



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2004/2005

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Annual Audit Letter 2004/2005

Mid and West Wales Fire Authority

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Key messages to the Authority

Background

Over the last two years we have referred to the exceptional period of change and uncertainty facing the Fire and Rescue Service in Wales. Overall responsibility for the Fire Service (other than pay and conditions) was devolved to the Welsh Assembly Government (the Assembly) in November 2004. As part of this process the Assembly has published its National Framework for Fire and Rescue Services. In that document, the Assembly has expressed the intention of working with the Wales Audit Office in developing the Wales Programme for Improvement (WPI) as a means of ensuring that Fire and Rescue Services in Wales are delivered efficiently and effectively. Work on the WPI Framework is now well advanced and the Welsh Fire and Rescue Services have been involved in its development to date.

Changes to the Assembly's approach to WPI in Local Government take effect from Autumn 2005 and this has resulted in the decision not to implement WPI for Fire and Rescue Services until April 2006, as it is intended to build on the Local Government model. Consequently, it was agreed that Fire and Rescue Services would continue to prepare a Best Value Performance Plan for 2005/2006 by the deadline of 30 September 2005.

Discussions between the Assembly and the Fire and Rescue Service on the role and implementation of Integrated Risk Management Plans in Wales have impacted on the ability of the Authority, in the short to medium term, to realise all financial savings resulting from revised crewing arrangements identified in the previously published Integrated Risk Management Plan (IRMP). This will have implications for the financial strategy and agreed budgets for the Authority.

Audit of accounts

Our audit of your key financial systems and financial statements showed procedures to be operating as intended and there are no material errors, weaknesses or omissions. This enabled us to issue an unqualified opinion on 28 October 2005.

Financial standing

The financial position was satisfactory at the end of 2004/2005. However the position for 2005/2006 onwards is one of continuing financial pressure with some of the financial savings identified in the IRMP unlikely to be realised in the short term.

Governance

Overall arrangements remain sound though there is a need to conclude the present negotiations for the future provision of legal services.

Use of resources

The development of an effective performance management system is recognised as being integral to the development of improved service provision. With this in mind the Chief Fire Officer has asked us to review the arrangements and procedures being adopted for the development and implementation of a new performance management system.

In undertaking this work, we will also consider preparations the Fire and Rescue Service is making for the introduction of WPI.

General

The Authority and Senior Officers have continued to take a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the assistance and co-operation we have received. I recognise that without your support the value of our audit would be greatly diminished, and I look forward to working with you during 2005/2006.

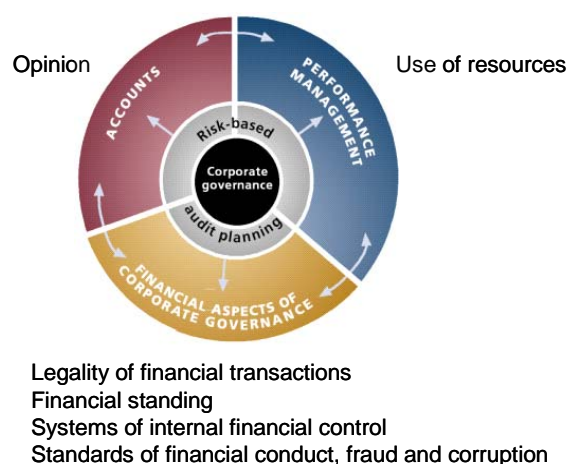
The purpose of this Letter

- 1 This Annual Audit Letter summaries the conclusions and more important issues arising from the audit work undertaken as part of an agreed programme of work. Appendix 2 provides details of all audit reports which have been issued and discussed during the course of the audit.
- 2 The Audit Commission in Wales previously circulated to all audited bodies a statement that summarises the key responsibilities of audited bodies and auditors, (since endorsed by the Wales Audit Office). Our audit has been conducted in accordance with the principles set out in that statement, and what we say about the results of our audit should be viewed in the context of that more formal background.
- 3 Following the appointment of the Auditor General for Wales and the creation of the Wales Audit Office in April 2005, a new Code of Audit and Inspection Practice will apply to the 2005/2006 accounts. The implications for the audit are currently being discussed and agreed with Senior Officers.

Audit objectives

- 4 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopted a risk based approach to planning our audit, which has focused on the significant financial and operational risks that are relevant to our audit responsibilities.
- 5 Our audit is structured around the three elements set out in the Code, as shown in Exhibit 1.

Exhibit 1: The three main elements of our audit objectives



- 6 Supporting this overall process is a detailed Annual Audit Plan, which was agreed with Senior Officers earlier in the year. The Plan for the audit year 2004/2005 provided for the following:

Exhibit 2: Audit fees

Area of work	Cost of audit 2003/2004 £	Cost of audit 2004/2005 £
Statement of accounts	17,000	17,500
Corporate Governance	14,000	13,000
Use of resources	20,000	17,000
Total	51,000	47,500

- 7 We anticipate that the actual fee charged for the year will be in accordance with the fees contained in the Audit Plan.
- 8 In detail our work covered the following areas:

Accounts

- Opinion.

Financial aspects of corporate governance

- legality of financial transactions;
- financial standing;
- systems of internal financial control; and
- standards of financial conduct and the prevention and detection of fraud and corruption.

Use of resources

- best value performance plan; and
- performance management.

Section 1

Accounts

Our audit of the key financial systems and financial statements showed that procedures to be operating as intended and there are no material errors, weaknesses or omissions. This enabled us to issue an unqualified opinion on 28 October 2005.

Opinion

- 9** Members approved the Authority's statement of accounts in September 2005. Our work confirmed that they had been completed to a good standard and that the underlying working papers were comprehensive.
- 10** Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance' requires us to report issues arising from our audit to Members. This report is attached at Appendix 1.
- 11** Whilst there were no items identified by the audit that affected the overall financial position of the Authority, there were a small number of minor amendments requested to ensure that all disclosures had been correctly made and there was full consistency between the statement of accounts and their supporting notes. All such amendments were promptly and correctly made by your Officers.
- 12** The introduction of the Whole Government Accounts initiative will require all Authorities, commencing with the 2005/2006 accounts, to progressively bring forward the completion of the statement of accounts so that by 2006/2007 the statement is approved by the Authority by 30 June each year.
- 13** Similarly there is a requirement to bring forward the completion date of the audit from 31 December to the 31 October. These new dates will require robust planning by both organisations to ensure they are met and do not place unreasonable pressures to both finance staff and auditors alike.
- 14** To meet this challenge we will continue to review the close down procedures for the closure of the accounts, and the timing of both internal and external audit work to see what changes can be made to assist in the process.

Section 2

Financial aspects of corporate governance

- 15 Overall arrangements remain sound though there is a need to conclude the present negotiations for the future provision of legal services.

Overall control environment

- 16 The Statement on the Systems of Internal Control reported within the Authority's financial statements outlines the overall control environment. Overall we consider that the Authority has continued to adopt appropriate arrangements to ensure assets are properly safe guarded, that financial transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely manner.
- 17 However, we consider there is a need to review:
- the level and timing of Internal Audit (IA) work; and
 - the arrangements for the provision of general legal services.

Internal Audit

- 18 IA is a fundamental part of an audited body's corporate governance arrangements. The emphasis of our audit approach is to assess whether the work of IA was appropriate and met its own standards. Where possible, we place reliance on work undertaken by IA to minimise duplication.
- 19 The IA function for Mid and West Wales Fire Authority is provided by the IA department of Carmarthenshire County Council. For 2004/2005 the level of IA work was increased by five days to 35. There is, however, an ongoing need to ensure the work remains aligned to identified audit risks.
- 20 Equally important is the need for IA work to be profiled throughout the year and completed expeditiously. Our work at the interim audit, usually undertaken in March and April, includes a review and assessment of IA work and the resultant findings. For the financial year 2004/2005 the IA plan was not agreed until January 2005 and the work did not commence until February 2005. The absence of any IA work significantly increases the risk of duplication and means that our work may not be effectively focused to the local risks facing the Authority.
- 21 More recently we understand that for 2005/2006, the Treasurer has agreed a programme of work which will be completed by 31 January 2006. Early and full completion of all IA work is commensurate with the requirement to bring forward the completion of the statement of accounts and will assist in ensuring that internal and external audit work is effectively aligned.

Legality of financial transactions

- 22** Public bodies are created by statute and therefore can only enter into transactions where there is specific provision for them to do so. Since it is not possible (nor is it desirable) for us to examine every transaction, our responsibilities relate to reviewing that appropriate arrangements are in place to ensure the legality of transactions and to take steps to inform ourselves of transactions that might have a significant financial consequence.
- 23** Through our review, regular discussions with the Treasurer, and Director of Service Support together with testing of significant year end financial transactions, we are satisfied that the Authority has continued to adopt adequate arrangements to ensure the legality of its financial transactions. We note, however, there is a need to complete arrangements for the provision of routine legal advice and services.
- 24** The Authority and Service currently obtain advice on legal matters as follows:
- advice on fire legislation and safety from a specialist external firm; and
 - prior to 31 March 2005, advice on other legal matters from Pembrokeshire County Council. Since 1 April 2005 advice on routine legal issues has been obtained from Carmarthenshire County Council and from a commercial firm in respect of employment law issues.
- 25** In relation to longer term arrangements, the Authority is examining the advantages of securing a joint arrangement with the other fire and rescue authorities in Wales and is also exploring the Value Wales (Procurement) initiative for the provision of legal services.

Financial standing

- 26** The financial standing of an organisation relates to its ability to meet its financial obligations, including statutory requirements. Our responsibilities are to assess whether the Authority has put in place adequate arrangements to monitor and obtain sound financial standing.
- 27** The financial position was satisfactory at the end of 2004/2005. However the position for 2005/2006 onwards is one of continuing financial pressure with some of the financial savings identified in the IRMP unlikely to be realised in the short term. In anticipation of this the Chair wrote to the constituent authorities earlier in the year advising them of the potential difficulties and the request from Welsh Assembly Government to defer elements of the IRMP.
- 28** The financial strategy of the Authority is currently being reviewed to ensure it correctly reflects the IRMP.

Revenue expenditure

- 29** During the current year the Authority has continued to receive from the Treasurer quarterly reports on the expenditure to date and position against budget. The Treasurer's monitoring report for the three months to June showed an under spend of £354,000 (1%). At this early stage there are no issues for Members' attention.

Capital expenditure

- 30** The Authority continues to receive quarterly reports on capital expenditure and its funding. The Treasurer's report dated 25 July 2005 provides details of the:
- 2004/2005 capital expenditure outturn. After allowing for approved virements capital expenditure of £1.5 million was in accordance with the agreed programme; and
 - 2005/2006 capital programme and funding options.
- 31** The position at 30 June shows anticipated expenditure for 2005/2006 of £2.8 million with the largest item relating to the development of the Fire Headquarters in Carmarthen. In total this scheme is estimated to cost £2.5 million and forms one of the largest investments made by the Authority to date.
- 32** At present the scheme is on time and within the revised budget, however arrangements will need to be made to ensure that the final account submitted by the contractor is subjected to an appropriate independent financial appraisal.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 33** In June 2004/2005 we referred to the fact that whilst procedures had been strengthened by the adoption of a new Constitution, there was an ongoing need to review and identify specific training requirements for employees and members. More recently we understand the Corporate Head of Policy and Member Support has been asked to compile and make arrangements for a suitable training programme for both employees and members.
- 34** We also understand that some members recently attended an All Wales Fire Authorities seminar. Whilst this included some general issues on the role of members and their responsibilities for promoting effective procedures in relation to governance, this now needs to be supported by locally based training on how procedures should develop in the Mid and West Wales Fire Authority.
- 35** A training programme is also taking place for employees on governance issues and the procedures which all employees must adhere to. At the time of writing this letter, training had been delivered to the Pembrokeshire County Command with the intention to provide similar training to all County Commands during the next 12 months.
- 36** Periodically the Audit Commission publish warning bulletins to alert auditors of both actual and potential frauds that have occurred in public sector bodies throughout England and Wales. In addition to considering the findings of these bulletins when determining what audit work should be completed we also share the bulletins with senior staff within the Finance department so that they are aware of the issues and can take remedial action where appropriate.
- 37** At this stage we are not aware of any such frauds being replicated within Mid and West Wales Fire and Rescue Service.

National fraud initiative

- 38** This is a National exercise undertaken by the Audit Commission to match payroll and pension data from all authorities to help identify and reduce the level of housing benefit, occupation pension and tenancy fraud.
- 39** Earlier this year, we provided the Authority with its own data which identifies a number of potential matches. Finance staff are currently in the process of reviewing and clearing this data. On completion the results of this exercise will need to be reported to the Authority.

Section 3

Use of resources

- 40 The development of an effective performance management system is recognised as being integral to the development of improved service provision. With this in mind the Chief Fire Officer has asked us to review the arrangements and procedures being adopted for the development and implementation of a new performance management system.
- 41 In undertaking this work, we will also consider preparations the Fire and Rescue Service is making for the introduction of WPI.
- 42 Responsibility for the Fire and Rescue Service in Wales (apart from pay and conditions) transferred to the Assembly in November 2004. As part of these arrangements the Assembly has published its National Framework for Fire and Rescue Services. In that document, the Assembly has expressed the intention of working with the Wales Audit Office in developing the Wales Programme for Improvement as a means of ensuring that Fire and Rescue Services in Wales are delivered efficiently and effectively. Work on the WPI Framework is well advanced and the Welsh Fire and Rescue Services have been involved in its development to date.
- 43 Changes to the Assembly's approach to WPI in Local Government take effect from Autumn 2005 and this has resulted in the decision not to implement WPI for Fire and Rescue Services until April 2006, as it is intended to build on the Local Government model.

Best value performance plan

- 44 As an interim measure for 2004/2005 the three Fire Authorities in Wales were required to compile and make available to the public a Best Value Plan for 2004/2005 by 30 September.
- 45 Locally Mid and West Wales completed their Plan and placed it on the Authority's website by the required date. We are currently reviewing the format and content to ensure it meets the guidance set by the Assembly.

Performance management

- 46 An integral part of the Wales Programme for Improvement is the development and maintenance of effective performance management arrangements to ensure that Fire and Rescue Services meet their objectives and deliver continuous improvements in services. The Authority and Service are preparing for this by introducing on an incremental basis, a Performance Management Framework and supporting system which is to be used throughout the Service.
- 47 As part of this process the Chief Fire Officer has asked us to review the proposed framework and progress on implementing the system. This will be undertaken in two stages.

- 48** The objectives of Stage 1 of this review are to:
- consider the implementation of the performance management framework to date and 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 arrangements that are in place throughout the organisation for collecting information needed to monitor achievement of targets; and
 - review the framework against the emerging requirements of the Wales Programme for Improvement.
- 49** 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, public and partners; and
 - review these arrangements against the emerging requirements of the Wales Programme for Improvement.

Section 4

Status of our Annual Audit Letter to the Authority

- 50** Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Annual Audit Letter is prepared by the Appointed Auditor and 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.

Closing remarks

- 51** This Letter has been discussed and agreed with the Chief Fire Officer. The Letter will be presented to the Authority in December. A copy of the Letter will then be provided to all Authority members.
- 52** Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support in achieving this aim.



Ceri Stradling
Appointed Auditor

24 November 2005

Appendix 1

SAS 610: Communication of audit matters to those charged with governance

Introduction

The Authority is responsible for the preparation of financial statements that presents fairly financial position as at 31 March 2005 and its Income and Expenditure for the year. As external auditors we are responsible for undertaking an audit and reporting whether, in our opinion, the financial statements present fairly the financial position.

As part of our audit, we must comply with Statements of Auditing Standards (SASs), which are issued by the Auditing Practices Board (APB). SASs contain the basic principles and essential procedures that must be followed by auditors. SAS 610 was issued to establish standards and provide guidance on the communication of 'relevant matters relating to the audit of financial statements' between auditors and those charged with governance (as distinct from management) of an audited body to:

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

The SAS defines relevant matters as:

- relationships that may bear on the auditors' independence;
- audit planning information; and
- findings from the audit, including the auditors' views on the qualitative aspects of accounting and reporting.

The first two matters above have been reported as part of the Audit Plan.

The third relates to the findings from the audit of the financial statements and covers each of the following aspects:

- expected modifications to the auditors' report;
- unadjusted mis-statements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- any views about the qualitative aspects of the entity's accounting practices and financial reporting; and
- any matters specifically required by other auditing standards to be communicated to those charged with governance.

The Authority submitted its financial statements to us within the prescribed deadline set Accounts and Audit Regulations and we have now completed our audit. This report details key matters arising from our audit that we are required to communicate to those charged with governance prior to giving our audit opinion.

Findings from the audit

Findings relating from the audit of the financial statements require a number of decisions to be agreed between the auditor and the audited body. The following paragraphs outline the requirements under SAS 610, and report the position on our audit of the 2004/2005 financial statements.

Auditors' report

SAS 610 requires auditors to discuss any expected modifications to the auditors' report on the financial statements with those charged with governance. In practice, this means that any changes to the standard wording of the audit opinion would have to be discussed with those charged with governance before it is finalised. This is to ensure that they are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification.

Current position at the Authority

No matters have been identified that would require any modification to the audit opinion.

Unadjusted mis-statements

In circumstances where auditors identify mis-statements in the financial statements, auditors must bring these to the attention of management. Where these are not adjusted, auditors must communicate these matters to those charged with governance with a request that the adjustments be made. This does not just apply to material mis-statements but to all mis-statements, other than those which are 'clearly trifling'.

If those charged with governance refuse to make the requested adjustments, the auditors are required by SAS 610 to obtain written representation from them, explaining the reasons for not making the adjustments brought to their attention.

Guidance from the Wales Audit Office defines 'trifling' as 5% of the auditors materiality level, subject to a maximum of £100,000. At the Authority materiality was determined as £1 million, as a consequence we have considered that errors below the value of £50,000 are trifling.

In practice, this requires auditors to consider a number of issues as outlined below.

1) Material mis-statements

If material mis-statements, based on an overall materiality level of £1 million, were reported to management and these were not adjusted, this would lead to a qualification of the financial statements.

Current position at the Authority
No material misstatements were identified during the course of the audit.

2) Non-material mis-statements

The SAS confirms that no action is required where the mis-statement is 'clearly trifling'. However, where the amount is 'non trifling' but below the materiality level, we need to bring it to the attention of management. If management agree to adjust the financial statements, the matters should be reported to 'those charged with governance', but can be done so after the audit opinion has been given.

If management do not agree to adjust them, the mis-statement needs to be brought to the attention of those charged with governance with a request that the adjustments be made. If they subsequently decline to make the requested adjustment, auditors are required to seek written representation from them explaining the reasons for not making the adjustment. This needs to be done before the audit opinion is given.

Where there are mis-statements that have been amended by management during the course of the audit, these should be reported to 'those charged with governance', but this does not have to be before the audit opinion is given.

Current position at the Authority
One 'non- trifling' mis-statement was identified during the course of the audit.
Non distributed costs were overstated by £520,000 in respect of pension transfer values received. Service related expenditure was understated by the same amount.
This amendment was promptly and correctly made.

Material weaknesses in the accounting and internal control systems

Material weaknesses in the accounting and internal control systems identified during the audit, are required to be communicated by the auditor where they have been corrected by management without the knowledge of those charged with governance.

A 'material weakness' is defined in the SAS as "...a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material mis-statement in the financial statements". Such matters may have previously only been reported to management for corrective action and, if satisfactorily resolved, not necessarily reported to those charged with governance.

Current position at the Authority

The financial statements include a statement of on the system of internal financial control which provides a summary assessment of the Authority's system of internal financial control. Our audit has not identified any other areas that need to be communicated to 'those charged with governance'.

Qualitative aspects of accounting practices and financial reporting

In the course of the audit of the financial statements, auditors consider the qualitative aspects of the body's accounting practices and financial reporting process, and the SAS requires that the auditors' views on such matters are discussed in an open and frank manner with those charged with governance.

Current position at the Authority

We are satisfied that the accounts have been prepared efficiently and professionally. The standard of working papers to support the figures in the accounts was of a high standard as was the co-operation and support for the audit provided by Authority/Service staff.

Matters required by other auditing standards to be reported to those charged with governance

Other auditing standards require us to communicate with you in other specific circumstances, including:


- where we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements; and
- where there is an inconsistency between the Authority's financial statements and other information in documents containing the financial statements.

Current position at the Authority
Our audit to date has not identified any other areas that need to be communicated to 'those charged with governance.'

Appendix 2

Reports issued during the 2004/2005 audit

Report	Publication Date
Audit of 2003/2004 Statement of Accounts	March 2005
Audit Plan 2004/2005	March 2005
Interim Opinion Audit	June 2005
Financial Aspects of Corporate Governance	June 2005
Statement of Accounts	January 2005



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