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SWYDDFA ARCHWILIO CYMRU

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Financial Accounts – Final Accounts Audit

North Wales Fire Authority

We issued an unqualified opinion on the Fire Authority's accounts on 31 October 2006.

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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 non-executive directors/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. Under the Wales Audit Office's Code of Audit and Inspection Practice, we have a responsibility to provide an opinion on whether the financial statements present fairly the financial position of the North Wales Fire Authority (the Authority) as at 31 March 2006 and its income and expenditure for the year then ended.
2. Our accounts audit is undertaken in two stages to enable us to discharge this duty. The first is to test the high level controls which contribute to the preparation of the financial statements and the second is the audit of the Authority's financial statements. Effective operation of the high level controls is essential to prevent and detect errors arising during the year, and aids the preparation and audit of the financial statements. If these processes are satisfactory, the risk of material misstatements in the financial statements is lowered, and detailed testing can be reduced.
3. Our approach, as required by the International Standards on Auditing (ISAs), is to:
 - obtain an understanding of the accounting and internal control systems sufficient to enable us to plan the audit and develop an effective audit approach;
 - evaluate and test the operation of key controls within the main accounting and budgetary control systems, and ensure that sound year-end closedown procedures are in place;
 - use our findings to inform our risk assessment for planning detailed work required in the audit of your 2005/2006 financial statements;
 - undertake a detailed risk analysis of the statements using audit tools such as analytical review with the aim of ensuring that our testing is targeted at areas of higher risk;
 - undertake detailed substantive audit work on the accounts tailored to reflect national and local issues; and
 - report our findings to officers and members in order to summarise the findings of the audit and to highlight any scope for improving procedures for compiling future years' accounts.
4. Overall, we concluded that the Authority has effective high level internal controls which provide a sound basis for the preparation of the financial statements. The accelerated deadline for the submission of audited accounts was achieved. The draft accounts were approved by the Authority at its meeting on 19 June 2006 and we gave an unqualified opinion on 31 October 2006.
5. We wish to extend our thanks to the finance team for their co-operation and support during the audit. We will work closely with the team over the coming months to ensure that changes arising from new 'Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice' (SoRP) are incorporated in the 2006/2007 financial statements.

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6. Our Detailed Report sets out our findings. We have made seven recommendations as set out below.

Recommendations

R1	The Authority should ensure that Business Continuity Plans include appropriate arrangements to secure the main accounting system.
R2	The Authority should ensure that its budget remains robust in providing appropriate resources to undertake its service responsibilities whilst also recognising any genuine efficiency gains.
R3	The Authority and the Wales Audit Office should liaise closely to develop a plan to support the effective preparation and audit of the 2006/2007 financial statements in order to meet the revised certification deadline.
R4	The Authority should raise with the Welsh Assembly Government the scope of amending the legislative position to permit fire authorities to maintain reserves and to avoid the issue of departures from Financial Reporting Standard (FRS) 12 continuing in perpetuity.
R5	There remains scope for the Authority to enhance the content of the Statement on Internal Control, in particular with reference to the specific assurance work undertaken during the year.
R6	The Authority should review the basis of allocation service costs in accordance with BVACOP to ensure that current basis for allocating costs is still appropriate.
R7	The Authority should establish arrangements to review the draft financial statements prior to submission to the Authority for approval.

Overall, an effective system of internal control is in place to minimise the risk of material misstatements to the financial statements

7. ISA 315 requires auditors to obtain an understanding of the audited body and its internal controls in order to identify and assess the risk of material misstatement to the financial statements. In order to comply with the requirements of this ISA, we are required to consider five components of internal control:
 - control environment;
 - risk assessment process;
 - information system;
 - control activities; and
 - monitoring of controls.
8. An adequate system of internal control is in place to minimise the risk of material misstatements to the financial statements. Aspects of the control environment also need to be considered to support our value for money conclusion and any comments we have in respect of this work will be reported separately to you.

Appropriate internal controls have been established in respect of the Authority's key financial systems.

9. We documented the key systems that have been identified for producing the financial statements to provide us with a clear understanding of the Authority's accounting and internal control systems. The key systems reviewed included main accounting, budgetary control, payroll, creditors, debtors, fixed assets and stores. Our review covered systems operated by the Authority and Conwy County Borough Council.
10. Our review revealed that appropriate documentation and controls are in place. However, the following areas for improvement were identified:
 - **Business continuity** – Conwy County Borough Council does not have an external third party arrangement to support their disaster recovery arrangements for the main accounting system.
 - **Payroll** – System documentation for the new payroll system introduced by Conwy County Borough Council during the 2005/2006 financial year are yet to be developed.

Recommendation	
R1	The Authority should ensure that Business Continuity Plans include appropriate arrangements to secure the main accounting system.

Internal Audit is continuing to work towards full compliance with the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom

11. Our approach involved discussions with Internal Audit staff, a review of key documentation including audit files and a detailed review of a sample of work carried out by Internal Audit. There remains scope for Internal Audit to further develop its procedural arrangements to ensure that it fully complies with all 10 of the CIPFA Internal Audit standards.
12. Our detailed findings are set out in a separate report 'Assessment of Internal Audit'.

High level financial accounting controls form an effective basis for the preparation of the financial statements

Controls within the main accounting system are operating as intended and this forms a reliable basis for preparing the financial statements

13. The main accounting system is being operated as intended. It forms a reliable basis for preparing the financial statements. Year-end bank reconciliations and control accounts reconciliations were tested during our audit of the financial statements and were found to be satisfactory. Review of suspense account balances and journal transfers either side of the year-end provided assurances that they were recorded in the correct period.

Budgetary control arrangements are sufficient in terms of identifying potential material errors

14. The Authority receives quarterly financial updates that monitor performance against budget. A projected surplus of £320,000 was reported to the Authority in March 2006, based on the financial performance for the first nine months of the financial year. The actual outturn gave rise to an additional underspend of £300,000 to that identified at month nine. This led to the creation of additional provisions to absorb the additional surplus to avoid the repayment of contributions received from Local Authorities.
15. Whilst we recognise that the nature of Authority activity is such that there may be a need to respond to exceptional events such as flooding, and retain resources to cover such eventualities, the Authority should regularly review its arrangements to ensure that genuine efficiency savings are reflected when considering future funding requirements.

Recommendation	
R2	The Authority should ensure that its budget remains robust in providing appropriate resources to undertake its service responsibilities whilst also recognising any genuine efficiency gains.

The structured approach to year-end planning was effective in achieving the earlier accounts closedown timetable

16. The Accounts and Audit Regulations 2005 set out a timetable (Whole of Government Accounts Wales) for the earlier preparation and approval of draft financial statements by 31 July 2006. It is pleasing to report that the Authority met the requirements of the Accounts and Audit regulations, with the draft financial accounts being approved by the Authority at its meeting on 19 June 2006.
17. The deadline for certifying the 2006/2007 financial statements, as set out in the Accounts and Audit Regulation (Wales) 2005, is being brought forward to 30 September 2007. The Authority is well placed to meet the revised requirements and we will work closely with officers over the coming months to ensure the timely completion of the financial statements.

Recommendation

R3 The Authority and the Wales Audit Office should liaise closely to develop a plan to support the effective preparation and audit of the 2006/2007 financial statements in order to meet the revised certification deadline.

The draft accounts were prepared to a good standard and an unqualified opinion was given on 31 October 2006

18. The audit identified a number of non-trivial amendments to the accounts which were reported to the Authority in our ISA 260 report on 23 October 2006. All agreed amendments are summarised in Appendix 2. We also reported uncorrected misstatements of provisions amounting to £515,000 in the ISA 260 report.
19. CIPFA's SoRP, which complies with FRS 12, requires provisions to be made when an authority has a present obligation (legal or constructive), as a result of a past event. Note 9 to the Balance Sheet revealed that the provisions retained by the Authority were to meet future rather than past expenditure, that is certain or likely to be incurred. Whilst the following amounts retained as provisions did not comply with the requirements of the SoRP, it was accepted that the approach adopted by the Authority is both prudent and transparent, given that fire authorities are not permitted to retain reserves:
- 2006/2007 Budget Provision £250,000
 - Rank to Role Provision £100,000
 - Equal Pay Provision £90,000
 - Control Provision £40,000
 - Estates Provision £35,000

20. Our review provides assurances that the amounts set aside are generally being utilised within a reasonable period and the constituent authorities are also aware of the arrangements and are content with it. The treatment is also consistent with that applied by the Authority since 1996. The Authority should raise with the Welsh Assembly Government the scope of amending the legislative position to permit fire authorities to maintain reserves and to avoid the issue of departures from FRS 12 continuing in perpetuity.

Recommendation	
R4	The Authority should raise with the Welsh Assembly Government the scope of amending the legislative position to permit fire authorities to maintain reserves and to avoid the issue of departures from FRS 12 continuing in perpetuity.

The form and content of the Statement on Internal Control complied with the requirements of the SoRP, however there remains scope to develop this further

21. Our review of the Statement on Internal Control confirmed that its form, content and accuracy were compliant with the SoRP. There remains scope for the Authority to enhance the content of the Statement on Internal Control, in particular with reference to the specific assurance work undertaken during the year.

Recommendation	
R5	There remains scope for the Authority to enhance the content of the Statement on Internal Control, in particular with reference to the specific assurance work undertaken during the year.

The basis for allocating costs in accordance with the Best Value Accounting Code of Practice should be reviewed

22. Our review revealed that the basis for allocating service costs was consistent with the method applied since the introduction of the Best Value Accounting Code of Practice (BVACOP). Consideration should be given to review the basis for allocating costs to ensure that it is still appropriate and continues to comply with the requirements of the BVACOP.

Recommendation	
R6	The Authority should review the basis of allocation service costs in accordance with BVACOP to ensure that current basis for allocating costs is still appropriate.

Arrangements for reviewing the content of the draft financial statements can be strengthened

23. Arrangements for reviewing the content of the draft financial statements prior to them being submitted to members for approval are yet to be established. This issue was reported and agreed by management in our 2004/2005 Regularity Memorandum.

Recommendation	
R7	The Authority should establish arrangements to review the draft financial statements prior to submission to the Authority for approval.

Appendix 1

Action Plan

Page	Issue	Recommendation	Intended outcome/benefit	Agreed	Responsibility and actions	Date
5	Business Continuity Plans	R1 The Authority should ensure that Business Continuity Plans include appropriate arrangements to secure the main accounting system.	Secure main accounting system.	Yes	Principal Accountant to discuss with Conwy ICT department.	Ongoing
6	Budgetary Control	R2 The Authority should ensure that its budget remains robust in providing appropriate resources to undertake its service responsibilities whilst also recognising any genuine efficiency gains.	Maintain effective budgetary control.	Yes	ACO Finance and Procurement. Efficiency gains to be identified and recorded as part of the planning/ budget process.	1 January 2007 onwards
7	Early Closedown	R3 The Authority and the Wales Audit Office should liaise closely to develop a plan to support the effective preparation and audit of the 2006/2007 financial statements in order to meet the revised certification deadline.	Meet statutory obligations.	Yes	Principal Accountant. To develop early closedown timetable with Wales Audit Office.	By March 2007
8	Statement on Internal Control	R4 The Authority should raise with the Welsh Assembly Government the scope of amending the legislative position to permit fire authorities to maintain reserves and to avoid the issue of departures from FRS 12 continuing in perpetuity.	Satisfy the requirements of FRS 12.	Yes	ACO Finance and Procurement. To be raised as part of the larger debate around precepting and hypothecation of RSG.	Ongoing


Page	Issue	Recommendation	Intended outcome/benefit	Agreed	Responsibility and actions	Date
8	Best Value Accounting	R5 There remains scope for the Authority to enhance the content of the Statement on Internal Control, in particular with reference to the specific assurance work undertaken during the year.	Improve the quality of Statement on Internal Control.	Yes	ACO Finance and Procurement to arrange for external baseline assessment.	To be completed by March 2007
8	Provisions	R6 The Authority should review the basis of allocation service costs in accordance with BVACOP to ensure that current basis for allocating costs is still appropriate.	Improve the quality of disclosure in financial statements.	Yes	ACO Finance and Procurement to review prior to closedown.	To be completed by March 2007
9	Quality Assurance	R7 The Authority should establish arrangements to review the draft financial statements prior to submission to the Authority for approval.	Maintain and improve quality of draft financial statements.	Yes	Principal Accountant to arrange for review prior to submission.	June 2007

Appendix 2

Schedule of non-trivial amendments

Note	Findings	Amendment made
Note 1 to the Balance Sheet	<p>The 'Gross Book Value at 1 April 2005' and the 'Accumulated Depreciation at 1 April 2005' were misstated as they did not agree to carried forward balances contained in the 2004/2005 certified financial statements.</p> <p>The 'Gross Book Value at 1 April 2005' for Land and Buildings disclosed Note 1 to the balance sheet 'Fixed Assets' was overstated by £909,000.</p> <p>The 'Accumulated Depreciation at 1 April 2005' for Land and Buildings was also overstated by a corresponding amount.</p>	<p>Amendments have been made to correct the misstated amounts.</p> <p>The amendments had no effect on any other disclosures in the accounts.</p>
Note 1 to the Balance Sheet	The exclusion of the net carrying amount at the beginning of the financial period did not comply with paragraph 4.30 of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2005: Statement of Recommended Practice'.	Note 1 has been amended to disclose the net carrying amount at the beginning of the financial period (1 April 2005) for each class of tangible fixed asset.
Note 1 to the Balance Sheet	Water tenders disclosed in Note 1 to the balance sheet 'Capital Commitments 2006/2007 onwards' was revised from £1,030,000 to £1,256,000. This increased total capital commitments from £1,349,000 to £1,575,000.	The disclosure was revised to reflect additional orders for water tenders, which were excluded in error. This amendment had no effect on any other disclosures in the accounts.
Note 9 to the Balance Sheet	Note 9 to the balance sheet 'Provisions' included an 'Audit Provision' of £45,000. The 'Audit Provision' could not be substantiated.	The provision was subsequently removed and included in the '2006/2007 Budget Provision'. This amendment had no effect on any other disclosures in the accounts.
Note 9 to the Balance Sheet	Note 9 to the balance sheet 'Provisions' included a 'Uniform Provision' of £83,000. The balance relates to the future acquisition of personal protective equipment which was included in the 2005/2006 capital programme.	The balance was subsequently revised from a provision to a capital reserve.

Note	Findings	Amendment made
Consolidated Revenue Account	<p>'Corporate and Democratic Core Costs' reflected in the Consolidated Revenue Account included costs relating to fire hydrant licences amounting to £19,000. The treatment did not comply with the requirements of Annex E to the BVACOP 2005.</p>	<p>The Account was subsequently amended with the cost being reflected in Community Fire Safety. This amendment had no effect on any other disclosures in the accounts.</p>
Consolidated Revenue Account	<p>'Non-distributed Costs' reflected in the Consolidated Revenue Account was understated by £125,000 due to the exclusion of past service costs. 'Non-distributed Costs' were subsequently amended to include past service costs. The treatment did not comply with the requirements of Annex E to the BVACOP 2005.</p>	<p>This amendment had no effect on any other disclosures in the accounts.</p>
Note 4 to the Consolidated Revenue Account	<p>The table to Note 4(iii) to the Consolidated Revenue Account 'Movements on the Pension Fund' omitted 'Past Service Gains' for the Clwyd Pension Fund of £225,000. The treatment did not comply with paragraph F3 of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2005: A SoRP'.</p>	<p>The Table was subsequently amended to include the past service gains.</p>



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