

## REPORT TO PERFORMANCE REVIEW AND AUDIT COMMITTEE

**DATE: 30<sup>th</sup> July 2007**

### **SUBJECT:**

The Wales Audit Office Regulatory Plan 2006/07

### **SUMMARY:**

In order to discharge its responsibilities for Audit and Inspection the Wales Audit Office (WAO) has produced this Regulatory Plan for the Authority. This plan lays out a programme of work to address significant operational and financial risks, and has been agreed by the Authority.

### **IMPLICATIONS:**

OPERATIONAL RISK - None

COMMUNITY RISK - None

TRAINING - None

H.R - None

FINANCE – £51,341 plus VAT

EQUALITY & DIVERSITY - None

HEALTH & SAFETY - None

LEGAL – **Audit** – 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

- **Inspection** - Local Government Act 1999 as amended by the Public Audit (Wales) Act 2004 and guidance by NAW

### **RECOMMENDATIONS:**

For information

### **BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT**

WAO Regulatory Plan for 2006/07

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WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

2006/2007

February 2007

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Ref:

# Regulatory Plan 2006/2007

## Mid and West Wales Fire and Rescue Authority

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

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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.

## Introduction

1. During 2007/2008, the Wales Programme for Improvement (WPI) for Fire and Rescue Services is being introduced. Detailed guidance on this will be included in the National Assembly for Wales' guidance on WPI for Fire and Rescue Services and the WAO's non-operational assurance implementation guidance. Also relevant is the National Assembly for Wales' guidance W-FRSC 06 Operational Assurance of Service Delivery – Fire and Rescue Services.
2. This Regulatory Plan reflects a number of changes arising from the introduction of WPI for Fire and Rescue Services including:
  - the appointment of a Relationship Manager (RM) for Fire and Rescue Authorities.
  - WAO's involvement with the Fire and Rescue in respect of the Joint Risk Assessment Process; and
  - the inclusion of inspection work.
3. The Auditor General's inspection powers and hence the role of the Relationship Manager are derived from Section 10A of the Local Government Act 1999 (the 1999 Act) which was inserted by schedule 1 to the Public Audit (Wales) Act 2004 (the 2004 Act). The Relationship Manager is:
  - the main point of contact between the Fire and Rescue Authority and its auditors and inspectors;
  - responsible for preparing a summary Regulatory Plan; and
  - responsible for co-ordinating regulatory work between regulators, although having no power to compel other inspectorates to be part of this co-ordinated approach to regulation. In respect of Fire and Rescue Services, this will relate to the Peer Assessment Teams which will be undertaking the operational assurance aspects of WPI.
4. Appointed auditors must carry out an audit which discharges the statutory duties placed upon them under Section 17 of the 2004 Act and Section 7 of the 1999 Act, by virtue of their appointment by the Auditor General under the 2004 Act. The Auditor General publishes a Code of Audit and Inspection Practice (the Code) which prescribes the way in which auditors appointed by him are to carry out their functions. The Code is prepared under Section 16 of the 2004 Act and Section 8B of the 1999 Act (as amended by the 2004 Act).
5. In order to discharge these responsibilities, the Wales Audit Office and other regulators have produced this Regulatory Plan for Mid and West Wales Fire and Rescue Authority.
6. To ensure our audit and inspection activity is relevant to the Authority, one of the prime requirements of the Code is that we design a programme of work to address those of your significant operational and financial risks that impact on our responsibilities.

7. The Code identifies two areas:
  - Financial Audit; and
  - Performance (value for money audit and inspection) work.
8. Last year the Auditor General for Wales (AGW) wrote to all audited bodies setting out our new approach to scoping work and understanding the issues relevant to the project. As a consequence in undertaking audit and inspection activity during 2006/2007, our approach to each piece of work will be to seek to address the situation, complication and headline question(s) as agreed with the Authority .

## This Plan

9. This Plan includes the Outline Audit Strategy which is produced in accordance with International Standard on Auditing (UK and Ireland) 300 and sets out how we will conduct our work in accordance with the Code.
10. It will be supplemented with a more detailed Financial Accounts Plan and individual terms of reference for each performance study. We will liaise closely with the Authority when completing this more detailed planning and will keep you fully informed of any risks or issues as and when they arise.
11. The audit and inspection process is summarised in Appendix 1 and set out below. The supplementary information at Appendix 2 sets out the respective roles and responsibilities of the Authority and the Wales Audit Office.

## Financial Accounts Audit

12. In order to issue the audit report and opinion on the financial statements, in line with the roles and responsibilities set out in Appendix 2, the appointed auditor must ensure that all the audit risks associated with the above are identified and addressed. An initial assessment of the risks has been undertaken, and these are set out in Exhibit 1.

### Exhibit 1: Financial Accounts

Financial Accounts Risk	Proposed Work
<p>The accounts and certification time table is being brought forward for 2006/2007. This increases the risk that the audit opinion will not be provided in accordance with the earlier deadline.</p> <p>CIPFAs 2006 Statement of Recommended Practice (SORP) also includes significant changes to both the presentation and content of the Fire Authority's financial statements.</p>	<p>Do the Authority's financial statements present fairly the financial affairs of the Authority as at 31 March 2007?</p> <p>Do the Authority's financial statements comply with the relevant statutory and other applicable requirements including the 2006 SORP?</p>
<p>The Authority has to complete a consolidation pack to support the consolidation of public sector resource accounts.</p>	<p>Does the Authority's 2006/2007 WGA consolidation pack present fairly?</p>

13. The appointed auditor will be updating this risk assessment during the year and will produce a more detailed Financial Accounts Plan prior to any work being completed.
14. The appointed auditor will also review the Authority's mechanisms to achieve, measure, and demonstrate efficiency gains. The appointed auditor will also comment on the Authority's overall declared gain and whether or not it has achieved its efficiency gains target for the year.

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## Performance

15. The main focus of the appointed auditor's work under Section 17 (2) of the 2004 Act, in relation to this responsibility, will continue to be a review of the key corporate performance management and financial management arrangements that you have put in place, as part of your system of internal control, to enable you to secure economy, efficiency and effectiveness in your use of resources (as set out in paragraphs 48 and 52 of the Code). This is set out in detail in Appendix 2.
16. The appointed auditor's conclusion on the existence of your arrangements will draw primarily on evidence secured as part of his normal Code audit work on your annual financial statements and other available relevant sources of evidence, such as the results of performance audit and inspection work carried out during the year.
17. In relation to the Authority's Improvement Plan the auditor is also required to undertake an audit and report, as set out below with further details in Appendix 2.
18. This conclusion and the Improvement Plan audit will also draw evidence from the work we will undertake to address the risks identified (locally and nationally) for 2006/2007 set out in Exhibit 2.

### Exhibit 2: Performance Audit Work

Risk Based Performance Audit	
Risk	Proposed Work
<b>Local performance studies</b>	
	IT services We will up date our risk assessment of arrangements for the delivery of IT services to provide assurance of the effectiveness of present arrangements. This work will then be used to provide a forward plan for those areas which may benefit from an independent review.
<b>Arrangements – Financial Management</b>	
	To be assessed following annual up date of procedures .
<b>Arrangements – Performance Management</b>	
	We will review progress in implementing recommendations arising from our review of the performance management system in 2005/2006.

19. Inspection is the process of periodic, targeted scrutiny, to provide an independent check and to report on whether services are meeting national and local performance standards, legislative and professional requirements, and the needs of service users. The Joint Risk Assessment which will be undertaken for the first time during Spring 2007 is expected to identify one area of inspection work. Also included in the Inspection fee is a small allocation of time for Relationship Management.

### Exhibit 3: Performance Inspection Work

Risk Based Performance Inspection	
Risk	Proposed Work
<b>Auditor General Local Government Studies Programme (all Wales) *</b>	
Making and Delivering the Connections (2)	Following the review of progress the public sector is making in implementing the Making the Connections agenda to deliver better services, it is anticipated that a probe into a specific strand of the agenda will be undertaken.
Good Practice in Sickness Absence in the Public Sector	A study into sickness absence management across the public sector – identifying good practice and sharing it to support improvement.
<b>Local Risk work</b>	
Joint Risk Assessment, including observing the operational assurance process and undertaking the non-operational assurance process	

*\* subject to consultation during 2007. These studies will be funded from the WPI grant and not from fees charged to the Authority.*

### Other regulatory activity

20. The Wales Audit Office may undertake other work which will impact on Fire and Rescue Authorities, perhaps as part of the Auditor General's forward programme for the Audit Committee of the Welsh Assembly Government or as bespoke work.

### Fees

21. Your audit and inspection fees have been determined on the basis of the work agreed with you to address the risks identified above.
22. Planning will be ongoing, and changes to the Strategy may be required if any significant new risks emerge. No changes will be made without first discussing them with officers, and where relevant those charged with governance.
23. The proposed fee for 2006/2007 is £ 51,341 (plus VAT) and will be charged in twelve equal instalments between November 2006 and October 2007.

24. Our fee is set out in Exhibit 5.

**Exhibit 5: The fee**

Area of the Code	Fee 2005/2006 £	Planned fee 2006/2007 £
Accounts	18,000	18,540
Performance Audit	30,600	23,061
Performance Inspection	Not applicable	9,740
<b>Total</b>	<b>48,600</b>	<b>51,341</b>

## Regulatory team

**Exhibit 6: Regulatory team**

Name	Role	Contact number	E-mail address
To be appointed	Relationship Manager		
Ceri Stradling	Engagement Partner	01244-525970	<a href="mailto:ceri.stradling@wao.gov.uk">ceri.stradling@wao.gov.uk</a>
Robert Poulton	Client Manager	029-20678524	<a href="mailto:bob.poulton@wao.gov.uk">bob.poulton@wao.gov.uk</a>
Jason Blewitt	Team Leader	01267-220707	<a href="mailto:Jason.blewitt@wao.gov.uk">Jason.blewitt@wao.gov.uk</a>
John Weston	Performance Project Manager	07766-071932	<a href="mailto:john.weston@wao.gov.uk">john.weston@wao.gov.uk</a>

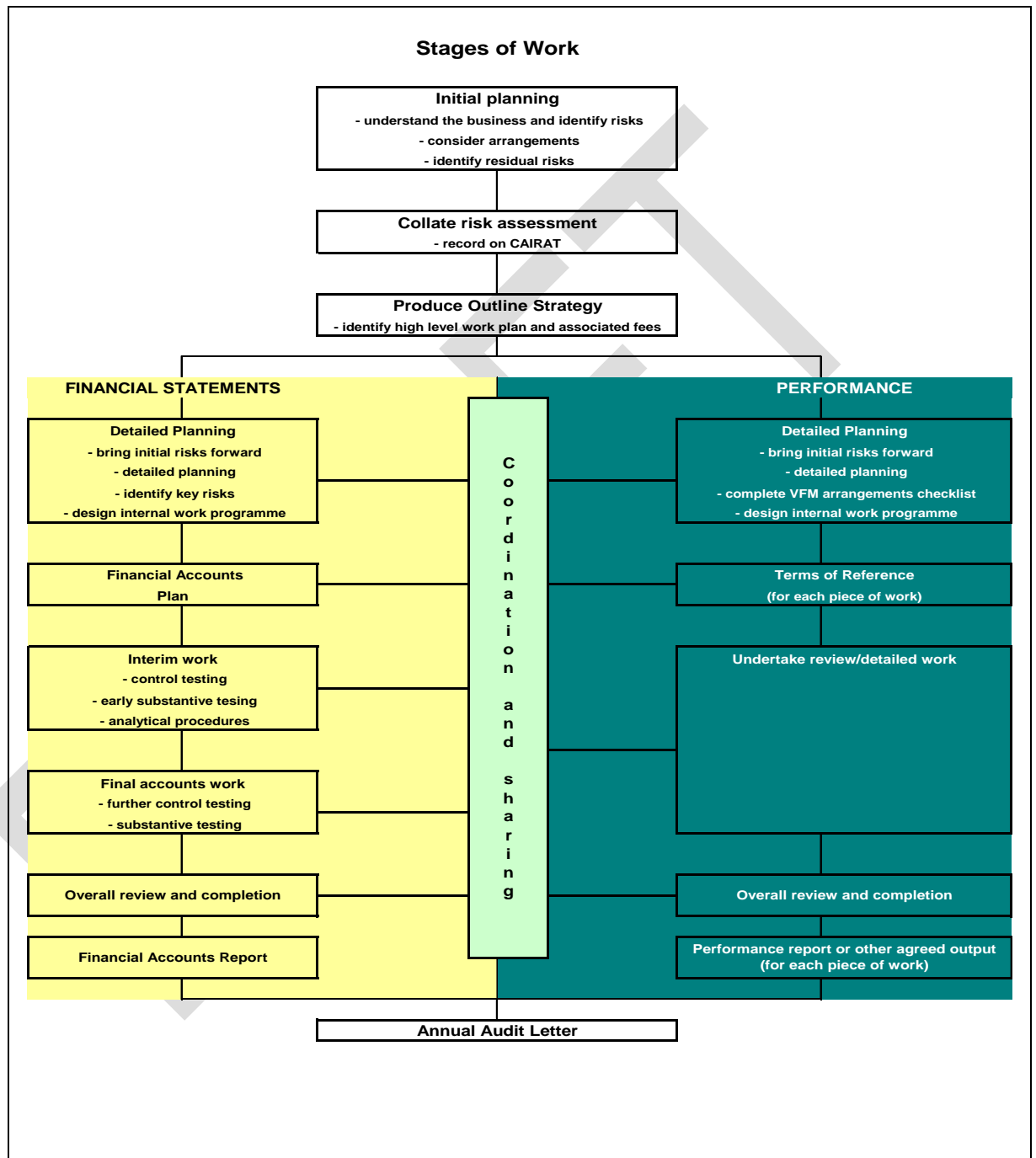
25. We can confirm that the Wales Audit Office team members are all independent of the Authority and your officers. In addition, we are not aware of any potential conflicts of interest which we need to bring to your attention.

## Delivering the work

26. A Regulatory Calendar will be produced showing all the current or planned work to be undertaken at the Authority by the regulators. This will be shared with the Authority and all the regulators and updated quarterly. Reports or other outputs as agreed will be provided to the Authority for each of the risk areas identified above.

Appendix 1

**Audit and inspection process**



## Supplementary information

### Roles and responsibilities

- 27.** The office of the Auditor General was established under the Government of Wales Act 1998. From 1 April 2005, the 2004 Act extended the Auditor General's functions to include the appointment of external auditors for local government bodies, and for undertaking inspections under the WPI (under the 1999 Act). The Wales Audit Office comprises the Auditor General and his staff.
- 28.** Under Section 7 of the Accounts and Audit (Wales) Regulations 2005, local government bodies in Wales are required to produce annual statements of accounts<sup>1</sup>. The Assembly Government's Local Government, Public Services and Culture Department supplements these regulations with guidance to assist local government bodies in their operation of the accounting regime. That guidance is not intended to be part of the statutory framework but is an informal commentary and provides details of where generally recognised published codes setting out proper practice may be found.
- 29.** Under Section 13 of the 2004 Act, local government bodies in Wales are required to ensure that their accounts are audited by one or more auditors appointed by the Auditor General under section 14 of the Act. Sections 17 and 23 of the Act require appointed auditors to examine and certify the accounts, satisfying themselves that:
- the accounts are prepared in accordance with the Accounts and Audit (Wales) regulations;
  - the accounts comply with the requirements of all other statutory provisions applicable to them;
  - proper practices have been observed in the compilation of the accounts;
  - the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
  - the audited body has made such arrangements for collecting, recording and publishing information on standards of performance as are required by any direction under Section 47 of the Act.
- 30.** The 1999 Act also requires each local authority to prepare and publish a Best Value Performance Plan. The Welsh Assembly Government's Circular on WPI for Fire and Rescue Services will set out how the WPI should be implemented.

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<sup>1</sup> These regulations are made by the Assembly under the statutory powers contained in section 39 of the 2004 Act.

31. The Auditor General has the responsibility for appointing the external auditors to local government bodies in Wales and he has appointed Ceri Stradling as the external auditor to Mid and West Wales Fire and Rescue Authority. He also has duties to carry out national comparative and other value for money studies across local government, and has inspection powers to assess how well specified local government bodies are complying with their duty of achieving continuous improvement in their functions having regard to a combination of economy, efficiency and effectiveness.
32. In order to discharge his duties, the Auditor General has issued the Code, under Section 16 of the 2004 Act and Section 8A of the 1999 Act, which sets out the principles under which audit and inspection work should be undertaken for all public sector bodies in Wales that fall within his remit.
33. In previous years the appointed auditor discharged his responsibility (for satisfying himself that the Authority had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources) by issuing the audit certificate, closing the audit, and by including certain comments within the Relationship Manager's Annual Letter.
34. From 2006/2007, the Auditor General intends that the conclusion will appear within the appointed auditor's certificate and report placed on your annual accounts under ISA 700. We will however, also to report our findings to you in more detail in the Relationship Manager's Annual Letter.

## Financial Accounts Audit

35. It is your responsibility to:
  - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements in accordance with relevant requirements.
36. You are also responsible for preparing and publishing with your financial statements a statement made by those charged with governance relating to their review of the effectiveness of the systems of internal control.
37. The appointed auditor is required to issue an audit report on the financial statements which includes an opinion on:
  - whether the financial statements present fairly, the state of affairs of the Authority. This will provide assurance that the financial statements:
    - are free from material misstatement, whether caused by fraud or other irregularity or error;
    - comply with the statutory and other applicable requirements; and
    - comply with all relevant requirements for accounting presentation and disclosure; and
  - whether the Statement on Internal Control has been presented in accordance with relevant requirements and is not inconsistent with our knowledge of the Authority.

## Performance work

- 38.** Performance work includes the appointed auditor's duty under Section 17(2) of the 2004 Act to satisfy himself that the audited and inspected body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This responsibility is not a new one, and was formerly contained in Section 5 (1) of the Audit Commission Act 1998. The Auditor General also undertakes performance studies under Sections 41, 42 and 44 of the 2004 Act.
- 39.** You are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of your resources, in particular in:
- establishing strategic and operational objectives;
  - determining policy and making decisions;
  - ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community;
  - ensuring compliance with established policies, procedures, laws and regulations;
  - 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;
  - ensuring compliance with the general duty of best value;
  - managing your financial and other resources, including arrangements to safeguard your financial standing;
  - monitoring and reviewing performance, including arrangements to ensure data quality; and
  - ensuring that the Authority's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.
- 40.** The main focus of the appointed auditor's work under the 2004 Act, in relation to this responsibility, will continue to be a review of the key corporate performance management and financial management arrangements that you are required to put in place, as part of your system of internal control, to enable you to secure economy, efficiency and effectiveness in your use of resources (as set out in paragraphs 48 and 52 of the Code).
- 41.** The appointed auditor's conclusion on the existence of your arrangements will draw primarily on evidence secured as part of his normal Code audit work: on your annual financial statements and other available relevant sources of evidence, such as the results of performance audit and inspection work carried out during the year.
- 42.** In relation to the Authority's Improvement Plan the auditor is required to issue a report:
- certifying that he has audited the plan;
  - stating whether he believes that it was prepared and published in accordance with Section 6 of the 1999 Act and any order or guidance under that section;

- if appropriate, recommending how it should be amended so as to accord with Section 6 and any order or guidance under that section;
- if appropriate, recommending procedures to be followed by the Authority in relation to the plan;
- recommending whether the Auditor General should carry out a best value inspection of the Authority under section 10A of the 1999 Act; and
- recommending whether the Welsh Assembly Government should give a direction under section 15 of the 1999 Act.

### **Other regulatory activity**

- 43.** The Wales Audit Office may undertake other work which will impact on services, perhaps as part of the Auditor General's forward programme or as bespoke work. Work which may arise will be included in updates of the Regulatory Calendar.

### **Communication of audit matters with those charged with governance - ISA (UK and Ireland) 260**

- 44.** ISA (UK and Ireland) 260 provides guidance on the communication of "relevant matters relating to the audit" of financial statements between auditors, and those charged with governance 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 fulfil their respective responsibilities; and
  - provide those charged with governance constructive observations from the audit process.
- 45.** It requires the appointed auditor to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements. The ISA 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 your accounting and reporting.
- 46.** The first issue is covered in this Outline Strategy. The second will be covered when the appointed auditor completes the detailed financial accounts planning and produces the Financial Accounts Plan. The third relates to the findings from the audit of the financial statements which will be reported during the course of the audit covering each of the following aspects:
- expected modifications to the auditors' report;
  - unadjusted misstatements;
  - material weaknesses in the accounting and internal control systems identified during the audit;

- the auditors' views about the qualitative aspects of your accounting practices and financial reporting; and
  - matters specifically required by other auditing standards to be communicated to those charged with governance.
47. The appointed auditor will discharge the responsibility to report to those charged with governance by submitting reports to the Corporate Governance Committee and where necessary to the Authority in a timely manner, prior to the completion of audit.

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