



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

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Regulatory Plan 2008-09

# Mid and West Wales Fire and Rescue Authority

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## **Status of this document**

This document has been prepared for the internal use of Mid and West Wales Fire and Rescue Authority as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

### **Wales Audit Office work at Mid and West Wales Fire and Rescue Authority**

1. The Relationship Manager (RM) is responsible for the co-ordination of all audit and inspection work at specified Local Government Bodies. Consequently, the RM has prepared this plan setting out the work to be delivered by and on behalf of the Auditor General and by his appointed auditors. The Plan will be supplemented with a more detailed Financial Accounts Plan and with additional information on the scope of performance and inspection studies as these are agreed during the year. We have designed a programme of work to address the significant operational and financial risks that impact on our responsibilities.
2. The Plan focuses on the following main areas:
  - the audit of the accounts;
  - the auditor's conclusion on whether the Authority has arrangements in place to deliver value for money;
  - the audit of the Improvement Plan;
  - performance (value for money) audit work;
  - inspection; and
  - all Wales Studies.
3. The audit, inspection and regulatory team members are all independent of Mid and West Wales Fire and Rescue Authority (the Authority) and your officers. We are not aware of any potential conflicts of interest which we need to bring to your attention. Appropriate contacts are set out at Appendix 1.
4. The roles and responsibilities of the regulatory team are set out in Appendix 2.
5. We will liaise closely with the Authority:
  - when completing the more detailed Financial Accounts Plan and will keep you fully informed of any risks or issues as and when they arise; and
  - on the timing, scope and delivery of the performance work which may take more than one audit cycle to complete.
6. We will ensure our planned work is appropriate, and changes to the Plan 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.
7. The proposed fee for 2008-09 is £54,557 (plus VAT) and will be charged in equal instalments between November 2008 and October 2009. This fee is in line with the Auditor General's fees letter and represents a 3.3 per cent increase on the 2007-08 fee. Our fee is set out in Exhibit 1.

**Exhibit 1: The fee**

	<b>Fee 2007-08 £</b>	<b>Planned fee 2008-09 £</b>
Accounts	25,355	26,190
Performance audit	17,380	17,955
Performance inspection	10,061	10,412
<b>Total</b>	<b>52,796</b>	<b>54,557</b>

8. We will produce a Regulatory Calendar showing all the current or planned work to be undertaken at the Authority by the regulators. We will share it with the Authority and update it quarterly.
9. The Auditor General has appointed Anthony Snow as the external auditor to the Authority and Gilbert Lloyd, of KPMG LLP as engagement partner.

## The audit of accounts

10. 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.
  - Whether the Statement on Internal Control has been presented in accordance with relevant requirements and is not inconsistent with our knowledge of the Authority.
11. In order to issue the audit report on the financial statements, 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 2 Financial Accounts.

**Exhibit 2: Financial Accounts**

Financial Accounts Risk	Key questions
<p>The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (SoRP) introduces further changes to Fire and Rescue Authority accounting from 1 April 2008. Whilst the changes are not significant, they include:</p> <ul style="list-style-type: none"> <li>• changes to FRS 17 measurement bases for pension scheme assets;</li> <li>• refinement to rules surrounding Financial Instruments; and</li> <li>• revaluation of fixed assets at point of disposal is not permitted.</li> </ul>	<p>Do the Authority's Financial Statements comply with the relevant statutory and other applicable requirements, including the new SoRP?</p>
<p>CIPFA/SOLACE have published 'Good Governance in Local Government – Framework', which reflects the principles contained in 'Good Governance Standards for Public Services'.</p> <p>The Governance Statement required by the Framework subsumes the current Statement on Internal Control and becomes a requirement for 2008-09.</p> <p>The Governance Statement must include the review of the system of internal control previously covered in the Statement on Internal Control.</p>	<p>Does the Authority have the appropriate processes and procedures in place to ensure necessary evidence and assurances are gathered to support the new statement?</p>
<p>The Authority has to complete a consolidation pack to support the consolidation of public sector resource accounts, which are to be prepared under International Financial Reporting Standards for 2008-09.</p> <p>It is currently undecided how this will be achieved, although it is hoped that an adjustment for IFRS will be made 'centrally', rather than locally by each Authority.</p>	<p>Does the Authority's 2008-09 Whole of Government Accounts (WGA) pack present financial information fairly?</p>
<p>Under current statutory arrangements, Fire Authorities in Wales are not permitted to hold revenue reserves and any under-spends at the year end should be held as balances due to the Constituent Authorities.</p> <p>In addition, any provisions held must comply with the criteria defined within FRS 12.</p>	<p>Do the Authority's Financial Statements comply with appropriate statutory requirements and accounting standards in respect of reserves and provisions?</p>
<p>The Authority will move to accounting under International Financial Reporting Standards (IFRS) from year ending 31 March 2011.</p> <p>As part of the conversion process the balance sheet for 31 March 2009 will form the opening balance sheet position for the Authority's first IFRS accounts and we would expect there to be an exercise after the closure of the 2009 accounts to convert this balance sheet into IFRS.</p>	<p>Does the Authority have the appropriate processes and procedures in place in readiness for the adoption of IFRS?</p>

12. 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.

13. It is the Authority's 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.

## **Conclusion on arrangements for securing value for money**

14. The Appointed Auditor has a duty to satisfy himself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The main focus of this work will continue to be a review of the key corporate performance and financial management arrangements you are required to put in place as part of your system of internal control.
15. The Appointed Auditor's review of your arrangements will include the following aspects:
- strategic and operational objectives;
  - policy and decision making;
  - meeting the needs of users and taxpayers;
  - internal controls;
  - risk management;
  - best value;
  - resource management;
  - performance management; and
  - standards of conduct.
16. The Appointed Auditor's conclusion on the existence of your arrangements will draw primarily on evidence secured as part of the routine audit work across the Code areas. The conclusion will also take into account any other available relevant sources of evidence, such as the results of local performance work studies and inspection carried out during the year.
17. It is the Authority's responsibility to prepare and publish with its financial statements, a statement made by those charged with governance relating to their review of the effectiveness of the systems of internal control.

## Auditing your Improvement Plan

18. In relation to your Improvement Plan (including the Performance Indicator and Performance Measurement Audits) the appointed 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 Welsh Ministers should give a direction under Section 15 of the 1999 Act.

## Performance audit, inspection and studies

19. Performance audit, inspection and studies work delivered on behalf of the Auditor General will not always be completed within one audit cycle. The Auditor General's forward programme is flexible and responsive to external change.
20. Work delivered during the year on behalf of the Auditor General is reported in the Annual Letter to the Authority which is presented by the RM and the Appointed Auditor.

### Performance Audit

21. The risks identified (locally and nationally) as part of the risk assessment are set out in Exhibit 3.

#### Exhibit 3: Performance Audit Work

Risk Based Performance Audit	
Risk	Key Questions
Audit of the Annual Action / Improvement Plan and performance indicators.	Does the Authority's Annual Action / Improvement Plan comply with relevant guidance? Is appropriate performance data, including all statutory performance indicators, being gathered and used to regularly monitor the Authority's performance?

<b>Risk Based Performance Audit</b>	
<b>Risk</b>	<b>Key Questions</b>
<p>The Authority faces financial pressures, coupled with expectations to meet increasing commitments and improve services.</p> <p>The current economic crises increases the risks to the Authority in a number of areas, including:</p> <ul style="list-style-type: none"> <li>• treasury management strategy;</li> <li>• availability of short term borrowing facilities;</li> <li>• valuation of pension fund investments;</li> <li>• impact on revenue budgets; and</li> <li>• impact on funding of capital programmes.</li> </ul>	<p>Are the Authority's arrangements for budget setting and monitoring financial performance during the year adequate given the current economic circumstances?</p> <p>Does the Authority have an appropriate Treasury management strategy?</p>
<p>The Authority should continue to take part in the National Fraud Initiative (NFI) – a computerised data-matching exercise.</p> <p>The NFI has shown that data matching is a powerful tool in reviewing local government bodies' arrangements to prevent and detect fraud.</p>	<p>Does the Authority have in place robust and effective arrangements to prevent and detect fraud and are they participating fully in the NFI?</p>

## Inspections

22. The inspection work will involve an update of the Joint Risk Assessment (JRA), comprising Wales Audit Office staff shadowing the Peer Assessment Team undertaking the operational assessment, and updating the non-operational assessment. Within the non-operational work to inform the JRA, we will focus particular attention on specific areas which we will agree with the Authority. The areas for inspection work are set out in Exhibit 4.

### **Exhibit 4: Performance Inspection Work**

Observe the Operational Assurance Process
Non-operational Assurance Process
Update Joint Risk Assessment

## Local government studies

23. The Auditor General has a duty to undertake studies that lead to recommendations for improving value for money in the discharge of functions, services and financial and other management in local government. The Auditor General's studies in local government will often, although not always, include all 22 unitary authorities and three fire and rescue authorities and may form part of a wider cross-cutting or whole systems study.
24. Exhibit 5 below sets out the work to be delivered as part of the local government studies programme:

### Exhibit 5: Local Government Studies

Making the Connections: asset management
Good Practice Exchange: Smarter Ways of Working ongoing

## Other Wales Audit Office work

25. The Wales Audit Office undertakes other work which may impact on fire and rescue authorities and we will keep you informed as these progress. Exhibit 6 provides details of the Auditor General's forward programme for the Audit Committee of the Assembly Government and bespoke work.

### Exhibit 6: Auditor General's Forward Programme for the Audit Committee

Affordable housing
Roll-out of the 2007–2013 EU funding round
Waste management follow-up

## The work of other regulators

26. Exhibit 7 sets out the other regulatory activity which is currently known. Essentially this relates to the work of the Assembly Government's Peer Assessment Team. This and other work which may arise will be included in updates of the Regulatory Calendar.

### Exhibit 7: Other regulatory activity

Peer Assessment Team	Operational assessment under WPI Fire
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## Appendix 1

**Regulatory Team**

<b>Name</b>	<b>Role</b>	<b>Phone</b>	<b>Email</b>
Rob Powell	RM	02920 320603/ 07980637686	rob.powell@wao.gov.uk
Alan Morris	Inspection Engagement Partner	07818 427472	alan.morris@wao.gov.uk
John Weston	Performance Project Manager	07766 071932	john.weston@wao.gov.uk
Anthony Snow	Appointed Auditor	02920 320514	Anthony.snow@wao.gov.uk
Gilbert Lloyd	Financial Audit Engagement Partner	02920 468090	gilbert.lloyd@kpmg.co.uk
Joanne West	Client Manager	02920 468138	joanne.west@kpmg.co.uk

## Appendix 2

## Roles and responsibilities

1. The office of the Auditor General was re-established under the Government of Wales Act 2006. From 1 April 2005, the Public Audit (Wales) Act 2004 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).
2. The Wales Audit Office comprises the Auditor General and his staff. The Auditor General's inspection powers, and the role of the RM, are derived from the Local Government Act 1999 (the 1999 Act and additional guidance) as amended by the Public Audit (Wales) Act 2004 (the 2004 Act) and the Local Government and Public Involvement in Health Act 2007.

## Appointed auditors

3. Appointed auditors must carry out audits that discharge the statutory duties placed upon them by the 1999 and 2004 Acts. The Auditor General publishes a Code of Audit and Inspection Practice (the Code) which prescribes the way in which auditors are to carry out their functions.
4. 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 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.
5. 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;

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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.

- 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.

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

6. 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; and
  - 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.
7. The appointed auditor will discharge the responsibility to report to those charged with governance by submitting reports to the Audit Committee and where necessary to the full Authority in a timely manner, prior to the completion of audit.

### **Relationship Managers**

8. The Auditor General’s inspection powers are set out in the Local Government Act 1999 (the 1999 Act). The 1999 Act also requires each fire and rescue authority to prepare and publish a Best Value Performance Plan (known in Wales as an Improvement Plan). The RM is:
  - The main point of contact between the Authority and its auditors and inspectors.
  - Responsible for preparing a summary Regulatory Plan.
  - Responsible for co-ordinating regulatory work between regulators, although having no power to compel inspectorates to be part of this co-ordinated approach to regulation. In respect to fire and rescue authorities, this will relate to the peer assessment teams which will be undertaking the operational assurance aspects of WPI. (Full details of WPI-Fire are provided in the Assembly Government’s document ‘*The Wales Programme for Improvement: Guidance for Fire and Rescue Authorities in Wales*’).



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