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Annual Letter

**South Wales Fire and Rescue
Authority**

Contents

Summary	5
The Appointed Auditor's report	7
Except for a qualified audit opinion arising from disagreement on the accounting treatment associated with the carrying of reserves, the Authority's financial statements present fairly the Authority's financial position and we did not identify any material weaknesses in internal control	7
Except for a qualified opinion arising from disagreement on the accounting treatment associated with the carrying of reserves, the 2007/2008 financial statements present fairly the Authority's financial position and were properly prepared	7
An examination of the Authority's significant financial systems did not identify any material weaknesses in internal control, but there are areas where continued improvement is required	9
We have certified that the audit has been completed in accordance with the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice	10
There were no formal questions or objections to the financial statements	10
The Authority's improvement planning arrangements complied with statutory requirements but we identified areas where further work is required	10
The Authority's Improvement Plan has been delivered appropriately and represents a balanced picture of performance in the last year	10
Our audit of the National Strategic Indicators showed that the Authority has robust arrangements in place for the collection and validation of performance information but there are areas where further improvement is required	11
Whole of Government Returns were completed appropriately	11
The Authority had satisfactory arrangements in place to achieve economy, efficiency and effectiveness in its use of resource	12
There are opportunities for the Authority to secure the best use of resources and further improvement in its delivery of services	13
The Authority has a record of achieving surpluses against its recent revenue budgets and has appropriate arrangements in place to manage its finances. However, it faces increasing financial pressures in several areas and needs to review the policy of carrying reserves to meet future financial commitments	13
The Authority has effective financial management arrangements in place	16
The Authority made use of the National Fraud Initiative	17

The Relationship Manager’s report on behalf of the Auditor General	18
The annual Joint Risk Assessment (JRA) validated the Authority’s priorities for improvement and found that effective action has been taken in response to previous recommendations although the Authority will need to address key risks arising from its headquarters move	18
The Authority has responded positively to the recommendations of previous inspection work	19
The Authority has started to improve its approach to scrutiny	19
The Authority has engaged positively with Wales Audit Office initiatives to promote improvement	20
The Authority is committed to using the Good Practice Exchange through shared learning	20
The Authority is committed to delivering the Making the Connections agenda and its approach to fleet management is making appropriate use of resources to support improvements in service delivery although there is scope for improvement in some areas	21
Appendices	
Auditor’s report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2007/2008	22
Criteria for assessing the Authority’s arrangements during 2007/2008 for securing economy, efficiency and effectiveness in its use of resources	23
Audit of the 2008/2009 Improvement Plan	24
Audit and inspection fees	26

Status of this report

This document has been prepared for the internal use of South Wales Fire & 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.

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Summary

1. This Annual Letter sets out the key messages arising from work undertaken over the last twelve months up to the point when it was written by:
 - the Engagement Partner on behalf of the Appointed Auditor under the Code of Audit and Inspection Practice (the Code); and
 - the Relationship Manager (RM) on behalf of the Auditor General under the studies and inspection powers of the Auditor General.
2. The Annual Letter includes a summary of audit and inspection work and reports progress against improvement actions. It draws on published reports of other inspectorates to provide an annual summary to South Wales Fire & Rescue Authority (the Authority). The work planned for the year was set out in the Regulatory Plan 2007/2008 and more detail on the specific aspects of the work undertaken can be found in the separate reports that have been issued during the year.
3. The Annual Letter will be presented to all members on 15 December 2008.
4. The Auditor General's Appointed Auditor has completed the audit of accounts in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice. We have concluded that:
 - Except for a qualified audit opinion arising from disagreement on the accounting treatment associated with the carrying of reserves the Authority's financial statements present fairly the Authority's financial position and were properly prepared. We did not identify any material weaknesses in internal control.
 - The Authority's improvement planning arrangements complied with statutory requirements but we identified areas where further work is required.
 - The Authority had satisfactory arrangements in place to achieve economy, efficiency and effectiveness in its use of resources.
 - There are opportunities for the Authority to secure the best use of resources and further improvement in its delivery of services.
5. The Relationship Manager has concluded that:
 - the annual Joint Risk Assessment (JRA) validated the Authority's priorities for improvement and found that effective action has been taken in response to previous recommendations although the Authority will need to address key risks arising from its headquarters move; and
 - the Authority has engaged positively with Wales Audit Office initiatives to promote improvement.

We recommend no statutory inspections this year

6. The Appointed Auditor is required each year to recommend whether, on the basis of audit work undertaken, the Auditor General should carry out a Best Value Inspection of the Authority or whether Welsh Ministers should recommend a course of action, referred to as 'a direction' under section 15 of the Local Government Act 1999 (the 1999 Act). On the basis of audit work undertaken, the Appointed Auditor:
- does not recommend that the Auditor General should carry out a Best Value Inspection of the Authority under section 10A of the 1999 Act; and
 - does not recommend that Welsh Ministers should give a direction under section 15 of the 1999 Act.

The Appointed Auditor's report

7. 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 identifies that it is the Authority's responsibility 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.
8. 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. The auditor's report also gives an opinion on whether the financial statements have been prepared properly in accordance with relevant legislation, directions or regulations and applicable accounting standards.

Except for a qualified audit opinion arising from disagreement on the accounting treatment associated with the carrying of reserves, the Authority's financial statements present fairly the Authority's financial position and we did not identify any material weaknesses in internal control

Except for a qualified opinion arising from disagreement on the accounting treatment associated with the carrying of reserves, the 2007/2008 financial statements present fairly the Authority's financial position and were properly prepared

9. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. The Appointed Auditor's report *Audit of the Financial Statements – reporting to those charged with governance* was presented to the Finance, Audit and Performance Management Committee on 23 September 2008. A summary of the findings is set out in Exhibit 1.

Exhibit 1: ISA 260 reporting to the Authority

Reporting requirement	Auditor's response
Modifications to the auditor's report.	As a result of the matter referred to immediately below, modifications were required to the auditor's report and the final report issued contained a qualified opinion arising from disagreement about accounting treatment.
Unadjusted misstatements.	<p>During the course of the audit a number of non-trivial errors were identified. Appropriate amendments were made by management. Members were informed that an issue in respect of the holding of reserves balances was unresolved at the time of our ISA 260 report.</p> <p>It was resolved at the meeting of the Finance, Audit and Performance Management Committee (FAPMC) on 23 September 2008 that authority be delegated to the Treasurer (in consultation with the Chief Fire Officer and Chair of the FAPMC) to further consider the background to advice from the Wales Audit Office concerning the inappropriateness of carrying forward reserves in the Authority's accounts.</p> <p>Subsequent to that meeting the Authority has determined to maintain its past accounting policies in this regard and to include an explanation thereof in the Foreword to their Statement of Accounts.</p> <p>Due to a disagreement on the basis for accounting for reserves, the Appointed Auditor has issued a qualified audit report in that respect.</p> <p>The adjustment which would otherwise have been necessary to the accounts would require a reclassification of £8,591,000 of balances held as general and earmarked reserves into current liabilities, as amounts due to constituent authorities.</p> <p>A similar adjustment would also have been required to correct the prior year accounts, with £7,119,000 adjusted from reserves to current liabilities.</p> <p>Further details of this issue are provided in paragraphs 34 to 38.</p>
Material weaknesses in the accounting and internal control systems identified during the audit.	No matters arose.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	No matters arose.

Reporting requirement	Auditor's response
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters arose.
Any other relevant matters relating to the audit.	No matters arose.

10. On 14 November 2008 we issued a qualified auditor's report on the financial statements. The qualified opinion arose from disagreement over accounting treatment for the Authority's general and earmarked reserves balances and further details are provided in paragraphs 34 to 38. The Authority's financial statements were prepared to a high standard and were prepared, in all other significant respects, in accordance with the CIPFA/LASAAC joint committee's 'Code of Audit Practice on Local Authority Accounting in United Kingdom 2007: A Statement of Recommended Practice'. This was achieved despite several changes to the requirements within the 2007 Statement of Recommended Practice, which included the incorporation of Financial Reporting Standards relating to financial instruments, changes to capital accounting and the need to produce new Fire Service Pension accounts.

An examination of the Authority's significant financial systems did not identify any material weaknesses in internal control, but there are areas where continued improvement is required

11. Our review of the Authority's financial systems has involved documenting them and where necessary testing the operation of the internal controls. We have concluded that the Authority's significant financial systems can be relied upon to produce materially correct outputs. We have however identified scope to improve controls in some areas and reported these to management.
12. In summary, the improvements required are:
- fixed asset additions and disposals on the nominal ledger should be reconciled regularly to the fixed asset register to ensure the register is up to date and accurate;
 - all journals should be reviewed by an independent member of the finance team prior to posting to ensure accurate and appropriate;
 - any grant funded assets should be included as additions on the fixed asset register with a corresponding Government Grants deferred account set up to enable both balances to be released over the life of the asset; and
 - high value stock lines should be checked by the Workshops team at year end to confirm the average price calculation is functioning correctly.

We have certified that the audit has been completed in accordance with the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice

There were no formal questions or objections to the financial statements

13. In accordance with the Accounts and Audit (Wales) Regulations 2005 the Authority has advertised the rights of local electors to:
- inspect and make copies of the Annual Return;
 - question the auditor about the accounts; and
 - attend before the auditor and make objections to the accounts or any item in them.
14. These rights have not been exercised.

The Authority's improvement planning arrangements complied with statutory requirements but we identified areas where further work is required

The Authority's Improvement Plan has been delivered appropriately and represents a balanced picture of performance in the last year

15. Under the Local Government Act 1999 and subsequent guidance issued by the Assembly Government in Circular WFRS(07)15, an Improvement Plan must be published by 31 October each year. We are required to audit the Improvement Plan in accordance with statutory requirements and guidance, and to report our findings, including on the completion of the joint risk assessment, our audit of the Authority's Performance Indicators (PIs) and on its performance measurement arrangements.
16. The Plan and the Public Summary were produced and published on time and complied fully with the guidance in Circular WFRS(07)15:
- the detailed Plan and the Summary are concise, well written documents which report a balance of good performance and areas for improvement;
 - the Authority's corporate objectives and key actions for achieving them are set out; and
 - the 'Stage 1' Improvement Plan compiled in 2008 complies with the guidance in Circular WFRS(07)15.
17. Detailed responsibilities, the scope of our work and the audit certificate are set out in Appendix 3.

Our audit of the National Strategic Indicators showed that the Authority has robust arrangements in place for the collection and validation of performance information but there are areas where further improvement is required

18. The 2008 Improvement Plan reports performance during 2007/2008 against four National Strategic PIs and 10 Core Indicators.
19. The six National Strategic Indicators that are subject to statutory audit are new for 2007/2008, as set out in the Fire and Rescue Authorities (Best Value Performance Indicators) (Wales) Order 2008 (Welsh Statutory Instrument 2008 No. (W), which was made on 18 March 2008. The Authority is under a legal duty to collect and report on all of these indicators within its Improvement Plan.
20. The Authority collected data for all 6 of the National Strategic Indicators for 2007/2008, however it has not reported data in respect of two indicators in its Improvement Plan due to a lack of data collection by other Welsh Fire Authorities and the inability to present a national indicator figure. The Authority is currently seeking further guidance from the Assembly Government on the compilation and reporting of these indicators.
21. The Authority needs to address gaps in its arrangements for the collection and validation of performance information in these areas for the future.

Whole of Government Returns were completed appropriately

22. In accordance with the Government and Resources and Accounts Act 2000 and relevant guidance issued by the Assembly Government, a Consolidated Pack (C-Pack) is prepared annually by the Authority to assist HM Treasury with its production of the Whole of Government Accounts (WGA).
23. On behalf of the National Audit Office as auditor of the WGA, the Wales Audit Office is required to audit the C-Pack in accordance with statutory requirements and National Audit Office audit instructions.
24. From our audit of the Authority's return this year we found:
 - arrangements are in place to ensure satisfactory production of the WGA C-Pack;
 - the C-Pack was consistent with the audited statutory accounts;
 - material transaction streams and balances with other WGA bodies were identified completely and correctly; and
 - transaction streams and balances with the Assembly Government in excess of £5 million were formally agreed as required.

The Authority had satisfactory arrangements in place to achieve economy, efficiency and effectiveness in its use of resource

25. 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 Code.
26. Our conclusion has been reached as part of our annual audit of the accounts. We examined evidence of the existence of the Authority's corporate performance management and financial management arrangements. In this work we do not comment on or provide assurance on the effectiveness of those arrangements during the year.
27. Separate value-for-money work does consider where arrangements or their operation could be improved. Any such work informs our conclusion on the existence of arrangements but is not essential to it.
28. The auditor's report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources during 2007/2008 is set out in Appendix 1. The criteria used to assess this are set out in Appendix 2.
29. We have concluded that in 2007/2008 the Authority had satisfactory arrangements in place to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. The detailed results of our assessment are summarised in Exhibit 2.

Exhibit 2: 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
Resource Management	Has the Authority put in place arrangements for managing its financial and other resources, including arrangements to safeguard its financial standing?	Yes

Aspect	Arrangement	Yes or No
Reviewing Performance	Does the Authority have arrangements in place to monitor and review performance, including arrangements to ensure data quality?	Yes
Standards of Conduct	Has the Authority ensured 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 put in place proper arrangements to secure 'economy, efficiency and effectiveness' in its use of resources?	Yes

There are opportunities for the Authority to secure the best use of resources and further improvement in its delivery of services

The Authority has a record of achieving surpluses against its recent revenue budgets and has appropriate arrangements in place to manage its finances. However, it faces increasing financial pressures in several areas and needs to review the policy of carrying reserves to meet future financial commitments

30. We are responsible for assessing whether the Authority has put in place adequate arrangements to monitor, control and report on its financial standing. Our audit was based on a review of:
- setting the revenue budget and capital programme;
 - financial monitoring and reporting; and
 - meeting financial targets.
31. We have examined budget reports and procedures and we are satisfied that:
- suitable arrangements are in place;
 - the Authority's revenue and capital budgets cover all relevant areas of income and expenditure and are based on realistic assumptions; and
 - the Authority has in place sound arrangements for financial monitoring and reporting which should ensure that any potential material misstatements and variances will be identified.
32. The Authority has a track record of operating within its revenue budget and this continued in 2007/2008 with an under spend of £1.7 million being achieved. The most recent budget monitoring reports indicate that the Authority will again under spend on its budget in 2008/2009. There are, however, a number of financial pressures that will need to be considered and managed over the next few years. The main areas are described at Exhibit 3.

Exhibit 3: Financial pressures

Financial pressures	Implications
Headquarters	The Authority is in the process of moving to a new Headquarters building. Expenditure will be incurred during 2008/2009 to fit out and furnish the property to the required standards. The sale of the Authority's previous Headquarters, Lanelay Hall, is now uncertain due to current financial and housing market conditions, resulting in implications for the Authority's financing requirements in the short to medium term.
Equal Pay and Pensions	There is uncertainty over potential new equal pay and condition rights for Retained Fire-fighters. The Authority is currently not in a position to assess the future revenue costs, or build these into budget forecasts. There are also implications relating to the increasing take up of retained duty staff joining the firefighters' pension scheme and the resultant increased employers' contributions.
Firelink	Initial funding for the implementation of the new national radio communication system has been provided by Welsh Assembly Government; however it is uncertain whether any additional funding will be provided for ongoing revenue costs, which the Authority estimates at £1 million per annum.
Long Term Capability Management	There may be an intention to transfer ownership and associated responsibility for these assets from Welsh Assembly Government to the Authority in the future. Additional funding for such responsibilities is uncertain.

33. As reported in last year's Annual Letter, there have been significant under spends in the Authority's recent revenue budgets and this trend has continued in 2007/2008, as shown in Exhibit 4.

Exhibit 4: Financial outturn 2003/2004 to 2007/2008

	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
	£'000	£'000	£'000	£'000	£'000
Budget	54,679	59,346	67,040	69,654	68,087
Actual expenditure	53,802	58,197	66,434	68,222	66,382
Surplus	877	1,149	606	1,432	1,705
Cumulative Surplus	877	2,026	2,632	4,064	5,769

Source: Financial Statements

34. The Authority has, in consultation with its constituent authorities, retained surpluses accumulated in this way through the creation of a general fund as well as a number of earmarked reserves. Some of the reserves have been earmarked for specific projects which the Authority is planning to undertake in the future or for items of expenditure which the Authority knows will be incurred during the coming period. The general fund balance is maintained to meet any additional contingencies. Exhibit 5 demonstrates how these reserves have built up over the past four years.

Exhibit 5: the Authority's cash-backed reserves, 2004/2005 to 2007/2008

	2004/2005 £'000	2005/2006 £'000	2006/2007 £'000	2007/2008 £'000
Earmarked reserves	1,331	1,227	1,428	2,996
General fund balance	2,542	2,911	5,691	5,595
Total	3,873	4,138	7,119	8,591

Source: *Financial Statements*

35. During the audit of the accounts for 2007/2008, legal advice obtained by the Wales Audit Office has confirmed that the statutory framework under which the Authority operates does not provide for the holding of reserves which have been accumulated from an excess of its constituent authorities' appropriate proportion of the net expenses of the Fire Authority in respect of each financial year. However, the Authority chose not to make an adjustment in its accounts to remove the balances previously held within such reserves and reclassify the amounts as current liabilities (amounts held on behalf of constituent authorities). This has led to a qualified audit opinion being given on the accounts due to a disagreement on the accounting treatment related to reserves.
36. The Authority has been provided with a copy of the Wales Audit Office's legal opinion which formed the basis for our view as to why the Authority is not empowered to hold reserves of this nature. However, it believes it requires time to consider the implications of changes to its financial management practice in this area, and to consult further with its constituent authorities over the protocols which may be required in future to set budgets and draw against amounts which it is holding as reserves. The Authority is of the view that the holding of reserves would allow it the flexibility it needs to prudently manage its financial affairs, and has informed us of its intention to seek clarity in this matter over the coming months.

37. We recognise that the Authority has a number of financial pressures, an example of which is reflected in its intention to utilise some of its earmarked reserve balances during 2008/2009 to meet certain costs of its new Headquarters. However, we consider that the level of balances held (whether as reserves or as creditors) in agreement with constituent authorities should be supportable in terms of short/medium term financial plans and requirements and therefore not seen as excessive. This, combined with the legal opinion highlighted above, which indicates that annual funding, including that required to meet financial pressures, must be raised from annual levies from constituent authorities or, in extreme circumstances, supplementary levies, confirms that the Authority needs to urgently review balances currently being held as general and earmarked reserves – both in terms of their classification and quantum.
38. As referred to in paragraph 11, the Authority was required to produce a new Pension Account for 2007/2008 to reflect the changes in financing arrangements for fire service pensions which were introduced from 1 April 2007. From this date, most liabilities in relation to fire fighters pensions transferred to the Welsh Assembly Government and the Authority is required to pay an annual contribution to the account as specified by regulation.
39. The Actuary identified a combined deficit of £460.7 million on the Authority's Fire-fighters and Local Government Pension Funds (using the methodology within Financial Reporting Standard (FRS) 17) compared with £511.5 million in 2006/2007. The main reason for the decrease in the deficit is a change in discount rate used by the Actuaries in assessing the value of the pension liability.

The Authority has effective financial management arrangements in place

40. The Authority's significant financial systems are effective.
41. To demonstrate financial stewardship, the Authority needs to ensure effective financial management including:
- effective internal financial controls, such as robust standing orders and financial regulations, strong budgetary control and effective Internal Audit;
 - recognised standards of financial conduct;
 - appropriate arrangements to ensure that the Authority only enters into transactions where there is specific legal provision for it to do so; and
 - effective arrangements to prevent and detect fraud and corruption.
42. Our review of these areas found:
- that the arrangements to maintain the systems of internal control were effective;
 - that Internal Audit has met the required professional standards;
 - that the new expanded terms of reference for the recently renamed Finance, Audit and Performance Management Committee will help to ensure a good level of scrutiny and challenge to the Authority;
 - that effective arrangements were in place to ensure that the Authority enters into transactions only where there is specific provision for it to do so; and

- the ethical framework of the Authority was operating effectively as were the arrangements for preventing and detecting fraud and corruption.
43. We have therefore concluded that effective financial management arrangements are in place.
44. The Authority currently owns two headquarters and, how to achieve the sale of Lanelay Hall at best value, particularly in the current economic climate, is a key risk for 2008/2009. It is vital for the Authority to monitor the situation on an ongoing basis and ensure it has sound arrangements for assessing the various options which may become available.

The Authority made use of the National Fraud Initiative

45. The National Fraud Initiative (NFI) is a biennial computerised data matching exercise conducted across England and Wales. The Audit Commission is responsible for the exercise in England and the Auditor General is responsible for the exercise in Wales through his appointed auditors at local government bodies.
46. The exercise is designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the 2006/2007 exercise were released in January 2007 to participating bodies including local councils. The matches have been investigated and resulted in the identification of £4.7 million of fraud and overpayment across Wales. In May 2008, the Auditor General published a national report on the overall findings of the 2006/2007 exercise.
47. The Authority had a small number of matches and took appropriate action to investigate and to address instances of suspected fraud and error.
48. Data extractions for the 2008/2009 exercise commenced in October 2008 and authorities should receive data matches in early 2009. The Auditor General is undertaking the 2008/2009 exercise in accordance with the powers set out in the Serious Crime Act 2007 to conduct data matching exercises to assist in the prevention and detection of fraud in Wales. The Auditor General has recently published a Code of Data Matching Practice to help ensure that people's information is protected and processed appropriately during data matching exercises such as NFI.

The Relationship Manager's report on behalf of the Auditor General

The annual Joint Risk Assessment (JRA) validated the Authority's priorities for improvement and found that effective action has been taken in response to previous recommendations although the Authority will need to address key risks arising from its headquarters move

49. The Authority has completed and agreed with its auditors and the Peer Assessment Team a Joint Risk Assessment (JRA) of its services and corporate functions. We reported the outcomes of the JRA to members in July 2008, and the Authority used the outcomes to inform the identification of priorities within its Improvement Plan for the next year.
50. Our work on the Joint Risk Assessment concluded that, building on many areas of improvement identified by the updated JRA, the Authority needs to address a number of operational and non-operational priorities, particularly managing the financial risks associated with the headquarters move.
51. The operational assessment identified a number of strengths and areas where progress has been made. These included the assurance provided by the Operational Development and Review Team that operational policy and procedures are being consistently applied and that safe systems of work are maintained. This has contributed to a significant reduction in the total number of injuries to employees since its inception. The operational assessment also identified a number of policies and procedures that had been well developed. There is a comprehensive risk identification process with all risks and priorities detailed in the Corporate Risk Register (including nominated responsible officers) which is reviewed by senior managers quarterly.
52. In terms of areas for development which the operational assessment identified, there is scope for:
 - better quality control of changes to policy documents;
 - reflecting the need for all Fire and Rescue Authorities to learn the lessons of the recent incidents at Atherstone and Buncefield, there is a need to ensure that operational tactical plans are available and updated to ensure that crews have access to the most up to date information about risks and mitigation measures;
 - in terms of prevention and protection, there remains scope to consolidate enforcement protocols with housing agencies on houses in multiple occupation;
 - to address the high flooding risks in parts of South Wales, there is scope to develop further the multi-agency plans that exist to respond to the growing challenges posed by flooding; and
 - effective implementation of the Authority's revised policy on unwanted fire signals, which are steadily increasing.

53. The non-operational assessment highlighted a number of areas of progress which included:
- the Business Continuity Board's Action Database to follow up recommendations;
 - strengthened project management arrangements;
 - additional resources to support public engagement; and
 - the rank to role exercise has been completed and further work is underway to align whole time and Retained Duty System officers.
54. Among the key issues which require further development, the JRA highlighted some priority issues that will need to be addressed to support the delivery of the Authority's Risk Reduction and Improvement Plan objectives. The key challenges are:
- Managing the significant and growing financial risks associated with the ongoing move to a new headquarters, in particular the implications of having two headquarters buildings following the withdrawal of the preferred bidder for the Lanelay Hall site. The Service needs a strategy to manage the disposal of this property (wider economic issues and the volatility of the property market mean that there are key risks to be addressed) and meet the costs of any additional loans and running costs for two headquarters.
 - Resolving any potential capacity issues that may arise from supporting up to 10 Local Service Boards (LSBs).
 - Strengthening arrangements for members to undertake internal scrutiny.

The Authority has responded positively to the recommendations of previous inspection work

55. We have followed up the implementation of recommendations arising from our work through both peer reviews of operational risk and work on non-operational risk through the Joint Risk Assessment process to ensure that the Authority has appropriate mechanisms in place to respond to external audit and inspection.

The Authority has started to improve its approach to scrutiny

56. Member engagement and scrutiny emerged as a medium or high risk in all three Fire and Rescue Authorities (FRAs) as part of the inaugural Joint Risk Assessment (JRA) which is a key element of the Wales Programme for Improvement (Fire). Scrutiny is less developed in FRAs than it is in local authorities and there is scope to develop further the existing structures. There is also scope to improve the selection of issues for members to scrutinise and to develop a clearer shared understanding of the potential scrutiny role of members in the FRA context.

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57. In line with the other two Fire and Rescue Authorities in Wales the Authority participated in a review of scrutiny arrangements. This review reported in June 2008, providing both a national overview of scrutiny arrangements in the Fire and Rescue sector and a local report on arrangements in South Wales Fire and Rescue Authority. We found that there was scope to refine the Authority's current approach to scrutiny. This should build on the Authority's efforts to attain the Members' Charter, which the Welsh Local Government Association is rolling out, as well as learning from arrangements elsewhere that our overview report highlighted. We made a series of recommendations for South Wales Fire and Rescue Authorities and provided a series of good practice principles against which all three Authorities should benchmark their current arrangements.
58. The Authority has responded positively to the reports. It has recognised the need to develop Member engagement and scrutiny, while recognising its particular circumstances as a combined Fire and Rescue Authority. Since we issued our report, the Authority has developed the role and terms of reference of the Finance, Audit and Performance Committee which is now independently chaired. Such developments represent a positive start in implementing the recommendations of our report, and developing the robust governance arrangements that will be needed to manage the risks and opportunities associated with the headquarters move and management of the Lanelay Hall site.

The Authority has engaged positively with Wales Audit Office initiatives to promote improvement

The Authority is committed to using the Good Practice Exchange through shared learning

59. In 2007, the Wales Audit Office embarked on a long-term programme of promoting improvement across public services through the capture, evaluation and dissemination of good practice. Web-based facilities to support improvements in sickness absence management, fleet management, occupational health and grants management have been launched and the ability to access Wales Audit Office case studies and facilities to share learning across public services have been developed.
60. This year we have focused on Smarter Ways of Working, aiming to provide a convenient stimulus for innovation and creative thinking in gearing the organisation of work – and the people who deliver it – to more flexible patterns. It aims to support an overall organisational strategy of improvement, generating benefits in relation to cost control, sustainability, and employee engagement. At the heart of smarter ways of working is citizen-centred service design. We are currently discussing potential options for this work with the Chief Fire Officer and his senior colleagues.

The Authority is committed to delivering the Making the Connections agenda and its approach to fleet management is making appropriate use of resources to support improvements in service delivery although there is scope for improvement in some areas

61. The Wales Audit Office is committed to an ongoing programme of work focussing on the Making the Connections (MtC) agenda across the public sector in Wales. In 2007 we completed a baseline assessment of progress made in implementing that agenda, following which we concluded that a phased review of asset management would provide a framework for future work.
62. The first phase of that work – on fleet management – was designed to identify whether public sector organisations’ arrangements made the best use of resources to support improvement in service delivery. The Welsh public sector collectively uses approximately 16,000 vehicles which cost some £200 million per annum to run. We estimate that these vehicles drive some 250 million miles per annum which generates some 110,000 tonnes of carbon dioxide (CO₂). South Wales Fire and Rescue Service uses 443 vehicles which cost £2.5 million per annum to operate. Those vehicles travel approximately 3.5 million miles and emit some 1,700 tonnes of CO₂ per annum. Effective fleet management can improve service delivery, reduce operating costs and minimise the environmental impact of the fleet.
63. We concluded that the South Wales Fire and Rescue Service’s approach to fleet management is making appropriate use of resources to support improvements in service delivery although there is scope for improvement through updating the Performance Review and Improvement Plan, use of performance indicators, exploring joint purchasing opportunities with other bodies and formally setting out its fleet management strategy for communication to its entire staff. We have come to this conclusion as the South Wales Fire and Rescue Service:
- has an appropriate fleet management strategy, although further improvements can be made;
 - has effective fleet management procurement arrangements;
 - has partially effective arrangements to ensure the efficient use of its fleet;
 - obtains value for money in running its fleet; and
 - obtains value for money when disposing of its fleet.
64. Our report made seven recommendations to improve fleet management, which the Authority should now implement. These covered:
- improving and updating the fleet management strategy;
 - developing improved performance management of the fleet;
 - rotating vehicles between busier and less busy areas;
 - improving procurement, maintenance and disposal arrangements; and
 - achieving better value for money from the fleet.

Appendix 1

Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2007/2008

Conclusion on the Authority's arrangements for the year ended 31 March 2008 for securing economy, efficiency and effectiveness in its use of resources

The Authority's responsibilities

The 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.

Auditor's responsibilities

I have a responsibility under section 17(2)(d) of the Public Audit Wales Act 2004, to conclude from my audit of the Authority's annual accounts and other relevant information whether I am satisfied that it has made proper arrangements for securing 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.

I report if significant matters have come to my attention which prevent 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.

Conclusion

The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2007/2008 accounts, together with any other information that I have considered to be relevant to my examination, 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.

Based on the 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 2007/2008 accounts, and all other information that I have considered to be relevant, I am satisfied overall as to the existence of the arrangements that the Authority had in place during the year to support the achievement of its responsibility for securing economy, efficiency and effectiveness in its use of resources. I have also raised various issues with the Authority, and made recommendations to improve its arrangements. These matters are further discussed and explained in the Annual Letter.

Anthony Snow
Appointed Auditor
14 November 2008

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 2

Criteria for assessing the Authority's arrangements during 2007/2008 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 users and taxpayers, 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?
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

Audit of the 2008/2009 Improvement Plan

Certificate

We certify that we have audited South Wales Fire and Rescue Authority's Improvement Plan in accordance with section 7 of the 1999 Act and the Auditor General's Code. We also had regard to *The Wales Programme for Improvement: Guidance for Fire and Rescue Authorities in Wales* issued by the Welsh Assembly Government.

Respective responsibilities of the Authority and the auditors

Under the 1999 Act, the Fire and Rescue Authority is required to prepare and publish a Best Value Performance Plan summarising:

- its assessments of performance; and
- its position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

This is supplemented by the guidance mentioned above which sets out how the requirements under sections 3, 5 and 6 of the 1999 Act should be discharged. Under this guidance, the Best Value Performance Plan is termed the Improvement Plan.

The Fire and Rescue Authority is responsible for preparing the Plan and for the information and assessments set out within it. The Fire and Rescue Service's future work programme set out in the Plan should connect to the outcomes of the updated risk assessment.

The Fire and Rescue Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived, and for ensuring that it provides sufficient capabilities and capacity needed to manage change and improvement. The form and content of the Plan are prescribed in section 6 of the 1999 Act and the guidance issued by the Assembly Government.

As the Fire and Rescue Authority's appointed auditors, we are required under section 7 of the 1999 Act to carry out an audit of the Plan, to certify that we have done so, and to report whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in section 6 of the 1999 Act and guidance. We are also required to recommend:

- where appropriate, how the Plan should be amended so as to accord with statutory requirements;
- where appropriate, procedures to be followed in relation to the Plan;
- whether the Auditor General should carry out an inspection of the Authority under section 10A of the 1999 Act; and

- whether the Assembly Government should give a direction under section 15 of the 1999 Act – eg, directing the Authority to amend its Plan, carry out a review of a specific function or hold a local inquiry. Details of all possible directions can be found in the 1999 Act.

Scope of the Improvement Plan audit

We planned and performed our work to obtain all the information and explanations that we considered necessary in order to report and make recommendations in accordance with section 7 of the 1999 Act.

For the purposes of our report, we have interpreted compliance with the guidance mentioned above as being sufficient to meet the statutory requirements under section 6 of the 1999 Act.

We are not required to form a view on the completeness or accuracy of the information, or realism and achievement, of the Plan published by the Authority. Our work therefore comprised a review and assessment of the Plan and, where appropriate, an examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

For the purpose of determining whether or not to make recommendations on procedures to be followed in relation to the Plan, our work included:

- a review and assessment and, where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Fire and Rescue Authority for collecting and recording specified performance information; and
- the testing of specific Best Value Performance Indicators selected on the basis of criteria set out by the Wales Audit Office.

The work we have carried out in order to report and make recommendations in accordance with section 7 of the 1999 Act cannot be relied upon to identify all weaknesses or opportunities for improvement. We planned our work so as to collect sufficient evidence to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance, and the arrangements for publishing the Plan, complied with the requirements of legislation and statutory guidance.


Appendix 4

Audit and inspection fees

Your 2007/2008 audit and inspection fees were based on the risks identified and an assessment of the work needed to address those risks. They are currently expected to be in line with those set out in your Regulatory Plan as summarised below.

Audit and Inspection fees 2007/2008 (excluding VAT)

	2007/2008 planned (£)	2007/2008 expected actual (£)
Accounts	26,725	26,725
Performance audit	17,430	17,430
Performance inspection	10,061	10,061
Total	54,216	54,216



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