection of the Authority under Section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the Plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations which I considered necessary in order to provide an opinion on whether the Plan has been prepared and published in accordance with statutory requirements.

In giving my opinion, I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. My work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

Included in the Plan are the Authority's estimates for the year ending 31 March 2002. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the Plan are estimates, my audit work comprised an assessment as to whether the estimates made by the Authority had been properly compiled in all significant respects on the basis of the assumptions stated by the Authority, as at the date at which the Plan was prepared.

Where I have qualified my audit opinion on the Plan, I am required to recommend how the Plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Unqualified opinion

In my opinion, North Wales Fire Authority has prepared and published its Best Value Performance Plan in all significant respects in accordance with Section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a Best Value Inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a Best Value inspection of North Wales Fire Authority under Section 10 of the Local Government Act 1999.
- I do not recommend that the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

District Auditor's signature:	
Date:	24 December 2003