



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2017 Audit Plan – North Wales Fire and Rescue Authority

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

This document was produced by Mark Jones, Amanda Hughes and Andy Bruce.

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# 2017 Audit Plan

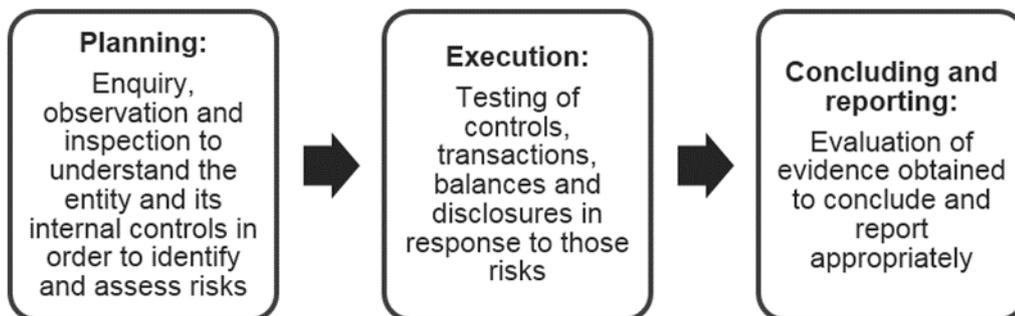
## Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are ‘true and fair’;
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
  - audit and assess whether you have discharged duties and met requirements of the Measure; and
  - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
- 6 I also consider whether or not North Wales Fire and Rescue Authority (the Authority) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements. I am also responsible for the audit of the Authority’s Fire Fighters’ Pension Fund accounts.
- 7 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my audit approach



8 **Exhibit 2** sets out the risks of material misstatement that my audit work has identified to date, along with a brief summary of the work I intend to undertake to address them.

Exhibit 2: financial audit risks

Financial audit risk	Proposed audit response
There is the risk that the Authority’s key financial systems and controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.	We will review the key controls to support the production of accurate accounts, including the main accounting system, closedown procedures and where necessary underlying systems.
There is the risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.	We will undertake a programme of audit testing to address risks identified as part of our planning work and review of the draft financial statements.
There is the risk that the financial statements are not prepared in accordance with the 2016-17 Code of Practice on Local Authority Accounting (the Code). There are a number of significant changes for 2016-17, including a requirement for a new Expenditure and Funding Analysis in addition to a revised expenditure analysis in the Consolidated Income and Expenditure Account (CIES). A restatement of the previous year’s (2015-16) CIES is also required.	We will: <ul style="list-style-type: none"> <li>review the Authority’s accounting practices and disclosures to ensure they comply with the Code of Practice and other relevant guidance.</li> </ul>

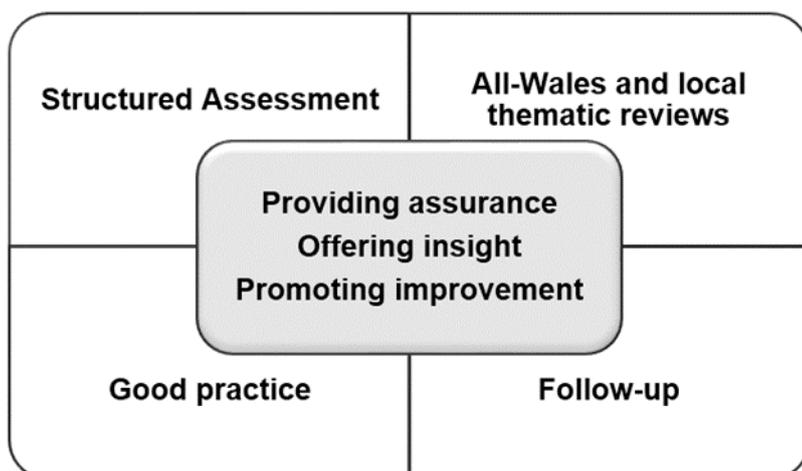
Financial audit risk	Proposed audit response
<p>The accounting treatment for property, plant and equipment is complex, increasing the risk of error or omission in the financial statements. In 2015-16 I raised concerns that the asset register did not hold sufficient details for IT and operational equipment and I recommended that the Authority should:</p> <ul style="list-style-type: none"> <li>• revise its asset register so that it includes all relevant information, which fully meets the needs of the accounting policies in place and enables the preparation and audit of the annual financial statements; and</li> <li>• implement a robust process so that the Finance Team is routinely notified of all equipment asset disposals.</li> </ul> <p>Also, in 2016-17, the joint Ambulance and Fire Services Resource Centre in Wrexham was brought into operational use which results in the need for the centre to be revalued. This is also the case for the former Wrexham fire station which we understand will be held as an asset for sale at the balance sheet date.</p>	<p>My audit team will review the accounting and disclosure of property, plant and equipment to ensure they are accounted for in accordance with relevant accounting standards.</p> <p>My audit team will also consider the progress made by the Authority in updating the asset register for IT and operational equipment, and in ensuring all equipment asset disposals are identified.</p>
<p>The Authority participates in defined benefit pension schemes for both uniformed and non-uniformed employees. The accounting treatment for these schemes is complex, increasing the risk of error or omission in the financial statements.</p>	<p>My audit team will review the accounting and disclosure of the pension schemes to ensure they are in line with the relevant accounting requirements.</p>
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p> <p><a href="#">[ISA 240, paragraphs 31 to 33.]</a></p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions that the audit identifies that could potentially be outside the normal course of business.</li> </ul>

- 9 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Fire and Rescue Authority prior to completion of the audit.
- 10 For reporting purposes, I will treat any misstatements below a 'trivial' level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 11 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

## Performance audit

- 12 The components of my performance audit work are shown in [Exhibit 3](#).

[Exhibit 3: components of my performance audit work](#)



- 13 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and Local Government Reform remains under consideration.
- 14 For 2017-18 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
- 15 During 2016 I consulted with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
  - offering insight on the extent to which resources are used wisely in meeting people’s needs; and
  - identifying and promoting ways by which the provision of public services may be improved.
- 16 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. **Exhibit 4** summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

**Exhibit 4: local government studies**

Study	Status
<b>2015-16 studies</b>	
Community Safety	Published October 2016
Income Generation and Charging	Published November 2016
Council Funding of Third Sector Services	Published January 2017
<b>2016-17 studies</b>	
How Local Government Manages Demand	Fieldwork
Strategic Commissioning	Fieldwork
Improving Well-being through Housing Adaptations	Fieldwork

17 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

**Exhibit 5: performance audit programme**

Performance audit programme	Brief description
Improvement audit and assessment work including: <ul style="list-style-type: none"> <li>• improvement planning and reporting audit</li> <li>• follow-up of local and national proposals for improvement/recommendations</li> <li>• local risk-based projects – TBC</li> <li>• Annual Improvement Report</li> </ul>	<ul style="list-style-type: none"> <li>• basic certification of improvement plan and annual report</li> <li>• follow-up review of a sample of local and national proposals for improvement/recommendations</li> <li>• project briefs will be shared prior to commencement of project work</li> <li>• summary of performance audit work undertaken in the year</li> </ul>
Well-being of Future Generations (WFG) baseline assessment	The Year One Commentary: we will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the Act.
WFG scrutiny review	This review will examine the impact of the WFG Act on the work of scrutiny committees, including PSB scrutiny, facilitating improvement and the sharing of good practice.

18 The performance audit projects included in last year’s Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

## Fee, audit team and timetable

### Fee

- 19 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 20 Your estimated fee for 2017 is set out in [Exhibit 6](#). This year's fee estimate of £45,000 for the audit of the accounts is based on my Fee Scheme. The estimate has been based on the median position for the Fire Authority (see page 19 of the Fee Scheme that is linked within [paragraph 22](#)).

#### Exhibit 6: audit fee

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
Audit of accounts <sup>2</sup>	45,000	50,000
Performance audit work <sup>3</sup>	15,274	15,300
Well-being of Future Generations (Wales) Act 2015 pilot work <sup>4</sup>	0	N/A
Well-being of Future Generations (Wales) Act 2015 Year One Commentary <sup>4</sup>	1,953	N/A
Total fee	62,227	65,300

#### Notes:

- <sup>1</sup> The fees shown in this document are exclusive of VAT, which is no longer charged to you.
- <sup>2</sup> Payable November 2016 to October 2017.
- <sup>3</sup> Payable April 2017 to March 2018.
- <sup>4</sup> See [future developments](#) below.

- 21 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Authority.
- 22 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

## Audit team

23 The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

### Exhibit 7: my team

Name	Role	Contact number	E-mail address
Jane Holownia	Engagement Director	02920 320565	<a href="mailto:jane.holownia@audit.wales">jane.holownia@audit.wales</a>
Mark Jones	Engagement Lead – Financial Audit	02920 320631	<a href="mailto:mark.jones@audit.wales">mark.jones@audit.wales</a>
Amanda Hughes	Financial Audit Manager	07969 919986	<a href="mailto:amanda.hughes@audit.wales">amanda.hughes@audit.wales</a>
Dave Catherall	Financial Audit Team Leader	07870 265458	<a href="mailto:david.catherall@audit.wales">david.catherall@audit.wales</a>
Andy Bruce	Performance Audit Manager	07919 164779	<a href="mailto:andy.bruce@audit.wales">andy.bruce@audit.wales</a>

24 I can confirm that my team members are all independent of the Authority and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

25 I will provide reports, or other outputs as agreed, to the Authority covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

### Exhibit 8: timetable

Planned output	Work undertaken	Report finalised
<b>2017 Audit Plan</b>	January to March 2017	March 2017
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>Audit of Financial Statements Report</li><li>Opinion on Financial Statements</li></ul>	February to September 2017	September 2017 September 2017
<b>Performance work:</b> Programme will be finalised as soon as practicable (see <a href="#">paragraphs 13 to 18</a> )	April 2017 to March 2018	June 2018
Annual Improvement Report	Throughout the year	June 2018
WFG: pilot work	To be confirmed	N/A

Planned output	Work undertaken	Report finalised
WFG: year one commentary	To be confirmed	N/A

## Future developments to my audit work

### Well-being of Future Generations (Wales) Act 2015

26 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies acting in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In 2017, I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

### Other

- 27 Details of other future developments including changes to key International Financial Reporting Standards and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 4](#).
- 28 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- The Challenges Posed by Indirectly Provided, Publicly Funded Services in Wales
  - How you Manage Risk around Organisation Change, Service Transformation and Innovation
  - Measuring Outcomes: Who's Doing it and How (linked to Well-Being of Future Generations Act)

# Appendix 1

## Respective responsibilities

### Audit of accounts

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Narrative Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Authority's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Authority's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit. My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

## Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

# Appendix 2

## Performance work in last year's audit outline still in progress

Exhibit 9: performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Asset management review of land, buildings and sharing facilities	Complete	To be reported locally and in the Annual Improvement Report – May 2017

# Appendix 3

## National value-for-money studies

The Authority may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

**Exhibit 10** covers all of the value-for-money studies work currently programmed.

The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd, I am considering a broader examination of the Welsh Government's support for business.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

### Exhibit 10: national value-for-money studies

Topic	Anticipated publication (as at 3 January 2017)
Outpatient follow-up appointments	February 2017
Governance and oversight of arms-length bodies (discussion paper)	February 2017
Welsh Government oversight of further education institutions' finances and delivery	March 2017
Circuit of Wales	February 2017
Emergency ambulance services commissioning	February 2017
21st century schools and education programme	March 2017
Public procurement landscape review	April to July 2017
Waste management (waste prevention)	April to July 2017

Topic	Anticipated publication (as at 3 January 2017)
Waste management (municipal recycling) <sup>2</sup>	April to July 2017
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)	April to July 2017
Supporting People programme	April to July 2017
NHS Wales informatics services	April to July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales (follow-on report)	August to October 2017
Early intervention and behaviour change	TBC <sup>3</sup>

<sup>2</sup> In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

<sup>3</sup> My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

# Appendix 4

## Other future developments

### Forthcoming key International Financial Reporting Standard (IFRS) changes

Exhibit 11: forthcoming key IFRS changes

Standard	Effective date	Further details
<b>IFRS 9 Financial instruments</b>	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on an expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
<b>IFRS 15 Revenue from contracts with customers</b>	2018-19	IFRS 15 Revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
<b>IFRS 16 Leases</b>	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

## Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared online.

The focus of GPX events include financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).

Registration for all events will open two months prior to the event.



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