



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Annual Audit Letter 2005/2006

South Wales Fire Authority

Contents

Summary	4
Detailed Letter	
The financial accounts	7
An unqualified audit opinion has been issued on the Authority's accounts for the year ended 31 March 2006	7
The Authority's significant financial systems can be relied upon to produce materially correct outputs	8
Following our audit report on procurement procedures the Procurement Officer has identified some £1.9 million of expenditure in 2005/2006 which may not be fully compliant with Standing Orders	8
The Authority's overall financial position is sound with effective procedures to monitor revenue and capital expenditure	11
We are satisfied as to the existence of the arrangements that the South Wales Fire Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources during 2005/2006	12
Appendices	
Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2005/2006	16
Criteria for assessing South Wales Fire Authority arrangements during 2005/2006 for securing economy, efficiency and effectiveness in its use of resources	17
Reports delivered during the 2005/2006 audit	18
Audit fee	19

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.

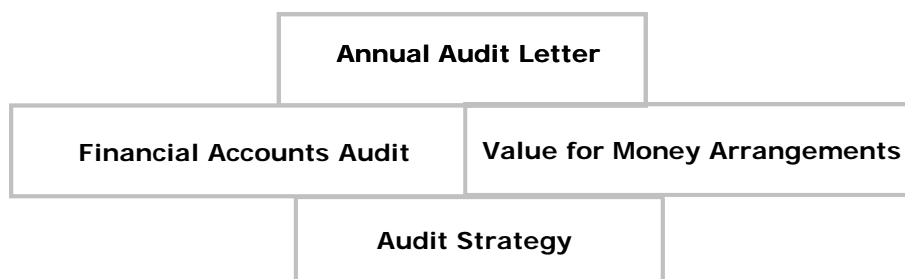
Reports are prepared by the staff of the Wales Audit Office and appointed auditors, and addressed to members or officers including those designated as accounting or accountable officers. They are prepared for the sole use of the named body, and no responsibility is taken by the Wales Audit Office or appointed auditors to any director/member or officer in their individual capacity, or to any third party.

Summary

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

Objectives of the audit

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

Exhibit 1: Key elements of the audit

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


Financial Accounts audit

- An unqualified audit opinion has been issued on the Authority's accounts for the year ended 31 March 2006.
- The Authority's significant financial systems have continued to operate effectively.
- Following our audit report on procurement procedures the Procurement Officer has identified some £1.9 million of expenditure in 2005/2006 which may not be fully compliant with Standing Orders.
- The Authority's overall financial position is sound with effective procedures to monitor revenue and capital expenditure.

Performance audit

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

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



Gill Lewis
Appointed Auditor
Date: 20 December 2006

The financial accounts

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

An unqualified audit opinion has been issued on the Authority's accounts for the year ended 31 March 2006

13. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. Our report 'Audit of the Financial Statements – reporting to those charged with governance' was presented to the Fire Authority on 30 October 2006. A summary of our findings is set out in Exhibit 2.

Exhibit 2: ISA 260 reporting requirements

Reporting requirement	Auditor's response
Modifications to the auditor's report.	There were no matters arising which would require me to modify the auditor's report.
Unadjusted misstatements.	Following our audit a number of adjustments were made to draft financial statements, although these were not material.

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

14. The earlier dates set for the Whole of Government Accounts initiative have been met by the Authority. The Authority's draft financial statements were prepared in accordance with CIPFA's statement of recommended practice and approved prior to the 31 July 2006.
15. A summarised return as part the whole of government accounts initiative was submitted to the Assembly Government in September. Our verification of the return confirmed that the data was correctly stated and fit for purpose.

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

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

Following our audit report on procurement procedures the Procurement Officer has identified some £1.9 million of expenditure in 2005/2006 which may not be fully compliant with Standing Orders

18. To demonstrate financial stewardship the Authority needs to ensure it has effective financial arrangements including:
 - internal financial controls such as comprehensive standing orders and financial regulations, strong budgetary control and effective Internal Audit (IA);
 - the operation of recognised standards of financial conduct;

- arrangements to ensure that the Authority only enters into transactions where there is specific legal provision for it to do so; and
 - well established and understood procedures to prevent and detect fraud and corruption.
19. Overall we found that:
- Internal Audit, as in previous years, has met the required professional standards and our planned reliance on their work has therefore been possible;
 - the arrangements for ensuring that the Authority only enters into lawful transactions were in place and had continued to operate effectively; and
 - the ethical framework of the Authority was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption, as evidenced by both the anti-fraud and corruption strategy and whistle blowing policy.
20. A key element to gaining assurance that the Authority's financial systems continue to operate effectively is the work undertaken by IA. Commencing with the 2006/2007 financial statements the Authority is required to approve the draft financial statements by 30 June each year. To support this earlier deadline, together with the need to ensure that our work is proportional to risk and the findings of IA, we recommend that a target date of 31 March 2007 is set for the finalisation and agreement of all planned IA reports.
21. Our planning process for the 2005/2006 audits identified a need to review the arrangements for the procurement of goods and services and in particular the internal procedures adopted to ensure full compliance with standing orders and financial regulations.
22. During the last 12 months the Procurement Officer has reviewed payments made to suppliers to ascertain the level of compliance with standing orders and financial regulations. This work showed there was no single register which recorded all contracts and that there were significant areas where there was no contract currently in place. At the time of our audit indications were that there was £716,000 of expenditure in 2004/2005 and £979,000 in 2005/2006 for the procurement of goods and services which may not be fully compliant with standing orders and financial regulations.
23. More recently, the Procurement Officer has identified some £1.9 million of expenditure in 2005/2006 which may not be fully compliant with Standing Orders. (see Exhibit 3). The placement of purchases/work orders without competition is in contravention of Standing Orders and the Authority cannot now demonstrate that value for money has been obtained.

24. The present position is:

Exhibit 3: Key matters arising and management action from our review of procedures for the procurement of goods and services

Issue arising	Agreed action	Present position
<p>Procurement of goods and services may not be compliant with standing orders and financial regulations.</p>	<p>The Procurement Officer to complete the review and report whether procedures are compliant to the Authority.</p>	<p>The review is only partially complete and remains to be reported to the Authority. At present the Procurement Officer has identified:</p> <ul style="list-style-type: none"> • £1.2 million of expenditure which has not been subject to tender (values range £10,380 to £118,965). • £433,000 of expenditure which needs to be reviewed further. Whilst individual jobs/purchases are below the threshold required for tenders, taken on an aggregate basis, payments made may not be.
<p>Procurement of goods and services may not be compliant with standing orders and financial regulations.</p>	<p>The Procurement Officer to complete the review and report whether procedures are compliant to the Authority.</p>	<ul style="list-style-type: none"> • £ 288,000 of expenditure where the contract was awarded on the basis of a single supplier without competition. It is unclear whether the Authority has received an officer report seeking approval for dispensation from standing orders. <p>This exercise now needs to be completed as a matter of urgency and a full report provided to the Authority.</p>
<p>Responsibilities for procurement is currently split between the:</p> <ul style="list-style-type: none"> • Estates Manager - building and development; • Fleet Manager - fleet services; • IT Manager - IT services; and • Procurement Officer - all other services. 	<p>The Procurement Officer will review roles and responsibilities and issue new guidance.</p>	<p>This remains to be completed.</p>
<p>There is no central register which provides details of all contracts by type and duration of contract. This should be used to determine the work load of the procurement section.</p>	<p>Existing registers need to be merged, with one register kept by the Procurement Officer.</p>	<p>This is currently under way.</p>

25. Procedures now need to be revised to ensure they are correctly aligned to standing orders, financial regulations and the agreed scheme of delegation to officers. As part of this process standing orders and financial regulations should be reviewed to ensure they are aligned to the current structure of the Authority and Service and that they are clear in their intent.
26. Once the new arrangements have been put in place the procurement procedures should be subject to a further independent review to provide assurance to the Authority that procedures are compliant with standing orders and financial regulations.

The Authority's overall financial position is sound with effective procedures to monitor revenue and capital expenditure

27. We are responsible for assessing whether the Authority has put in place adequate arrangements to monitor, control and report on its financial position. Our audit was based on the review of the following areas:
- setting a balanced revenue budget and capital programme;
 - financial monitoring and reporting;
 - meeting financial targets; and
 - financial reserves.
28. We have examined budgetary reports and procedures and are satisfied suitable arrangements are in place and that the Authority's revenue and capital budgets cover all relevant areas of income and expenditure. The Authority also has in place sound arrangements for financial monitoring and reporting that should ensure that any potential material misstatements and variances will be identified.
29. Whilst the Authority has continued to receive regular reports for the monitoring of revenue of revenue and capital expenditure, the last three years has seen a significant recurring underspend in revenue expenditure (see Exhibit 4).

Exhibit 4: Financial outturn 2003/2004 to 2005/2006

	2003/2004 £'000	2004/2005 £'000	2005/2006 £'000
Budget	54,679	59,346	67,040
Actual expenditure	53,802	58,197	66,434
Surplus	785	1,149	606

Source: *Financial statements*

30. Budgetary projections for 2006/2007 show this trend is continuing. The report for the period ending 30 September 2006 shows expenditure to be £33.174 million (47.6 per cent of approved budget). The projected financial position at 31 March 2007 is an overall underspend of £1.227 million. Most of that under spend reflects the fact that the cost of implementing the new national pay framework for uniform personnel has been less than expected.

31. For 2006/2007, the Finance Audit and General Purposes committee in November has recommended some £605,000 of the under spend is used to bring forward a number of non recurring projects and that a reserve of £500,000 is created to fund future pay awards.
32. These underspends have enabled the Authority to increase the general reserve and maintain a number of earmarked reserves (see Exhibit 5).

Exhibit 5: Financial reserves – March 2004 to March 2006

	31 March 2004 £'000	31 March 2005 £'000	31 March 2006 £'000	31 March 2007 projected £'000
General reserve	1,393	2,542	2,912	3,033
Earmarked reserves				
Renewals and repairs	561	410	410	410
Personal protective equipment	292	200	200	0
Capital reserve	493	493	493	493
Vehicle equipment	0	228	124	59
Pay reserve	0	0	0	500
Total earmarked reserves	1,346	1,331	1,227	1,462

Source: Finance records

33. Additionally the Authority holds a pension provision of £1.9 million to even out the costs of future pension payments. The future liability for fire fighter pension costs is expected to transfer to the Wales Assembly Government in 2007.
34. The current level of reserves and recurring under spends will need to be reviewed and assessed as part of the budget setting process for 2007/2008.
35. This position will need to be continued to be closely monitored.

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

36. The Public Audit (Wales) Act 2004 requires auditors to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This requirement is reflected in the Auditor General's Code of Audit and Inspection Practice.

37. Our conclusion has been reached as part of our annual audit of the accounts including the examination of evidence that is relevant to the existence of the Authority's corporate performance management and financial management arrangements. The focus of the work for the purposes of the annual conclusion is on the evidenced existence of these arrangements themselves.
38. As part of the conclusion we do **not** comment on the effectiveness of or provide assurance on the arrangements during the year. Our separate value for money/performance work **does** consider where the arrangements or their operation could be improved. The results of such work carried out during 2005/2006 are set out elsewhere in this report. This latter work informs our conclusion on the existence of arrangements but is not essential to it.
39. The results of our assessment are summarised in Exhibit 6 below.

Exhibit 6: Assessment of proper arrangements

Aspect	Arrangement	Yes or No
Strategic and operational objectives	Has the Authority put in place arrangements for establishing, reviewing and implementing its strategic and operational objectives?	Yes
Meeting the needs of users and taxpayers	Has the Authority put in place arrangements to ensure that services meet the needs of users and taxpayers, and for engaging with the wider community?	Yes
Internal controls	Has the Authority put in place arrangements to ensure compliance with established policies, procedures, laws and regulations?	Yes
Risk Management	Has the Authority put in place arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and other forms of joint working or contracting?	Yes
Best Value	Does the Authority have arrangements for ensuring compliance with the general duty of best value?	Yes
Resource Management	Has the Authority put in place arrangements for managing its financial and other resources, including arrangements to safeguard its financial standing?	Yes
Reviewing Performance	Does the Authority have arrangements in place to monitor and review performance, including arrangements to ensure data quality?	Developing
Standards of Conduct	Has the Authority ensuring that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption?	Yes
Overall Conclusion	Has the Authority has put in place proper arrangements to secure 'economy, efficiency and effectiveness' in its use of resources?	Yes

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

Wales Programme for Improvement

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

Performance management

45. Appropriate performance management will be a key aspect of WPI both in relation to obtaining operational and non-operational assurance. As part of our work to support development of WPI we have during 2005/2006 reviewed the Authority's progress in implementing a new performance management system.
46. Our review found that the basis for the new performance management system is sound though there were a number of areas which should be addressed to ensure the system is implemented effectively and consistently through out the service and the Authority continues to receive reliable and accurate information.

47. A report has been agreed with officers and the following action agreed (see Exhibit 7).

Exhibit 7: Key matters arising and management action from our review of the performance management system

Issue arising	Agreed action
The Performance Management (PM) System should reflect the full range of performance management processes including linking directorate objectives to section plans, monitoring reports at station/ departmental level and links with the financial planning and staff appraisal processes.	All the various guidance notes will be combined and reference made to related documents such as the Commanders Framework Document.
There is a need to increase awareness of the requirements of the PM framework at all levels to ensure consistency across all directorates.	Guidance will be widely publicised and the PM Unit will facilitate awareness raising seminars and workshops.
Fully identify in station business plans how targets are set to explicitly reflect local circumstances and the contribution to the wider achievement of the objectives outlined in the annual Corporate Performance Plan.	The guidance will include methodology to reflect local circumstances and clear links to related plans and objectives will be established and documented.
Ensure that any future developments to OWLe (the system programme for PM) are undertaken in accordance with the wider IT strategy of the Service.	The ICT department will include OWLe development in its IT strategy.

Performance indicators

48. As an interim measure, prior to the introduction of WPI, the three fire authorities in Wales have continued to compile and make available to the public a Best Value Plan including statutory indicators and reported performance.

Appendix 1

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

Conclusion on the South Wales Fire Authority's arrangements for the year ended 31 March 2006 for securing economy, efficiency and effectiveness in its use of resources	
South Wales Fire Authority's responsibilities	
<p>The South Wales Fire Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Authority is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.</p>	
Auditor's responsibilities	
<p>I have a responsibility under Section 17(2) of the Public Audit Wales Act 2004 to conclude from my audit of the Authority's annual accounts whether I am satisfied as to the existence of the arrangements that it had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in paragraph 48 of the Auditor General's Code of Audit and Inspection Practice.</p> <p>I report if significant matters have come to my attention which prevents me from concluding that the Authority has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing value for money during the year under review.</p>	
Conclusion	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2005/2006 accounts to establish, in all significant respects, what arrangements the Authority had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p> <p>In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered, the effectiveness of the arrangements in place in securing value for money during the year under review.</p> <p>Based on the South Wales Fire Authority's statement of internal control and as a result of the work carried out, as described above as part of my audit of the 2005/2006 accounts, and all other information that I have considered to be relevant, I am satisfied as to the existence of the arrangements that the Authority had in place during the year to properly support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p>	
Gill Lewis Appointed Auditor December 2006	Wales Audit Office 2-4 Park Grove Cardiff CF10 3PA

Appendix 2

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

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

Appendix 3

Reports delivered during the 2005/2006 audit

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

Appendix 4

Audit fee

Our Audit Strategy for 2005/2006 set out the proposed audit fee of £49,800 (plus VAT). The table below sets out my latest estimate of the actual fee for 2005/2006, on the basis that some work remains in progress, analysed between the main areas of the Code of Audit and Inspection Practice.

Analysis of proposed and actual audit fee 2005/2006

Code area	Planned fee 2005/2006 (£)	Actual fee 2005/2006 (£)
Financial Accounts	41,000	41,000
Performance	8,800	8,800
Total	49,800	49,800



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