



WALES AUDIT OFFICE
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November 2006

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Annual Audit Letter 2005/2006

Mid and West Wales Fire and Rescue Authority

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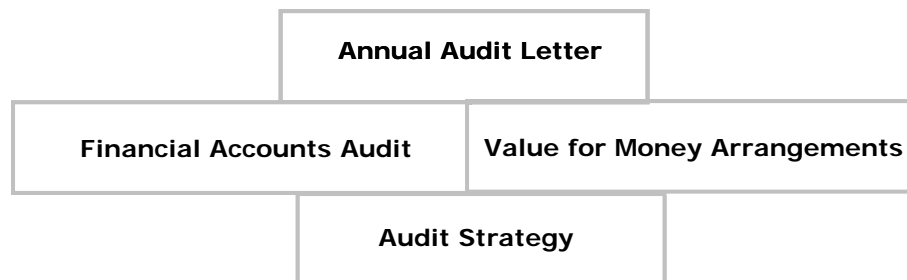
Summary

1. This Annual Audit Letter to members of the Mid and West Wales Fire and Rescue Authority summarises the conclusions from the 2005/2006 audit. The work planned for the year was set out in the Audit Strategy agreed for the period 2005/2006. The Letter reports for members the significant issues arising from the audit, together with my comments on other current issues.
2. More detail on the specific aspects of the audit can be found in the separate reports we have issued during the year. These reports have been discussed and agreed with officers. The reports issued are listed at the end of this Letter for information.
3. A number of references are made within this Letter to guidance and documentation that have been issued by the Auditor General for Wales including the Code of Audit and Inspection Practice. This was relevant to the whole of the audit year and refers to the Statement of Responsibilities of Auditors and Inspectors and of Audited and Inspected Bodies summarising the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that Statement. What I say about the results of our audit should be viewed in the context of that more formal background.
4. The Annual Audit Letter is prepared by the appointed auditor and is addressed to Authority members and officers. The Letter is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Authority member or officer in their individual capacity, or to any third party.

Objectives of the audit

5. Our main objective is to plan and carry out an audit that meets the requirements of the Code of Audit and Inspection Practice. We adopt a risk-based approach to planning the audit, and the audit work has focused on your significant financial and operational risks that are relevant to my audit responsibilities.
6. The audit work is then structured around the key elements of our responsibilities as set out in the Code and shown in Exhibit 1.

Exhibit 1: Key elements of the audit



7. A review of the results of our work is set out in the following sections of this Letter under the main elements of the Code of Audit and Inspection Practice. Briefly, they are:

Financial accounts audit

- The Authority's significant financial systems have continued to operate effectively.
- Overall the Authority has continued to apply appropriate governance arrangements, though there is need to review the arrangements for reporting audit work to the Authority and ensure that all procurement is fully compliant with standing orders for contracts and financial regulations.
- The overall financial position is sound with regular budgetary control reports provided to the Authority.
- An unqualified audit opinion **was issued** on the Authority's **accounts** for the year ended 31 March 2006.

Performance audit

- We are satisfied as to the existence of the arrangements that the Mid and West Wales Fire and Rescue Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006.
 - The results of my programme of performance audit work have been used to help inform the above value for money conclusion.
8. This Letter has been discussed and agreed with the Chief Fire Officer and the Director of Finance and Procurement. The Letter will then be presented to the Fire and Rescue Authority with a copy made available to every member of the Authority.

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9. Our aim is to deliver a high standard of audit which makes a positive and practical contribution to support the Authority's own agenda. I recognise the value of your co-operation and support in achieving this aim and I would like to express my appreciation for the assistance and co-operation provided during the course of the audit.



Ceri Stradling
Appointed Auditor

24 November 2006

Financial and performance audit

The Authority's 2005/2006 financial statements present fairly

10. The financial statements are an essential means by which the Authority accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Code of Audit and Inspection Practice (the Code) identifies that it is the responsibility of the Authority to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
11. As auditors we are required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements present fairly the state of affairs of the Authority, and that they have been prepared properly in accordance with relevant legislation, directions or regulations and applicable accounting standards and that its expenditure has been lawfully applied.
12. Our financial audit work covers the following areas:
 - financial systems;
 - financial management;
 - financial health; and
 - financial statements.

The Authority's significant financial systems can be relied upon to produce materially correct outputs

13. Our review of the Authority's financial systems has involved documenting the significant financial systems and where necessary testing the operation of internal controls.
14. We have concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. A small number of matters were discussed and agreed with officers to ensure the continued operation of effective procedures within your financial systems. There are no specific matters I need to bring to the attention of members.

Overall the Authority has continued to apply appropriate governance arrangements, though there is need to review the arrangements for reporting audit work to the Authority and ensure that all procurement is fully compliant with standing orders for contracts and financial regulations

15. To demonstrate financial stewardship the Authority needs to ensure it has effective financial arrangements including:
 - internal financial controls such as comprehensive standing orders and financial regulations, strong budgetary control and effective Internal Audit;
 - the operation of recognised standards of financial conduct;
 - arrangements to ensure that the Authority only enters into transactions where there is specific legal provision for it to do so; and
 - well established and understood procedures to prevent and detect fraud and corruption.
16. Overall we found that:
 - Internal Audit, as in previous years, has met the required professional standards and our planned reliance on their work has therefore been possible;
 - the arrangements for ensuring that the Authority only enters into lawful transactions were in place and had continued to operate effectively; and
 - the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption as evidenced by both the anti-fraud and corruption strategy and whistle blowing policy.
17. A key element to gaining assurance that the Authority's financial systems continue to operate effectively is the work undertaken by Internal Audit. For 2005/2006 the number of audit days was increased to 35 days and work was scheduled for an earlier completion date. Whilst all work was completed by 31 March 2006, which was an improvement on previous years, reports were still in draft at this stage.
18. Commencing from 2006/2007 the Authority is required to approve the draft financial statements by 30 June each year. To support this earlier deadline, together with the need to ensure that our work is proportional to risk and the findings of Internal Audit, we recommend that a target date of 31 March 2007 is set for the finalisation and agreement of all planned Internal Audit reports.
19. Whilst the reporting of audit work to officers and the responses given are satisfactory, there are no agreed arrangements for the presentation of audit findings to members of the Authority. To facilitate this and promote effective governance many public sector bodies have set up audit committees. Effective audit committees help raise the profile of internal controls, risk management and financial reporting as well as providing a forum for the discussions and monitoring of audit issues raised by internal and external audit.

20. The prime role of such a committee being:
- consideration and approval of the programme of internal and external audit work;
 - receipt and discussion of audit reports; and
 - ensuring that agreed recommendations are correctly and promptly implemented.

This issue is currently subject to review and discussion by the Authority's modernisation working group.

21. Where the financial systems are provided by Carmarthenshire County Authority, specific testing of financial transactions relating to the Fire Authority is needed. To provide for this the agreed 2006/2007 Internal Audit programme of work specifically provides for the:
- testing of financial systems;
 - review of the final account for the new Fire HQ; and
 - review of procedures for delegated budgets.

The scope and coverage of such work needs to be kept under review and this could be undertaken by an audit committee or equivalent.

22. As part of the 2002/2003 audit we reviewed the adequacy of standing orders and procedures in relation to contracts. We concluded at that time that, 'contract procedures for the management and control of contracts are fragmented between departments, which in our opinion, significantly increases the risk of non-compliance with standing orders and financial regulations and inappropriate procedures being followed. There was also a need to review and update standing orders for the letting and management of contracts'.
23. To address these concerns a new constitution, orders and financial procedures were compiled and approved by the Authority in the autumn of 2003. As part of this year's audit we have reviewed the current arrangements for the procurement of goods and services, to ensure procedures are operating as intended and the issues identified in our 2003 audit report have been fully addressed.
24. We found that whilst the Authority had adopted appropriate standing orders and financial regulations for the procurement of goods and services, arrangements for procurement were still fragmented and split between the:
- procurement manager;
 - estates section;
 - IT section; and
 - fleet section.

The recent appointment of a Director of Finance and Procurement is expected to ensure that the issues of fragmentation are resolved.

25. Subsequent audit testing showed there were a number of areas where individual jobs/purchases were below the threshold required for tenders, but cumulatively the total payments made to the supplier exceeded the threshold within standing orders (for example electrical repairs and carpentry work). To ensure full compliance with standing orders and financial regulations and that value for money is obtained for all procurement, officers have agreed the following recommendations.

Exhibit 2: Key matters arising and management action from our review of procedures for the procurement of goods and services

Issues arising	Management action
The Purchasing Policy dated 2003 has not been approved by the Authority and may not be aligned with current practice.	The Procurement Officer is to finalise the document and submit to the Clerk for approval by the Authority.
Responsibilities for procurement are fragmented between several departments and officers.	The roles and responsibilities of the property, IT and fleet managers in relation to procurement are to be reviewed and clarified to ensure they complement those of the Procurement Officer. The inclusion of procurement within the responsibility of the new Director of Finance should assist in this process.
Procurement of goods and services is not fully compliant with standing orders and financial regulations.	Payments for goods and services are being reviewed to ensure they are fully compliant with standing orders and financial regulations. Specific attention is being made to identifying those payment areas where individual jobs/purchases are below the threshold for tenders, but taken cumulatively exceed the thresholds set out in standing orders and financial regulations.

The Authority has established a balanced budget and has continued to monitor revenue and capital expenditure

26. We are responsible for assessing whether the Authority has put in place adequate arrangements to monitor, control and report on its financial position. Our audit was based on the review of the following areas:
- setting a balanced revenue budget and capital programme;
 - financial monitoring and reporting;
 - meeting financial targets; and
 - financial reserves.
27. We have examined budgetary reports and procedures and are satisfied that suitable arrangements are in place and that the Authority's revenue and capital budgets cover all relevant areas of income and expenditure and are based on realistic assumptions. The Authority also has in place sound arrangements for financial monitoring and reporting that should ensure that any potential material misstatements and variances will be identified.

28. The Authority has a good track record of operating within its budget and this continued in 2005/2006 with the reported outturn on both revenue and capital expenditure being in line with the agreed budget.
29. During the current year the Authority has continued to receive from the Treasurer quarterly reports on expenditure to date and position against budget. The report for the period ending 30 September 2006 shows a current underspend of £194,000 (0.5 per cent of agreed budget). At this stage there are no issues we would draw to members' attention, though increasing cost pressures will necessitate close monitoring of the financial position.

On 30 October 2006 an unqualified opinion was issued on the Authority's 2005/2006 financial statements

30. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. Our report 'Audit of the Financial Statements – Reporting to those Charged with Governance' was presented to the Fire and Rescue Authority on 30 October 2006. A summary of our findings is set out in Exhibit 3.

Exhibit 3: ISA 260 reporting requirements

Reporting requirement	Auditor's response
Modifications to the auditor's report.	There were no matters arising which would require me to modify the auditor's report.
Unadjusted misstatements.	There were no unadjusted misstatements.
Material weaknesses in the accounting and internal control systems identified during the audit.	No significant accounting and internal control weaknesses were identified which have prevented me issuing an unqualified audit opinion.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	There were no matters arising which I need to report.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	There were no matters which affected the audit opinion.
Any other relevant matters relating to the audit.	There were no matters which affected the audit opinion.

31. The earlier dates set for the Whole of Government Accounts initiative have been met by the Authority. The Authority's draft financial statements were prepared in accordance with CIPFA's Statement of Recommended Practice and approved prior to 31 July 2006.
32. The Authority's supporting working papers were prepared to a consistently high standard. This enabled the audit of the financial statements to be completed efficiently and effectively and on 30 October 2006 an unqualified auditor's report was issued on the financial statements.

33. A summarised return as part the Whole of Government Accounts initiative was submitted to the Assembly Government in September 2006. Our verification of the return confirmed that the data was correctly stated and fit for purpose.

We are satisfied as to the existence of the arrangements that the Mid and West Wales Fire and Rescue Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006

34. The Public Audit (Wales) Act 2004 requires auditors to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This requirement is reflected in the Auditor General's Code of Audit and Inspection Practice.
35. Our conclusion has been reached as part of our annual audit of the accounts including the examination of evidence that is relevant to the existence of the Authority's corporate performance management and financial management arrangements. The focus of the work for the purposes of the annual conclusion is on the evidenced existence of these arrangements themselves.
36. As part of the conclusion we do **not** comment on the effectiveness of, or provide assurance on, the arrangements during the year. Our separate value for money/ performance work **does** consider where the arrangements or their operation could be improved. The results of such work carried out during 2005/2006 are set out elsewhere in this report. This latter work informs our conclusion on the existence of arrangements but is not essential to it.
37. The results of our assessment are summarised in Exhibit 4 below.

Exhibit 4: Assessment of proper arrangements

Aspect	Arrangement	Yes or No
Strategic and operational objectives	Has the Authority put in place arrangements for establishing, reviewing and implementing its strategic and operational objectives?	Yes
Meeting the needs of users and taxpayers	Has the Authority put in place arrangements to ensure that services meet the needs of users and taxpayers, and for engaging with the wider community?	Yes
Internal controls	Has the Authority put in place arrangements to ensure compliance with established policies, procedures, laws and regulations?	Yes, subject to comments in paragraphs 23 to 25.
Risk management	Has the Authority put in place arrangements for 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?	Yes
Best value	Does the Authority have arrangements for ensuring compliance with the general duty of best value?	Yes

Aspect	Arrangement	Yes or No
Resource management	Has the Authority put in place arrangements for managing its financial and other resources, including arrangements to safeguard its financial standing?	Yes
Reviewing performance	Does the Authority have arrangements in place to monitor and review performance, including arrangements to ensure data quality?	Yes
Standards of conduct	Has the Authority ensured that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption?	Yes
Overall conclusion	Has the Authority has put in place proper arrangements to secure 'economy, efficiency and effectiveness' in its use of resources?	Yes

38. My report and conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources during 2005/2006 is set out in Appendix 1. The criteria used to assess this are set out in Appendix 2.

Wales Programme for Improvement

39. During the past year Fire and Rescue Authorities have continued to work with the Welsh Assembly Government and the Wales Audit Office on proposals to introduce the Wales Programme for Improvement (WPI) for Fire and Rescue Services.
40. The Assembly is currently finalising its draft WPI framework for consultation. In advance of this, it has been agreed that the framework is structured on the basis of self assessment, a Joint Risk Assessment and an Improvement Plan and that it will cover 'operational' and 'non-operational' aspects of a Fire and Rescue Service. Consultation on the Assembly's operational assurance toolkit and the Wales Audit Office's non-operational WPI implementation guidance will be undertaken over the coming months. During this time we will be working with Fire and Rescue Services to prepare for the introduction of WPI.
41. Circular W-FRSC(06) 32 issued by the Assembly sets out the WPI Interim Arrangements for Fire and Rescue Services for 2006/2007. Specifically the circular asked Fire and Rescue Services to produce an Improvement Plan for 2006/2007 by 31 October 2006 and asked that the Wales Audit Office would confirm whether the Improvement Plan fulfilled the requirements and audit the Best Value Performance Indicators for 2005/2006.
42. The Authority has complied with the circular by preparing its Plan by the due date and we will shortly be reviewing the Improvement Plan to confirm whether its contents meets the requirements of circular W-FRCS (06) 32 and that it includes:
- a summary of the Authority's strategic priorities for improvement;
 - arrangements for addressing the Authority's improvement priorities in 2006/2007;

- a commentary on the Authority's performance in 2005/2006 supported by outturn performance information (data on Best Value Performance Indicators); and
- targets for the current year (2006/2007) and future years if relevant.

Performance management

43. Appropriate performance management will be a key aspect of WPI both in relation to obtaining operational and non-operational assurance. As part of our work to support the development of WPI, we reported last year that the Chief Fire Officer had asked us to review the proposed procedures and progress on implementing a new performance management framework. We agreed that this would be undertaken in two stages.
44. The objectives of stage 1 of this review were to:
- consider the implementation of the performance management framework to date and of its integration with other corporate processes including, budget setting, business planning and staff appraisals;
 - determine the extent to which there are clear meaningful corporate priorities and objectives that are understood and owned by staff in those areas where the framework has been introduced;
 - review the extent to which departmental/command level targets reflect corporate priorities (including how these have been selected);
 - examine the arrangements that are in place throughout the organisation for collecting the information needed to monitor achievement of targets; and
 - review the framework against the emerging requirements of WPI.
45. We have submitted a report on the completion of stage 1. In detail we found that:
- the performance management project is generally being well managed;
 - when fully operational the performance management framework should be robust, though there is need to ensure the scorecard targets set at command and department level fully meet the corporate targets agreed by the Fire and Rescue Authority; and
 - there is a need to keep the workload of the project manager under review.
46. The objectives for stage 2 of the review are to:
- examine arrangements that are in place throughout the Service for reporting performance information;
 - assess if reporting arrangements are appropriate to users' needs;
 - consider how the information will be used to seek improvements and to meet objectives locally;
 - review how the information will be used to account for and explain activities to members, the public and partners; and
 - review these arrangements against the emerging requirements of WPI.
47. We are currently undertaking this second part of the review.

Performance Indicators

- 48.** As an interim measure, prior to the introduction of WPI, the three Fire Authorities in Wales have continued to compile and make available to the public a Best Value Plan including statutory indicators.
- 49.** Mid and West Wales completed their Plan and placed it on the Authority's website by 31 October 2006. We are currently reviewing the format and content to ensure that it meets the guidance issued by the Assembly.

Appendix 1

Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2005/2006

Conclusion on the Mid and West Wales Fire and Rescue Authority's arrangements for the year ended 31 March 2006 for securing economy, efficiency and effectiveness in its use of resources

Mid and West Wales Fire and Rescue Authority's responsibilities

The Mid and West Wales Fire and Rescue Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Authority is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I have a responsibility under Section 17(2) of the Public Audit Wales Act 2004 to conclude from my audit of the Authority's annual accounts whether I am satisfied as to the existence of the arrangements that it had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in paragraph 48 of the Auditor General's Code of Audit and Inspection Practice.

I report if significant matters have come to my attention which prevents me from concluding that the Authority has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing value for money during the year under review.

Conclusion

The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2005/2006 accounts to establish, in all significant respects, what arrangements the Authority had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered, the effectiveness of the arrangements in place in securing value for money during the year under review.

Based on the Mid and West Wales Fire and Rescue Authority's Statement on Internal Control and as a result of the work carried out, as described above as part of my audit of the 2005/2006 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

Ceri Stradling
Appointed Auditor
24 November 2006

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Appendix 2

Criteria for assessing Mid and West Wales Fire and Rescue Authority arrangements during 2005/2006 for securing economy, efficiency and effectiveness in its use of resources

Corporate Performance Management and Financial Management Arrangements	Questions on arrangements
Establishing objectives, determining policy and making decisions	1. Has the Authority put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting needs of users and taxpayers	2. Has the Authority put in place channels of communication with the public, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Compliance with established policies	3. Has the Authority put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Managing operational and financial risks	4. Has the Authority put in place arrangements to manage its significant business risks?
Managing financial and other resources	5. Has the Authority put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	6. Has the Authority put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?
	7. Has the Authority put in place arrangements to ensure that its spending matches its available resources?
	8. Has the Authority put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Authority?
	9. Has the Authority put in place arrangements for the management of its asset base?
Monitoring and reviewing performance	10. Has the Authority put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the Authority?
	11. Has the Authority put in place arrangements to monitor the quality of its published performance information, and to report the results to Authority members?
Proper standards of conduct etc	12. Has the Authority put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

Appendix 3

Reports delivered during the 2005/2006 audit

Report	Publication date
Audit Strategy	March 2006
Performance Management Review	April 2006
The Accounts – Interim Audit	August 2006
Review of Procedures for the Procurement of Goods and Services	September 2006
Financial Statements – Final Accounts Memo	To follow
Annual Audit Letter	November 2006

Appendix 4

Audit fee

Our Audit Strategy for 2005/2006 set out the proposed audit fee of £48,500 (plus VAT). The table below sets out my latest estimate of the actual fee for 2005/2006, on the basis that some work remains in progress, analysed between the main areas of the Code of Audit and Inspection Practice.

Analysis of proposed and actual audit fee 2005/2006

Code area	Planned fee 2005/2006 (£)	Actual fee 2005/2006 (£)
Financial accounts	38,000	38,000
Performance	10,500	10,500
Total	48,500	48,500



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