

**Due to the current heightened security level in all our premises, Members are reminded to wear their identity badges whilst attending meetings. Any visitors must produce photographic identification at Reception.**

## **SOUTH WALES FIRE & RESCUE AUTHORITY**

**COMMITTEE:** Finance, Audit & Performance Management Committee

**DATE:** Monday, 9 March 2015 at 10:30 hours

**VENUE:** South Wales Fire & Rescue Service Headquarters,  
**Room 8**, Forest View Business Park, Llantrisant  
CF72 8LX

### **AGENDA**

1. Apologies for Absence
2. Declarations of Interest

Members of the Fire & Rescue Authority are reminded of their personal responsibility to both verbally and in writing declare any personal and/or prejudicial interests in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act 2000, the Fire & Rescue Authority's Standing Orders and the Members Code of Conduct.

3. Chairman's Announcements
4. To Receive the Minutes of:
  - Finance, Asset & Performance Management Working Group held on 20 October 2014 5
  - FAPM Meeting held on 24 November 2015 11
5. Revenue Monitoring Report 2014-15 15
6. Capital Monitoring Report 2014-15 23
7. Corporate Risk Register 2014-15 Quarter 3 Review 29

8.	Annual Audit Letter	47
9.	Wales Audit Office – Financial Planning Assessment	51
10.	Wales Audit Office – Data Quality Review	67
11.	Treasury Management Strategy 2015-2016	71
12.	Internal Audit Report	97
13.	Internal Auditors Annual Report Year Ending 31 March 2015	161
14.	Internal Audit Annual Report 2015-2016	173
15.	Performance Monitoring Report - Quarter 3 (Q3) October 2014 to December 2014 <b>(Background papers attached separately to email)</b>	175
16.	Draft Annual Report of the Work of the FAPM Committee & the Discharge of the Terms of Reference of the Finance, Asset & Performance Management Working Group	187
17.	Forward Work Programme	201

**At the close of the meeting Members will meet with the Wales Audit Office and Internal Auditors to discuss Service progress**

Signature of Proper Officer:



## MEMBERSHIP

### Councillors:

E	Galsworthy	Merthyr Tydfil
P	Hannon	Newport
M	Powell	Monmouthshire
J	Jones	Caerphilly
SJ	Jones	Rhondda Cynon Taff
A	Jones	Torfaen
J	Morgan	Blaenau Gwent
M	Javed	Cardiff
P	Drake	Vale of Glamorgan
C	Smith	Bridgend



**SOUTH WALES FIRE & RESCUE AUTHORITY**

**MINUTES OF THE FINANCE, ASSET & PERFORMANCE  
MANAGEMENT WORKING GROUP MEETING  
HELD ON MONDAY 20 OCTOBER 2014 AT  
SOUTH WALES FIRE & RESCUE SERVICE HEADQUARTERS**

**17. PRESENT:**

<b>Councillor</b>	<b>Left</b>	
P Hannon (Chair)		Newport
D Ali		Cardiff
P Drake		Vale of Glamorgan
E Galsworthy		Merthyr Tydfil
E Hacker		Vale of Glamorgan
A Jones		Torfaen
J Jones		Caerphilly
S Jones		Rhondda Cynon Taff
J Morgan	Left 1150 hrs	Blaenau Gwent
M Powell		Monmouthshire
V Smith		Monmouthshire

**APOLOGIES:**

C James	Bridgend
S Pickering	Rhondda Cynon Taff
D Sage	Bridgend

**ABSENT:**

**OFFICERS PRESENT:-** CFO H Jakeway, DCO S Chapman, ACO P Haynes – Director of Peoples Services, A/ACFO R Prendergast – Director of Technical Services, Mr C Barton - Treasurer, Mr C Powell – Deputy Monitoring Officer, Mr C Williams – Head of ICT, Mr G Thomas – Head of Finance & Procurement, Mr P Price – Head of Fleet & Engineering, A/AM I Greenman – Head of Training & Development, A/AM A Kibblewhite – Head of Risk Reduction, Mr S Howison – Building Maintenance Manager, GM S Rossiter – Head of Service Performance

**18. DECLARATIONS OF INTEREST**

Each Member declared a personal non-prejudicial interest in each agenda item which affected their Authority.

## **19. CHAIR'S ANNOUNCEMENTS**

Following a suggestion by the Chair to change the order of the agenda, Members agreed that Agenda item 5 would follow Agenda Item 10.

## **20. MINUTES OF PREVIOUS MEETING**

The minutes of the Finance, Asset & Performance Management Working Group meeting held on Friday, 12 September, 2014, were received and accepted as a true record of proceedings.

## **21. 2015/2016 BUDGET PROPOSALS TO INCLUDE POTENTIAL BUDGET SETTLEMENTS FOR WALES**

The Treasurer delivered an electronic presentation to Members on the 2015/2016 budget proposals which included potential budget settlements for Wales.

Members were requested not to share the information contained within the report as it did not represent a Fire & Rescue Authority decision or recommendation at that time.

Following discussion on the 50% reduction in the National Framework Grants, the Chief Fire Officer informed Members of his concerns that the Welsh Government had also reduced the funding for the Grant Award by 52%, which supported youth engagement, the Phoenix Project and other youth arson reduction activities. The reduction in the Grant Award Funding affected 19 members of staff within the Community Safety Team, and the Chair confirmed he would be writing to the Welsh Government Minister, to raise his concerns on the withdrawal of financial support.

Following discussion on the Service's successful performance on the Risk Reduction Programme, the Chief Fire Officer also queried the metric of one-third which was used by Welsh Government Officers to calculate the amount allocated for Grant Award funding, and suggested that the Service considers its own risk factor in the future.

The Treasurer drew Members attention to the timetable within the report which was intended to be used as a basis for consultation with the 10 Local Authorities across the Service area. Members were informed that the consultation responses would be reported to the Finance, Asset & Performance Management Working Group, followed by the Finance Asset & Performance Management Committee, and finally the Fire & Rescue Authority in December, once timescales had been agreed.

## **RESOLVED THAT**

- 21.1 Members agreed to note the electronic presentation on the 2015/2016 budget proposals.
- 21.2 Members agreed for Officers to enter into consultation with Local Authorities on the basis of the presented 2015/2016 budget proposals.

The Chief Fire Officer and Treasurer left the meeting at 1120 hours.

## **22. REVIEW OF PROPERTY STRATEGY, BUDGET AND PLANNING ASSUMPTIONS AND PROGRESS AGAINST THE PLAN, AND CONSIDERATION OF SUSTAINABILITY AND ENVIRONMENTAL ISSUES TO INCLUDE CAPITAL**

The Deputy Chief Officer informed Members that due to recent budget cuts it had been agreed to put the Property Strategy on hold throughout 2015, and in the meantime the Strategy would be re-designed in order to deliver essential requirements with less funding.

Officers from the Property Services team provided Members with an electronic presentation which set out an overview of the alignment of the Property Strategy.

Members received a progress update on each of the following key areas:-

- Key refurbishments
- Planned maintenance projects
- New Builds
- Surplus Assets/Acquisitions
- Capital Programme Forecast

## **RESOLVED THAT**

- 22.1 Members agreed to note the electronic presentation.
- 22.2 Officers agreed to forward copies of the presentation to Members.

The Chair thanked Officers for the informative presentation.

Councillor J Morgan and Property Services Officers left the meeting at 1150 hours.

**23. REVIEW OF FLEET AND VEHICLES STRATEGY, BUDGET AND PLANNING ASSUMPTIONS AND PROGRESS AGAINST THE PLAN TO INCLUDE CAPITAL**

The Head of Fleet & Engineering provided Members with a report which supported the presentation of the Fleet Asset Management Plan 2014 to 2017.

**RESOLVED THAT**

Members agreed to note the content of the report in support of the plan attached to the report.

**24. REVIEW OF ICT STRATEGY, BUDGET AND PLANNING ASSUMPTIONS AND PROJECT OVERVIEW, AND PROGRESS AGAINST THE PLAN TO INCLUDE CAPITAL**

The Head of ICT informed Members that the report provided a review of ICT Strategy, budget and planning assumptions, and an overview of the key projects with a capital report.

**RESOLVED THAT**

24.1 Members agreed to note the contents of the report.

24.2 Officers agreed to provide a further progress report on ICT projects within 6 months.

Members thanked ICT Officers for their hard work on various large projects on behalf of the Service.

**25. SHAPING OUR FUTURE PROCESS ANALYSIS EXAMPLE**

The Deputy Chief Officer and Head of Service Performance presented Members with a report and electronic presentation on a case study of an example of a process analysis which took place within the Fire Safety department

**RESOLVED THAT**

Following a question and answer session, Members agreed to note the content of the report.

The Head of Fleet & Engineering and Head of Service Performance left the meeting at 1245 hours.

## **26. REVIEW OF OUT OF HOURS ALLOWANCES**

The ACO People Services informed Members that as one of the nine strategic reviews initiated by the South Wales Fire & Rescue Service, the Service had evaluated the component parts of 'Grey Book', and 'Green Book Terms and Conditions, specifically overtime and allowances.

Previously the Finance Working Group requested an explanation of the relevant national terms and conditions, as well as locally agreed arrangements to be delivered to the Fire & Rescue Authority Members to inform their decision making processes.

The report was provided to assist Members by summarising the detailed considerations of the Service's non operational – out of hour's allowances as incorporated within the revenue budget setting process.

### **RESOLVED THAT**

Members agreed to note the contents of the report, and that the anomalies highlighted would be addressed through the 'Shaping Our Future' Programme.

## **27. REVIEW OF OPERATIONAL STAFF ALLOWANCES**

The ACO People Services informed Members that as one of the nine strategic reviews initiated by South Wales Fire & Rescue Service, the Service had evaluated the component parts of 'Grey Book' and 'Green Book' Terms and Conditions, specifically overtime and allowances.

Previously the Finance Working Group requested an explanation of the relevant national terms and conditions, as well as locally agreed arrangements to be delivered to the Fire & Rescue Authority Members to inform their decision making processes.

The report was provided to assist Members by summarising the detailed considerations of the Service's operational – out of hour's allowances as incorporated within the revenue budget setting process.

### **RESOLVED THAT**

Members agreed to note the content of the report, and that the anomalies highlighted would be addressed through the 'Shaping Our Future' Programme.

## **28. SCHOOL VISITS – KEY STAGE PROGRAMME**

The Head of Risk Reduction presented Members with a report outlining South Wales Fire & Rescue Service's Schools Visit Programme and Targeting Strategy.

### **RESOLVED THAT**

- 28.1 Following a question and answer session, Members agreed to note the content of the report.
- 28.2 Officers agreed to inform Members when staff were visiting schools within their local area.

## **29. FORWARD WORK PROGRAMME**

The Deputy Chief Officer presented the Forward Work Programme.

### **RESOLVED THAT**

Members accepted the Forward Work Programme for the Finance, Asset & Performance Management Working Group.

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**MINUTES OF THE FINANCE, AUDIT & PERFORMANCE**  
**MANAGEMENT MEETING**  
**HELD ON MONDAY 24 NOVEMBER 2014 AT**  
**SOUTH WALES FIRE & RESCUE SERVICE HEADQUARTERS**

**29. PRESENT:**

<b>Councillor</b>	<b>Left</b>
P Hannon (Chair)	Newport
J Jones	Caerphilly
E Galsworthy	Merthyr Tydfil
P Drake	Vale of Glamorgan
S J Jones	Rhondda Cynon Taff
M Powell	Monmouthshire
A Jones	Torfaen

**APOLOGIES:**

J Morgan	Blaenau Gwent
D Sage	Bridgend
S Chapman	Deputy Chief Officer

**ABSENT:**

M Javed	Cardiff
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**ALSO PRESENT:-** Mr C Powell – Deputy Monitoring Officer, ACO Phil Haynes – Director of People Services, Mr C Barton – Treasurer, Mrs L Mullen - Senior Accountant, Mr S Barry - Welsh Audit Officer

**30. DECLARATIONS OF INTEREST**

Each Member declared a personal non-prejudicial interest in each agenda item which affected their Authority.

**31. CHAIR'S ANNOUNCEMENTS**

There were no new items to report.

**32. MINUTES OF PREVIOUS MEETING**

The following minutes were received and accepted as a true record of proceedings:-

- Finance, Audit & Performance Management Working Group meeting held on 21 July 2014
- Finance, Asset & Performance Management Working Group meeting held on 12 September 2014
- Finance, Asset & Performance Meeting held on 15 September 2015

### **33. REVENUE MONITORING REPORT 2014/2015**

The Senior Accountant provided Members with details of the second revenue budget report this year, the projected outturn, and variance analysis for the financial year ending 31 March 2015.

It was noted that Headquarter relocation mileage should have been included in previous reports.

The Treasurer reported that there had been a significant underspend which would be factored into the 2015/16 budget.

#### **RESOLVED THAT**

Members agreed to note the content of the report and that it was a work in progress.

### **34. CAPITAL MONITORING REPORT 2014/2015**

The Senior Accountant provided Members with details of the total capital budget for the year, expenditure to date, and the forecast outturn position. There has not been a lot of movement since the last report but notably an overspend in Aberbargoed.

#### **RESOLVED THAT**

Members agreed to note the progress of the capital schemes and associated funding streams.

### **35. BUDGET SETTLEMENT FOR WALES & 2015/16 BUDGET PROPOSALS**

The Treasurer went through the report with Members and it was confirmed that the Fire & Rescue Authority had agreed to bring forward the 2015/16 budget from February to December.

There was a question and answers session where the Chairman and Treasurer both advised that after the consultation period all points had been considered and noted but the proposed budget would go to the next Fire & Rescue Authority Meeting if approved. It was noted that most Local Authorities were grateful to receive budget details sooner than previously given by the Fire & Rescue Authority.

The Treasurer advised that the Chair of the Fire & Rescue Authority had written to the Minister after they reduced the Community Safety budget by 50% but to no avail.

The Treasurer reported that the final settlement would be out five days before the next Fire & Rescue Authority Meeting and he would update any differences at that meeting.

### **RESOLVED THAT**

Members agreed to recommend the draft budget 2015/16 to the Fire & Rescue Authority for approval in the December meeting.

### **36. TREASURY MANAGEMENT MID-TERM REVIEW REPORT 2014/15**

The Senior Accountant went through the second of this years report with the Members.

### **RESOLVED THAT**

Members noted the results and performance of Treasury Management activities for the period 1 April – 30 September 2014 and agreed to recommend approval to the Fire & Rescue Authority.

### **37. INTERNAL AUDIT REPORT**

The Deputy Monitoring Officer presented the report to Members. He advised that the Auditors had previously met with ACO Phil Haynes, Chris Barton and AM Ian Greenman, advising where the Service currently was regarding the report relating to Third Party Income.

Members went through Appendix 1 – Summary Internal Audit Progress Report where concerns were raised regarding income targets, compliance issues and the management action plan.

The Chair proposed that the report be given back to the internal auditors as the answers provided within the report were not comprehensive, mainly:

- Concern over income targets
- The contract does not seem to be serving either parties
- What could the Service do to increase capacity
- Nobody gains from the gain share

Members went through Appendix 2 and 3 and requested that the formal disposal procedures which had been added to the Fleet Services Department's Business Management System be distributed to the group for their information.

### **RESOLVED THAT**

Appendix 1, The Compliance Review of the Third Party Income Arrangements Audit to be taken back to the Internal Auditors by the Director of People Services as it was considered not comprehensive enough.

Members noted the work and findings of the internal Audit Appendix 2 and 3.

### **38. INDEPENDENT REMUNERATION PANEL FOR WALES – DRAFT ANNUAL REPORT**

The Deputy Monitoring Officer presented the report which highlighted that the Independent Remuneration Panel had issued their draft annual report for consultation.

### **RESOLVED THAT**

Members noted the extracts from the Independent Remuneration Panel's Draft Annual Report and there were no comments to be made in relation to the consultation process.

### **39. STRATEGIC PLAN**

The Deputy Monitoring Officer advised that the Strategic Plan was currently being finalised and would be presented to the next Fire & Rescue Authority meeting in December, and asked Members to note the work taken so far.

### **RESOLVED THAT**

Members noted the work done so far.

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE DEPUTY CHIEF OFFICER

AGENDA ITEM NO 5  
9 MARCH 2015

**REVENUE MONITORING REPORT 2014/15**

**SUMMARY**

The Revenue Monitoring Report provides detail of the annual revenue budget, expenditure and income to March and the forecast outturn position for the financial year ending 31 March 2015.

**RECOMMENDATION**

That the Budget Monitoring Report is noted.

**1. BACKGROUND**

1.1 This report updates Members with progress in the revenue budget since previous reporting to the Finance, Audit & Performance Management (FAPM) Committee on the 24 November 2014. Appendix 1 illustrates the annual budget, the actual expenditure/income to January 2015 and a forecast position at financial year end. Appendix 2 provides a more detailed commentary and Appendix 3 provides further analysis of organisational Strategic Initiatives and the impacts on the revenue budget.

**2. ISSUE**

2.1 The previous forecast under spend has increased by £444k to £1.9 million. In summary, the variance relates to the following; a £618k under spend in employee related costs which is offset by a £362k overspend in non-employee related areas and additional unbudgeted forecast income of £188k.

**3. FINANCIAL IMPLICATIONS**

3.1 A forecast under spend on the revenue budget of £1.9 million.

**4. EQUALITY RISK ASSESSMENT**

4.1 There are no Equality Risk Assessment impacts directly from this report, assessment of departmental budgets is carried out by individual departments in conjunction with the business planning process. This is further explored via the procurement process in sourcing goods/services described within this report.

## 5. RECOMMENDATION

5.1 It is recommended that this budget monitoring report is noted and received.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	-Revenue and Capital Determination Report -Revenue Budget Working Papers -Budget Holder Reports -Capital Monitoring Report

SOUTH WALES FIRE & RESCUE SERVICE							
BUDGET MONITORING 2014/15					APPENDIX 1		
		Original Budget 2014/15 £	Revised Budget (vired budget) 2014/15 £	Actual at 26.01.15 £	Forecast 31.03.15 £	Over/Under Spend £	Over/ Under Spend %
<b>Employee Costs</b>							
	Salaries, NI & superann.	53,146,374	53,146,374	38,276,059	51,501,599	1,644,775	2.4%
		53,146,374	53,146,374	38,276,059	51,501,599	1,644,775	
	Pensions	783,280	783,280	495,230	780,586	2,694	0.0%
	Travel and Subsistence	575,250	575,250	308,217	492,065	83,185	0.1%
	<b>Total Employee Costs</b>	54,504,904	54,504,904	39,079,506	52,774,251	1,730,653	2.5%
	<b>Premises Related Expenses</b>	4,515,599	4,513,599	3,070,677	4,815,220	-301,621	-0.4%
	<b>Training Expenses</b>	1,234,391	1,231,707	817,769	1,257,294	-25,587	0.0%
	<b>Supplies &amp; Services</b>	3,268,910	3,273,594	2,584,434	3,325,500	-51,907	-0.1%
	<b>Transport Related Expenses</b>	1,724,347	1,724,347	1,162,321	1,519,986	204,361	0.3%
	<b>Third Party Payments (contracted services)</b>	626,229	626,229	759,527	876,706	-250,477	-0.4%
	<b>Capital costs / leasing</b>	4,379,087	4,379,087	2,798,714	4,263,632	115,455	0.2%
	<b>Strategic Initiatives</b>	588,440	588,440	0	538,779	49,661	0.1%
	<b>Income</b>	-885,922	-885,922	-1,198,589	-1,315,789	429,867	0.6%
	<b>CONTRIBUTION BUDGET 2014/2015</b>	69,955,985	69,955,985	49,074,359	68,055,581	1,900,404	2.7%
Key							
Overspend							
Underpend							

## 1. EMPLOYEE COSTS

- 1.1 Employee related budget savings have increased by £618k since previous reporting and are partly due to actual retirements exceeding estimates, the deferment of the whole-time recruitment programme from January to March 2015 and a reduction in RDS establishment levels.
- 1.2 Savings on the salary budget are partially offset by various super numery projects undertaken by the service, i.e. 'Shaping Our Future' project, employability programme etc.

## 2. PREMISES RELATED EXPENSES

- 2.1 A projected over spend of £300k comprises the following main areas:-

- **Planned and reactive property maintenance**

Late invoices were received from the prior financial year that have resulted in a £40k over spend for Boilers and Sanitary services. These have been offset by £10k under spend on Mechanical Services due to lower than expected activity levels.

- **Cleaning**

The cleaning contract was renewed after the budget was agreed by Members with savings of £30K on previous contract price.

- **Lanelay Hall**

Mothballing costs for Lanelay are included in Appendix 1 and have contributed to the over spend position. Actual and forecast costs of £100k and £240k respectively, are included in Appendix 1 and relate mainly to rates, security and consultants (geotechnical study). Security has been increased during this year as a result of 'break ins', the rates discount has ceased and the survey was part of the ongoing marketing for disposal of the site.

**Aberbargoed costs**

A £40k over spend on rates for the new Aberbargoed fire station is expected. Rate rebates may be achieved for unoccupied sites Cefn Forest and Bargoed, but the amount will not be known this financial year and will therefore impact the 2015/16 surplus should they materialise.

- **Electricity**

£20k under spend is anticipated.

- **Telephone and Communications**

Additional costs of £20k are anticipated and relate to the dual running of the Wide Area Network (WAN). Also, Firelink charges levied by Welsh Government are outstripping the funding provision by an estimated £60k.

### **3. TRAINING**

3.1 The £20k over spend is due to 2 unbudgeted courses for Dignity at Work (ACAS), Colour Works (personality typing) in addition to other variances and being offset by an anticipated under-spend in the seminars and conferences budget.

### **4. SUPPLIES & SERVICES**

4.1 The additional over spend of £43k since previous reporting is as follows:-

- Furniture £10k under spend
- Equipment £100k under spend
- ICT £100k over spend
- Printer and printer cartridges £15k under spend
- Advertising £20k over spend
- Licences £40k over spend

4.2 The majority of savings in equipment are due to reduced operational activity as a consequence of Action Short Of Strike (ASOS) and Industrial Action (IA).

4.3 The £100k over spend in ICT is due in part to some omissions during the budget setting process in addition to an over spend on support and maintenance agreements e.g. the new Core system implementation delay and cost impact on dual licensing etc.

4.4 The £40k over spend on licenses is due to several additions during the year i.e. £12k on AP Forensics which is a procurement, audit software service, £25k on National Operational Guidance Programme. Funding has been made available to support the procurement aspects of licencing and the income will appear accordingly.

### **5. TRANSPORT**

5.1 The under spend on transport has increased by £148k. The majority of saving in this area is due to the fall in fuel prices and reduced fleet fuel usage as result of ASOS and IA. Other savings have occurred on the maintenance aspect of fleet.

## **6. THIRD PARTY PAYMENTS (contracted services)**

6.1 There is a £250k over spend due to the following ;

- A late addition to Cardiff Central Station project costs, i.e. the relocation of a telecommunications mast - £150k.
- Unbudgeted costs relating to the 2015 Fire Fighter pension review - £40k
- A £24k over spend has occurred due to budget realignment occurring between the contracted services and supply and service budget headings for cylinder contracts.
- Consultancy has been over spent by £34k; £10k for Lanelay Hall, £10k for pension and tax advice and external procurement fees which are 100% offset by income.

## **7. CAPITAL COSTS**

The £56k under spend is the result of a reduced capital expenditure forecast between previous and current reporting i.e. 24 November - £6,591 million compared to the current forecast of £5,826 million.

## **8. INCOME**

8.1 A £188k increase in projected income in several areas as follows:-

- £36k offsets licence costs (above)
- £26k off sets increased ICT, software costs (above)
- £9k decrease as a result of a new mobile phone contract and tariffs being inclusive of personal calls
- £16k unbudgeted insurance settlements
- £19k unbudgeted in vehicle disposals
- £35k off sets the costs of contracted services
- £104k unbudgeted increase in third party cost recovery income in relation to training contracts won in partnership with Babcock (with Environmental Agency, Oman, Gas Company, Cambridgeshire FRS, etc)
- £32k unbudgeted income for ADC processes undertaken on an all Wales basis, off setting costs detailed above

BUDGET MONITORING 2014/15 STRATEGIC INITIATIVES																APPENDIX 3	
		INDUSTRIAL ACTION		IA AVON		NATO		FIRE CONTROL		EMPLOYABILITY PROGRAMME		SHAPING THE FUTURE		NIC		ACTUALS TOTAL	FORECAST TOTAL
		ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST	ACTUAL	FORECAST		
Employee Costs		-36,206	-36,206	52,922	52,922	49,479	95,667	105,490	160,167	113,082	219,930	36,582	112,380	66,263	62,482	387,612	667,342
Premises Related Expenses		132	132	0	0	0	0				97,615					132	97,747
Training Expenses		-168,751	0	0	0	1,995	1,995			1,688	270					-165,068	2,265
Supplies & Services		77,257	77,257	0	0	12,544	12,864			24,154	44,325	6,742	6,742	104	104	120,801	141,292
Contracted Services		30,610	30,610	0	0	81,935	81,935	4,572	23,948		11,289			5,876	5,876	122,994	153,658
Income		0	0	0	-52,922	-96,662	-192,461	-2,362	-93,239	-44,902	-139,263			-25,712	-45,641	-169,638	-523,525
CONTRIBUTION BUDGET 2014/2015		-96,958	71,793	52,922	0	49,291	0	107,700	90,877	94,022	234,166	43,325	119,123	46,532	22,821	296,833	538,779



## **CAPITAL MONITORING REPORT 2014/15**

### **SUMMARY**

The Capital Monitoring report provides detail of the total capital budget for the year, expenditure to date and a forecast outturn position.

### **RECOMMENDATION**

That Members note the progress of the capital schemes, approve alterations identified in Appendix 1 and note the associated funding streams.

## **1. BACKGROUND**

- 1.1 This report provides an explanation of changes since previous reporting to the 24 November, Finance, Audit & Performance Management (FAPM) Committee. Appendix 1 illustrates 2013/14 budget slippage approved by Members, the 2014/15 budget, the actual expenditure incurred to January, a forecast outturn position and budget slippage into 2015/16.
- 1.2 In summary, the total available budget equates to £10.8 million, the forecast outturn position and slippage for the year is £5.8 million and £3.2 million respectively and there is a net saving of £1.8 million, identified through the course of the budgeting process.
- 1.3 Appendix 1 provides a detailed breakdown of the schemes contributing to the aforementioned position together with the necessary financing arrangements.
- 1.4 This report provides a narrative update in support of figures detailed in Appendix 1.

## **2. ISSUE**

### **2.1 Property**

#### **2.1.1 Aberbargoed Station Build**

- 2.1.1.1 Members will be aware from previous reporting of a potential increase in costs. The forecast has increased by £49k, from the previously reported £83k. This is due to a reduction in the cost of additional works of £90k and £140k of income for the corresponding compensation claim.

- 2.1.1.2 At the time of writing this report discussions continue with the Deputy Chief Officer (DCO) in regards to the final account, project disputes and legal implications which will culminate in a Property Report to Fire & Rescue Authority on the 16 March.

## 2.1.2 Wholetime Station Refurbishments

### 2.1.2.1 Cwmbran

Since previous reporting, a decision has been made to postpone this and the planned refurbishments at both New Inn and Monmouth with forecast information updated to reflect this. This decision was discussed and agreed at the Finance, Audit & Performance Management Working Group (FAPMWG) 20 October 2014

- 2.1.2.2 Recommencement of these projects will not take place until the outcomes of a stock condition survey have been received. The survey is due for completion in March 2015 and following a review, a plan for future capital investment will be developed to inform future budget requirements.

### 2.1.2.3 Penarth

This project is progressing according to plan with minimal spend being incurred since previous reporting.

### 2.1.2.4 New Inn

As above, no progress is planned in the foreseeable future. (see narrative, 2.1.2.1).

### 2.1.2.5 Aberdare

The forecast construction costs for 2014/15 have reduced by £147k since previous reporting with the counter increase on budget slippage in order to complete works in 15/16.

## 2.1.3 Retained Duty Station Refurbishments

### 2.1.3.1 Monmouth

A saving of £93k has been identified (as above).

### 2.1.3.2 Hirwaun

The previously reported over spend of £58k for 14/15 was over stated. This has since been rectified during the recent budget process providing for a reduced over spend of £18k.

## 2.1.4 Planned and Preventative Maintenance

- 2.1.4.1 The projected spend for the year has been reduced from £208k - £171k with the counter affect on budget slippage as all works on Maesteg roof will not be completed within this financial year.

## 2.2 Vehicle Replacement Programme (VRP)

### 2.2.1 Water Ladders

There is no change since previous reporting.

### 2.2.2 Ariel Appliance

There is no change since previous reporting.

### 2.2.3 Chemical Incident Unit (CIU)

There has been a slight increase in the actual cost of this vehicle.

### 2.2.4 Rescue Tender (RT)

The 13/14 appliance was not delivered by Christmas as previously planned due to complications created by stowage of new equipment. However, these issues are being resolved and delivery is expected no later than mid February.

- 2.2.5 The 2 14/15 appliances are progressing well with delivery expected during week 52 of the current financial year.

### 2.2.6 Environmental Protection Unit (EPU)

This project is complete and on budget.

### 2.2.7 Vans/light vehicles

There has been no change since previous reporting.

### 2.2.8 Control Unit

There has been no change since previous reporting.

### 2.2.9 Foam Tender

There has been no change since previous reporting.

## 2.3 ICT

### 2.3.1 Station End Mobilising Project

There has been no change since previous reporting.

### 2.3.2 Finance System

Budget slippage of £20k is required to complete full system implementation i.e. budgeting module, during 2015/16.

### 2.3.3 HR/Payroll System

There has been no change since previous reporting.

### 2.3.4 Alerters

There is no change to anticipated spend since previous reporting.

### 2.3.5 ICT Replacement Programme

The design and review stage of the project has highlighted that a change to virtual desktops has unanticipated and quite 'major' licensing implications. Further research will be conducted to ensure that the options available are appropriate for service delivery. The unanticipated, complexity of licensing has led to a delay in the tender process. The ICT manager will develop a tender specification in conjunction with specialist advisors, of the required equipment.

2.3.6 The forecast has been reduced considerably from £300k to £12k since previous reporting. The remaining £288k is required to be slipped into 15/16 to continue, and complete the project.

### 2.3.7 Fuel Management System

There has been no change since previous reporting.

## **3. FINANCIAL IMPLICATIONS**

3.1 Appendix 1 illustrates capital scheme details and is supported by paragraphs 2.1 to 2.3 above. The total available budget of £10.8 million, compared to forecast investment costs of £5.8 million, result in £3.2 million of slippage into to the new financial year and £1.8 million of savings.

3.2 The schedule of financing capital investment is also illustrated in Appendix 1.

## **4. EQUALITY RISK ASSESSMENT**

4.1 There are no equality implications resulting directly from this report. Each element of the capital programme will have undergone Equality Risk Assessments by the responsible project lead, prior to the commencement of the scheme.

## 5. RECOMMENDATION

- 5.1 That Members note the progress of the capital schemes and associated funding streams and approve identified budget virements.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	<ul style="list-style-type: none"> <li>- Revenue &amp; Capital Budget Determination Report</li> <li>- Capital Monitoring working papers 2014/15</li> <li>- Budget Holder Reports</li> </ul>

<b>Capital Programme 2014/15</b>						<b>APPENDIX 1</b>	
	2013/14 Slippage £'000	2014/15 Budget £'000	Actual as at 12.01.15 £'000	Committed as at 12.01.15 £'000	Outturn Position 31.03.2015 £'000	Budget under/(over) spend £'000	Slippage c/f 2015/16 £'000
<b>PROPERTY</b>							
<i>Station Refurbishments - Wholetime;</i>							
Reserve Aberbargoed	0	0	-41	176	132	-132	0
Cwmbran	23	100	0	0	0	123	0
Penarth	-11	100	48	25	73	-0	16
New Inn	1,357	0	0	0	0	1,357	0
Aberdare	165	1,939	375	214	409	0	1,696
<i>Station Refurbishments - RDS;</i>							
Monmouth	28	70	3	0	5	93	0
Hirwaun	135	0	117	137	153	-18	0
Blaina Station	500	0	0	0	0	0	500
Planned & Preventative Maintenance	17	250	24	80	171	59	37
<b>SUB TOTAL</b>	<b>2,214</b>	<b>2,459</b>	<b>525</b>	<b>632</b>	<b>943</b>	<b>1,481</b>	<b>2,249</b>
<b>VEHICLES</b>							
Water ladders	1,829	1,443	2,257	601	2,859	172	241
Aerial Appliances	300	300	0	80	0	300	300
Chemical Incident Unit	132	0	134	0	134	-2	0
Rescue Tenders	279	722	518	395	1,002	-1	0
Environmental Protection Unit (inc £48k WG Grant)	145	0	148	0	148	-3	0
Vans (light vehicles)	72	0	72	166	241	-169	0
Control Unit	0	65	0	0	0	0	65
Foam Tender	197	0	200	0	200	-3	0
<b>SUB TOTAL</b>	<b>2,954</b>	<b>2,530</b>	<b>3,330</b>	<b>1,241</b>	<b>4,585</b>	<b>294</b>	<b>606</b>
<b>ICT</b>							
Reserve Station Mobilising Equipment	32	0	2	27	32	0	0
Finance/Procurement	54	0	32	2	34	0	20
HR/Payroll	121	0	23	27	49	0	72
Alerters	0	47	0	46	47	-0	0
ICT Replacement Program	0	300	2	10	12	0	288
Reserve Fuel Management System	0	124	17	100	124	-0	0
<b>SUB TOTAL</b>	<b>207</b>	<b>471</b>	<b>75</b>	<b>212</b>	<b>298</b>	<b>-0</b>	<b>380</b>
<b>TOTAL</b>	<b>5,375</b>	<b>5,460</b>	<b>3,930</b>	<b>2,085</b>	<b>5,826</b>	<b>1,775</b>	<b>3,235</b>
					<b>Funding</b>		
					Borrowing	5,337	
					Revenue Contribution	200	
					Revenue Reserves	288	
						<b>5,826</b>	

## **CORPORATE RISK REGISTER 2014/15 – QUARTER 3 REVIEW**

### **SUMMARY**

To consider the risks within the Corporate Risk Register and the management of these risks.

### **RECOMMENDATION**

That Members view the significant and material risks contained within the Corporate Risk Register and agree their validity.

## **1. BACKGROUND**

- 1.1 The Fire and Rescue Service National Framework for Wales and the Wales Programme for Improvement Framework requires Fire & Rescue Services to consider risk management whilst discharging its statutory duties, and take into account the risks facing the organisation when making strategic decisions.
- 1.2 Corporate risk is an event that has the potential to help or hinder the achievement of a strategic objective or the delivery of core business. The Corporate Risk Register records these risks, assessing them in terms of likelihood and impact, identifies any actions in place and any further actions required to mitigate the risk. All risks are rated as manageable (low), material (medium) or significant (high) in accordance with the table in Appendix 1.
- 1.3 The Corporate Risk Register, together with the Corporate Risk Management Strategy and staff guidelines, are accessible to all staff and Members via the intranet.
- 1.4 Directors, department heads and team leaders are responsible for identifying risks during the business planning process and taking the appropriate actions to manage or mitigate risk within their areas. Only risks that impact upon the achievement of a strategic objective or delivery of core business are monitored via the Corporate Risk Register.
- 1.5 The Senior Management Team formally reviews the Corporate Risk Register on a regular basis and endorses the inclusion of any new or emerging risks identified.

## 2. ISSUE

- 2.1 Currently there are 22 risks on the register; of these 9 are rated significant (high), 6 are material (medium) and 7 are manageable (low).
- 2.2 Attached at Appendix 1 is a diagram showing the overall risk profile of all the live corporate risks and a table showing the travel of the risk score from inherent (when first identified with no control measures to the current residual risk score with controls in place).
- 2.3 Also attached at Appendix 2 are tables listing the significant and material risks contained within the Corporate Risk Register as at 4 February 2015.

## 3. FINANCIAL IMPLICATIONS

- 3.1 Risks which have financial implications are identified at Appendix 1.

## 4. EQUALITY RISK ASSESSMENT

- 4.1 It is the responsibility of each risk owner to ensure that appropriate assessment of risk in relation to equality and diversity has been carried out across all relevant supporting activity levels.

## 5. RECOMMENDATIONS

- 5.1 That Members view the significant and material risks contained within the Corporate Risk Register and agree their validity.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Howard Thomas Engagement, Transformation and Performance Officer	



Appendix 1: Risk matrix showing all live corporate risks as at 4 February 2015 (inherent vs residual)

Impact	Severe	5 <sup>19a</sup>	10	15 <sup>19b</sup>	20	70b, 80.2, 80.4, 80.1, 80.6, 80.5
	Major	4	8	12 <sup>70a</sup>	16	20 <sup>79a</sup> , 09
	Moderate	3	6	9 <sup>11, 79b, 77</sup>	12 <sup>78</sup>	15
	Minor	2 <sup>75, 14</sup>	4 <sup>10, 12, 80.3, 69</sup>	6	8	10
	Minimal	1	2	3 <sup>74</sup>	4	5
Corporate Risk Profile		Low	Low / Medium	Medium	Medium / High	High
Issue 1		Likelihood				

Ref	Risk Description of those live corporate risks where the residual score has changed from the inherent score	Inherent score	Current residual score
10	If The Service is not adequately prepared to deal with the consequences of a National or Regional scale threat then there may be a possible impact on maintaining core service delivery across the whole of South Wales.	8	4
11	If the functionality of the CFSMIS (Community Fire Safety Management Information System does not meet service requirements then full business benefits and planning will not be effective	12	9
12	If business continuity concepts are not embedded and understood across the organisation then the plans will not have ownership and will not be effective or valid.	16	4
14	If we fail to maintain measures which prevent or detect acts of fraud and corruption then the organisation is open to costly fraudulent actions by employees, members, suppliers and contractors, with consequential financial losses and reputational damage.	6	2
19a	If we suffered the loss of life/life changing injuries of a member of staff or member of the public during an operational incident then potential corporate or criminal liability could ensue. Other consequences that could arise are negative media attention, negative public perception, a loss of trust and confidence of the Management team by staff.	25	5
19b	If we suffered the loss of life/life changing injuries of a member of staff or a member of the public through the commission of our duties then potential corporate or criminal liability could ensue. Other consequences that could arise are negative media attention, negative public perception, a loss of trust and confidence of the Management team by staff.	25	15
69	If our internal business critical IT systems are not integrated Then the service will fail to produce lean, efficient processes with commensurate cost reductions.	16	4
70a	If sensitive personal data is not stored or held with a high enough level of security then there is a risk of theft, loss or unauthorised access to that data.	9	12
74	If We fail to secure grant funding for our activities then We will have to review service provision.	5	3
75	If the composition of the workforce is impacted by external factors or legislative changes then this may impact on our capacity to deliver effective services.	8	2
77	If We fail to communicate, consult and engage effectively then the reputation, public confidence and efficiency of the service could be compromised.	16	9
78	If the Emergency Services Mobile Communications Programme (ESMC) does not deliver in time before the end of the AIRWAVE contract then the control measures that need to be in place to ensure the service has mobile communications might be extremely expensive.	25	12
79a	If HMRC apply the changes to the Protected Pension Age for firefighters between the ages of 50 and 54 then the Fire Authority may incur tax charges and the ability of the Service to offer multiple contracts could become restricted. There is also a strong possibility that affected individuals may take compensatory legal action against the Fire Authority.	25	20
79b	If HMRC apply the changes to the Protected Pension Age for firefighters between the ages of 50 and 54 Then the ability of the Service to offer multiple contracts could become restricted. This could lead to a potential loss of qualified Firefighters which may affect the ability of the service to deliver.	25	9
80.3	If the communications for the SOF programme are not managed, planned, resourced, delivered and supported effectively then staff and necessary stakeholders and partners will be uninformed about changes and the reasons for them potentially leading to disengagement.	25	4

## Appendix 2: Significant and Material Risks

### Significant Risks (High)

There are 9 significant risks the details of each risk are as follows:

<b>Risk Description</b>		If Strategic Transformation Plan issues, redundancies, or national pay negotiations are seen as adverse then there is a risk of industrial action by staff and potential loss of experienced staff.	
<b>Risk Ref.</b>	09	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Risk Reduction Plan	Regular dialogue with the representative bodies. Recognised industrial relations mechanism in place. Increased dialogue and dissemination direct to workforce through line management functions.	<p><b>Action 1:</b> Continued dialogue with the representative bodies and staff</p> <p><b>Action 2:</b> Increase communication activity with rep bodies and direct workforce contact.</p> <p><b>Action 3:</b> Review communications strategy as and when tensions rise.</p> <p><b>Action 4:</b> Professional relations between management and the representative bodies is being maintained</p>
<b>Risk Owner</b>	Huw Jakeway	Table top exercise has been conducted to test the Business Continuity Plan - Loss of Staff. Learning and amendments have been captured and actioned.	
<b>Inherent Risk Score</b>		Q3 2012 - Supervisory and Middle Manager reviews conducted and discharged. Specific engagement session facilitated with groups of staff that would be affected by the outcomes of strategic transformation projects. TRU, Supervisory and Middle Managers taking voluntary departure, Aberbargoed Build.	
	<b>20</b>	Q4 2012 - FBU nationally are concerned regarding pension reforms which has resulted in regional and branch meetings to informally discuss potential ballot for industrial action	
<b>Residual Risk Scores and Movement 2014/15</b>		Q4 2013-14 Auxiliary Reserve in place to cover industrial action	
Q1	<b>20</b>	Contingency resilience plans updated.	
Q2	<b>20</b>	Training programme updated.	
Q3	<b>20</b>		
Q4		<p><b>Comments:</b> Q1 2013 – Risk description narrative updated at SMT 4 July 2013. Q2 2013 – Score remains extant Q3 2013 – Risk and score remains extant – next full FBU Executive Council (EC) meeting at the end of February reference industrial action. Will review following EC decision. Q4 2013 - risk and score remains extant. Further periods of industrial action have occurred and been managed. Continuously reviewed and strategic implications considered. Cost of industrial action being monitored. Continued dialogue with welsh government to resolve current issues. Auxiliary reserve been maintained. Annual Risk Review 7th JULY 2014: Risk reviewed in annual</p>	

		<p>review. Risk score reviewed. Residual Impact reduced from 5 to 4 - due to effective control measures in place. However Residual Likelihood increased to 5 as IA is in progress.</p> <p>Q1 2014 - IA continues regarding changes to pension provision for grey book personnel. Costs are being monitored and the auxiliary plans are being developed to include event specific requirements. ASOS is also being undertaken by the FBU and varies each IA period.</p> <p>Q2 2014 - IA against government Ministers continues with the FBU. Maintaining the competence of our auxiliary crews.</p> <p>Q3 2014 - IA continues in England and the trade dispute is still lodged with WG, although WG have consulted on an alternative pension scheme. Awaiting outcome of consultation</p>	
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<b>Risk Description</b>		If we suffered the loss of life/life changing injuries of a member of staff or a member of the public through the commission of our duties, then potential corporate or criminal liability could ensue. Other consequences that could arise are negative media attention, negative public perception, a loss of trust and confidence of the Management team by staff.	
<b>Risk Ref.</b>	19b	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Risk Reduction Plan	<p>ODART collects and analyses experiences from incidents, as well as information from debriefs and health and safety to ensure that the service can learn and where necessary initiate changes to improve training, equipment and procedures. Additional safe systems of control include maintenance of competence, suitable, sufficient and realistic training, Standard Operating Procedures (SOPs), equipment availability and suitability, adequate ridership factor, incident command procedures, appliance availability, operational plans and intelligence. Additional resources invested in operational intelligence and review of SOPS and tactical plans. Investment by Fire &amp; Rescue Authority into new PPE, helmets and BA sets to ensure crews in optimum protective clothing and equipment. Fire ground radios and information available to crews via data to cabs and firelink. Investment in training centre to ensure competence maintained to high level. 4000 plans now available to operational fire fighters via mobile data terminals. Review on going on generic risk assessments and their adoption within standard operating procedures. A revised promotion process has been developed and agreed with the representative bodies which recognises technical competence and safe systems of work. Health &amp; Safety Executive consolidated report presented to the Fire Authority and recommendations are now being considered.</p>	<p><b>Action 1:</b> This will be an ongoing workstream.</p> <p><b>Action 2:</b> Early 2012</p> <p><b>Action 3:</b> Report to be presented early 2012.</p> <p><b>Action 4:</b> Review of recent Rule 43 coroner's letters being undertaken by OCG.</p>
<b>Risk Owner</b>	Huw Jakeway		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>15</b>		
Q2	<b>15</b>		
Q3	<b>15</b>		

Q4			<p><b>Comments:</b> Q1 2013 - Reviewed at SMT 4 July 2013 - no changes made Q3 2013 - risk and actions regularly reviewed and remains extant Q4 2013 - risk and actions regularly reviewed and remains extant. Annual Risk Review 7th JULY 2014: Risk reviewed in annual review. This risk has been split into 2 discrete risks regarding operational incidents, commission of duties and a loss of life/life changing injuries to staff and the public. Risk score reviewed. Residual impact raised from 4 to 5. Residual likelihood scored individually in 19a = 1, 19b = 3. Q1 2014 - risk is regularly reviewed and monitored. Q2 2014 - regularly monitored and considered at SMT Q3 2014 - regularly monitored and considered at SMT</p>	
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<b>Risk Description</b>		If information management systems are not adequate, then we will be in breach of our statutory duties.	
<b>Risk Ref.</b>	70b	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<p>Q1 2014-15 - Majority of policies in place. Encryption process started but slow. Encrypted memory sticks now in use throughout service. Training plan now in place but yet to be implemented. Now standing item on member Information Communication &amp; Technology strategic steering group. Regular meetings with information manager. Information audit nearly complete. Training package available for all staff online.</p> <p><b>Comments:</b></p> <p>Annual Risk Review 7th JULY 2014: Risk identified in annual review.</p> <p>Q2 2014: Risk score reviewed and remains extant until the encryption programme is completed.</p> <p>Q3 2014 - encryption programme nearly complete. Training rolled out online although take up slow and reminder to be sent and revisited in Q4. Face to face training taken place with staff groups with sensitive data. Policies adopted</p>	<p><b>Action 1:</b> Encryption of laptops to be speeded up.</p> <p><b>Action 2:</b> Remaining policies to be drafted and implemented</p> <p><b>Action 3:</b> Software for use of no service data sticks etc. to be reviewed.</p> <p><b>Action 4:</b> Training on information management to be rolled out.</p> <p><b>Action 5:</b> Corporate filing system to be explored for future.</p> <p><b>Action 6:</b> Analysis of information audit results with recommendations. retention and destruction policy to be prepared</p>
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

<b>Risk Description</b>		If HMRC apply the changes to the Protected Pension Age for firefighters between the ages of 50 and 54, then the Fire Authority may incur tax charges and the ability of the Service to offer multiple contracts could become restricted. There is also a strong possibility that affected individuals may take compensatory legal action against the Fire Authority	
<b>Risk Ref.</b>	79a	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	Engaging with the representative bodies In discussion with HMRC	<b>Action 1:</b> PWC to engage with HMRC Inspectors on behalf of the FRA. <b>Action 2:</b> Established a checking system to prevent further occurrences. <b>Action 3:</b> Liaised with the pensions administrator to share information in order to prevent future occurrences <b>Action 4:</b> Reviewing employment contracts and operational needs
<b>Risk Owner</b>	Sally Chapman	In discussion with the pension administrator Contacted Welsh Government as the owner of the pension schemes	
<b>Inherent Risk Score</b>		Contracted Price Waterhouse Cooper (PWC) to advise on the appropriate responses available to the employer.	
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>		<b>Comments:</b>	
Q1	<b>20</b>	Risk identified at SMT event in February	
Q2	<b>20</b>	Q4 Advice and guidance provided through PWC tax and legal advisors on current issue continuing to work with PWC to resolve outstanding cases. Engaging with London LFB to progress remaining cases on a national basis	
Q3	<b>20</b>	Annual Risk Review 7th July 2014: Risk reviewed and split into 2 distinct risks. 79a - regarding financial impact and 79b - regarding operational impact.	
Q4		Q1 14/15 - continuous communication with PWC, Alyseum and London Pension Service to collate information to enable a response to be sent to HMRC prior to RCT committing an event report. Q2 We have had a meeting with PWC and will be advised on the Pensions Act 2013. Q3 2014 - Service acquiring QC's advice in January 2015. This will shape how the	

			Service addresses PPA in future years.	
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<b>Risk Description</b>		If the SOF programme is not managed, planned, resourced and supported effectively, then the changes required to secure the future sustainability of the service within reduced financial resources will not be delivered	
<b>Risk Ref.</b>	80.1	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<ul style="list-style-type: none"> <li>• Members briefed</li> <li>• Project Brief agreed and in place</li> <li>• EIA agreed and in place</li> <li>• Monthly Programme Board Meetings in place and minuted</li> <li>• Regular SMT briefings in place</li> <li>• Project team for process work agreed, trained and in place</li> <li>• Regular feature of Trade Union meeting agenda's</li> </ul> <p><b>Comments</b> Annual Risk Review 7th JULY 2014: Risk identified in annual review. Risk reviewed and updated by DCO 27/11/2014</p>	<p><b>Action 1:</b> Capacity of Project Board to be reviewed</p> <p><b>Action 2:</b> Project workers for other project streams to be agreed</p> <p><b>Action 3:</b> Project timelines for various phases still to be determined</p>
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

<b>Risk Description</b>		If the governance elements of the SOF programme are not managed, planned, resourced, delivered and supported effectively, then the decisions that are taken and the changes that are implemented could be open to successful challenge.	
<b>Risk Ref.</b>	80.2	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<ul style="list-style-type: none"> <li>• Project Brief agreed and in place</li> <li>• EIA agreed and in place</li> <li>• Monthly Programme Board Meetings in place and minuted</li> <li>• Regular SMT briefings in place</li> <li>• Regular item on Trade Union Meetings</li> </ul>	<p><b>Action 1:</b> Decision matrix to be formulated</p> <p><b>Action 2:</b> Matrix to capture improvements and efficiencies to be developed and agreed</p>
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>	<b>Comments:</b> Annual Risk Review 7th JULY 2014: Risk identified in annual review. Risk reviewed and updated by DCO 27/11/2014	
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

<b>Risk Description</b>		If people elements of the SOF programme are not managed, planned, resourced, delivered and supported effectively then trust, transparency, openness and engagement with staff could be compromised leading to the service not having the right people in the right roles to deliver the requirements of the organisation.	
<b>Risk Ref.</b>	80.4	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<ul style="list-style-type: none"> <li>• Project Brief agreed and in place</li> <li>• EIA agreed and in place</li> <li>• Monthly Programme Board Meetings in place and minuted</li> <li>• Regular SMT briefings in place</li> <li>• Regular item on Trade Union meeting agenda's</li> <li>• Internet page established</li> <li>• Dedicated email address for suggestions / queries about programme</li> </ul>	<p><b>Action 1:</b> Regular middle manager briefings and updates</p> <p><b>Action 2:</b> Review of people policy's</p> <p><b>Action 3:</b> Review of how policy's drafted and amended</p> <p><b>Action 4:</b> Involvement of staff in process reviews</p>
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>		<p><b>Comments:</b> Annual Risk Review 7th JULY 2014: Risk identified in annual review. Risk reviewed and updated by DCO 27/11/2014</p>	
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

<b>Risk Description</b>		If the process elements of the SOF programme are not managed, planned, resourced, delivered and supported effectively, then the organisation may not be as efficient, effective and joined up as it could be and service delivery to the public could be compromised.	
<b>Risk Ref.</b>	80.5	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<ul style="list-style-type: none"> <li>• Project Brief agreed and in place</li> <li>• EIA agreed and in place</li> <li>• Monthly Programme Board Meetings in place and minuted</li> <li>• Regular SMT briefings in place</li> <li>• Process team trained and in place to support workshop work</li> </ul> <p><b>Comments:</b> Annual Risk Review 7th JULY 2014: Risk identified in annual review. Risk reviewed and updated by DCO 27/11/2014</p>	<p><b>Action 1:</b> Workshops with all staff groups to consider process, enablers and frustrations with evaluation matrix</p> <p><b>Action 2:</b> Evaluation of workshop data to define priority processes</p> <p><b>Action 3:</b> Academi Wales providing external challenge</p> <p><b>Action 4:</b> Communications with staff on process progress – regular updates</p>
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

<b>Risk Description</b>		If the new systems emerging from the "Shaping the Future" programme are not integrated, then the full benefits required to secure the future sustainability of the service will not be achieved.	
<b>Risk Ref.</b>	80e	<b>Controls in Place</b>	<b>Actions Planned</b>
<b>Risk Origin</b>	Annual Risk Review	<b>Comments:</b> Annual Risk Review 7th JULY 2014: Risk identified in annual review.	Actions will be planned as project is developed.
<b>Risk Owner</b>	Sally Chapman		
<b>Inherent Risk Score</b>			
	<b>25</b>		
<b>Residual Risk Scores and Movement 2013/14</b>			
Q1	<b>25</b>		
Q2	<b>25</b>		
Q3	<b>25</b>		
Q4			

## Material Risks (Medium)

Material Risks (Medium)					
Ref	Risk Origin	Risk Description	Inherent Score	Residual Score	Risk Owner
11	Directorate Plan	IF the functionality of the CFSMIS (Community Fire Safety Management Information System) does not meet service requirements THEN full business benefits and planning will not be effective.	12	9	Alison Kibblewhite
19a	Annual Risk Review	IF we suffered the loss of life/life changing injuries of a member of staff or member of the public during an operational incident THEN potential corporate or criminal liability could ensue. Other consequences that could arise are negative media attention, negative public perception, a loss of trust and confidence of the Management team by staff.	25	5	Huw Jakeway
70a	Directorate Plan	IF sensitive personal data is not stored or held with a high enough level of security THEN there is a risk of theft, loss or unauthorised access to that data.	9	12	Sally Chapman
77	SMT 4 July 2013	IF We fail to communicate, consult and engage effectively THEN the reputation, public confidence and efficiency of the service could be compromised.	16	9	Steve Rossiter
78	Directorate Plan	IF the Emergency Services Mobile Communications Programme (ESMC) does not deliver in time before the end of the AIRWAVE contract THEN the control measures that need to be in place to ensure the service has mobile communications might be extremely expensive	25	12	Ritchie Prendergast
79b	Annual Risk Review	IF HMRC apply the changes to the Protected Pension Age for firefighters between the ages of 50 and 54 THEN the ability of the Service to offer multiple contracts could become restricted. This could lead to a potential loss of qualified Firefighters which may affect the ability of the service to deliver.	25	9	Andy Thomas

**Guide to Risk Scoring**

Likelihood		Impact
Low 0-5% extremely unlikely or virtually impossible	1	Minimal harm, loss or delay with no measurable impact.
Low/Medium 6-25% unlikely to happen	2	Short term minor harm, loss of staff, delay or interruption. Minor impact on service delivery. Can be easily and quickly remedied.
Medium 26-50% Fairly likely or possible to occur	3	Permanent or long term harm or loss of staff. Loss of some service delivery. Takes a medium term to remedy with some cost implications or adverse impact on service delivery.
Medium/High 51-75% Probable, more likely to occur than not	4	Major or significant impact, harm or traumatic / stressful consequences for many. Significantly reduced service delivery. Remedy will be long term and expensive.
High 76% + Almost certainly will occur	5	Critical impact on the achievement of objectives or service undeliverable. Serious or huge impact on quality, costs or reputation. Very difficult or impossible to remedy at best long term effects and major cost implications.

**Risk Score = Likelihood of Occurrence x Potential Impact**

Risk Score	Risk Rating	Comment
1-4	Low	Manageable Risks - SWFRS is content to carry these risks. Managers still need to record that the risk has been identified and monitor regularly to ensure that the risk does not increase. However, due to the low likelihood or impact it is not necessary to take any further action.
5-12	Medium	Material Risks - SWFRS is concerned about these risks and they need to be managed by the risk owner.
15-25	High	Significant Risks - SWFRS is most concerned about these risks. These risks will be reviewed regularly by the ELT/SMT and the risk owner should continually monitor and take appropriate action to manage the risk.

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**FINANCE, AUDIT & PERFORMANCE**  
**MANAGEMENT COMMITTEE**  
**REPORT OF THE DEPUTY CHIEF OFFICER**

AGENDA ITEM NO 8  
 9 MARCH 2015

**ANNUAL AUDIT LETTER**

**SUMMARY**

This report discharges the Appointed Auditor's reporting responsibilities under the Code of Audit Practice for Financial Reporting.

**RECOMMENDATION**

That Members note the positive report about the Authority's financial arrangements and the satisfactory discharge of accounting requirements.

**1. ISSUE**

- 1.1 As Members will be aware, the Wales Audit Office, as Appointed Auditor for the Fire & Rescue Authority, is required to provide an Annual Audit Letter under the Code of Audit Practice on the Authority's financial reporting and accounting procedures, and our arrangements to secure economy, efficiency and effectiveness in the use of our resources.
- 1.2 Attached at Appendix 1 is the Appointed Auditor's Annual Audit Letter which Members will note is very positive and confirms that the Authority has discharged all of its statutory and other responsibilities in relation to financial reporting, record keeping and use of its resources during the 2013/14 financial year.

**2. EQUALITY IMPACT ASSESSMENT**

- 2.1 There is no requirement on the Authority to undertake an equality impact assessment from this report as it is the report of an external body who will have undertaken necessary assessments prior to completing their report.

**3. RECOMMENDATIONS**

- 3.1 That Members note the positive report about the Authority's financial arrangements and the satisfactory discharge of accounting requirements.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Sally Chapman Deputy Chief Officer	Appendix 1 - Annual Audit Letter





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Reference            AJB870/mh  
Date                05 January 2015  
Pages                1 of 2

Dear Huw

### **Annual Audit Letter – South Wales Fire Authority 2013-14**

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

#### **The Authority complied with its responsibilities relating to financial reporting and use of resources**

It is the Authority's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 29 September 2014, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Authority's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on 15 September 2014, and a more detailed report will follow in due course.

**I am satisfied that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the Authority's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

**I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2014.**

The financial audit fee for 2013-14 is currently expected to be in line with the agreed fee set out in the Annual Audit Outline.

Yours sincerely



**Anthony Barrett**  
**Appointed Auditor**

## **WALES AUDIT OFFICE – FINANCIAL PLANNING ASSESSMENT**

### **SUMMARY**

This report informs Members of the outcome of work undertaken by the Wales Audit Office this year.

### **RECOMMENDATION**

That Members note the content of this report.

## **1. BACKGROUND**

- 1.1 During the period May to August 2014, the Wales Audit Office examined the financial positions of the three Fire & Rescue Authorities and how they were budgeting in the context of the financial challenges facing local government.

## **2. ISSUE**

- 2.1 The work focused on answering the following question: Is the Authority managing budget challenges effectively to ensure financial resilience? The report at Appendix 1 sets out the conclusions on both the track record and future prospects of this Authority's achievements.
- 2.2 The overall conclusion is that this Authority has effective management arrangements with no immediate shortcomings. The auditors reached this conclusion because they found that:
- The Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints.
  - The Authority's plans and arrangements to deliver 2014/15 savings are fit for purpose, are effectively managed and are likely to be achieved but the medium term outlook remains challenging.
  - An effective medium term financial plan is in place to support strategic decision making.

## **3. EQUALITY RISK ASSESSMENT**

- 3.1 There are no issues arising directly from this report.

#### 4. RECOMMENDATION

4.1 That Members note the content of this report.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Calvin Powell Head of Business Support	Appendix 1 – Financial Planning Assessment

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



# Financial Planning Assessment

## South Wales Fire and Rescue Authority

**Audit year:** 2014-15

**Issued:** January 2015

**Document reference:** 723A2014

## Status of report

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This document has been prepared for the internal use of South Wales Fire and Rescue Authority as part of work performed in accordance with the statutory functions.

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

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

This document was produced by Steve Barry and Ron Price.

# Contents

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## Summary report

Background to our work	4
------------------------	---

The Authority has effective financial management arrangements with no immediate shortcomings	5
--	---

The Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints	5
--	---

The Authority's plans and arrangements to deliver 2014-15 savings are fit for purpose, are effectively managed and are likely to be achieved but the medium-term outlook remains challenging	6
--	---

An effective medium-term financial plan is in place to support strategic decision making	7
--	---

Proposals for improvement	7
---------------------------	---

## Appendices

Detailed results of our review	8
--------------------------------	---

# Summary report

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## Background to our report

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services, and for ensuring authorities are able to meet statutory obligations and the needs of local communities. It will help authorities take the right decisions for the short, medium and long term. Good financial management:
  - is essential to good corporate governance;
  - is about managing performance and achieving strategic objectives as much as it is about managing money;
  - underpins service quality and improvement;
  - is the basis of accountability to stakeholders for the stewardship and use of resources; and
  - is a key management discipline.
2. During the period May to August 2014, the Wales Audit Office examined the financial positions of Fire and Rescue Authorities and how they are budgeting in the context of the financial challenges facing local government. This work considered whether authorities have robust approaches in place to manage the budget reductions that they are facing to secure a stable financial position that will enable them to continue to operate for the foreseeable future. The focus of the work was on the 2014-15 financial planning period. In order to inform views on the planning for and successful delivery of budgets, we also considered the track record for the previous financial years of 2011-12 and 2013-14.
3. The work focused on answering the following question: **Is the authority managing budget challenges effectively to ensure financial resilience?** In this report, we set out our conclusions on both the track record and future prospects:
  - **Track record** – whether the authority successfully identified, planned for, and delivered budget efficiencies in the period 2011-12 to 2013-14.
  - **Future prospects** – whether the authority has an effective corporate framework for financial planning, exercises effective financial management and control, has a robust framework for reviewing and challenging financial performance; and whether the authority has realistic plans to manage its budget in 2014-15 and is taking appropriate steps to deliver them.
4. In South Wales Fire and Rescue Authority (the Authority), we have analysed a range of data, including the Authority's published accounts and its performance returns to the Welsh Government and the Local Government Data Unit. We also interviewed a small number of officers and reviewed reports and minutes that the Authority and its committees have considered. Our detailed conclusions are set out in [Appendix 1](#) and are based on the extent to which the Authority has put in place, and is operating, effective financial management and controls which are supporting it to secure a stable financial position that enables it to continue to operate going forward.

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5. All three Fire and Rescue Authorities in Wales operate under the same financial funding structure and arrangements. They each engage with the constituent local authorities in their area on an annual basis to arrive at a budget settlement. The total budget figure that they arrive at is divided by the population in each local authority area to derive the actual figure that each must pay to the Authority. The cost of the Authority is funded by a contribution from the constituent local authorities with some additional grant funding provided by the Welsh Government. The Fire and Rescue Authorities have the power to request additional sums from the constituent local authorities in their area if needed.
  6. Our overall conclusion is that **the Authority has effective financial management arrangements with no immediate shortcomings**. We came to this conclusion because we found that:
    - the Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints;
    - the Authority's plans and arrangements to deliver 2014-15 savings plans are fit for purpose, are effectively managed and are likely to be achieved, but the medium-term outlook remains challenging; and
    - an effective medium-term financial plan (MTFP) is in place to support strategic decision making.

## The Authority has effective financial management arrangements with no immediate shortcomings

### The Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints

7. Between 2011-12 and 2013-14, the Authority operated effective budgetary control, with timely assessments of the options that the Authority could implement to maintain a balanced budget. In comparison with 2011-12, by 2014-15 the Authority had reduced its budget by £1.2 million (1.7 per cent) in cash terms. Taking the need to account for inflation and other budget pressures, this reduction, in real terms, amounted to savings of £4.8 million (6.4 per cent). Budgetary control arrangements are supported by detailed guidance and monitoring arrangements at officer, member and executive level. Financial forecasting is well developed and accurate, and is subject to detailed and effective scrutiny and challenge at Authority meetings.
8. A willingness to consider radical change in service provision has been demonstrated by the Authority. After a substantial period in which little change to the location of stations and appliances occurred, the Authority embarked on a series of strategic transformation projects under the general heading of 'Fire Cover Review'. The purpose of these projects was to consider the most effective ways to maintain an effective risk based service provision within a diminishing budget. This is being done by identifying optimum station locations and crewing arrangements to accurately match resources against risk. This has been, and will continue to be a challenging process, but one that

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has been handled effectively with mutual support between officers and members. The Authority has consulted widely on proposed changes to service provision and handled that process of change management effectively.

9. In the period covered by this report the Authority has set a balanced budget with few variations in any of the budget headings. The greatest element of cost relates to employee costs, and prudent budgeting around this area has given the Authority scope to make underspends against original budget figures. Low levels of pay increase, agreed through national negotiation, have also enabled the Authority to plan and agree budgets effectively.
10. Savings have been made in other areas related to service provision and employee costs. For example, the service has changed crewing arrangements in Barry, and the provision of aerial appliances. Savings have been made through not filling posts immediately as retirements occur and the service has run with some underprovision of Retained Duty System (RDS) staff during 2012-13 and 2013-14. Some other small scale savings have also been secured through changes to leased vehicle arrangements, slippage on the capital programme and subsequent capital charges, and in pension costs.
11. Since mid 2013 the Authority has faced challenges in a national dispute primarily relating to the Government's proposed changes to Pension arrangements for fire fighters. This has required the Authority to put in place arrangements to maintain services during these periods of industrial action, which has placed an additional burden on the Authority, both financially and operationally. The Authority has managed this challenge effectively through the use of additional auxiliary fire fighters and initially the use of some military fire cover. The ongoing dispute remains a challenge.

**The Authority's plans and arrangements to deliver 2014-15 savings are fit for purpose, are effectively managed and are likely to be achieved but the medium-term outlook remains challenging**

12. The Authority has an effective corporate framework for financial planning and exercises clear financial management and control. Through its Finance, Audit and Performance Management Committee and Full Authority it demonstrates a good level of scrutiny, debate and challenge on financial issues. Early consideration of spending options has taken place with effective dialogue between the Authority and its constituent local authorities. This has enabled the Authority to set a realistic and achievable budget for 2014-15, although the medium-term outlook remains challenging.
13. The Authority has developed a Land and Property asset management strategy to assist in the consideration of future service provision and to align its employee costs and provision to its property estate. This will be an important part of the Authority's strategy moving forward, and the Authority is continuing a dialogue with communities and its constituent local authorities explaining the rationale and potential impact of changes in service provision.

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## An effective medium-term financial plan is in place to support strategic decision making

14. A clear vision and aim for the service is in place, with coherent and clear improvement objectives. The Authority has an MTFP in place which was agreed in November 2013. This contains key performance indicators and sensitivity analysis relating to key elements of the budget.
15. Whilst the Authority has set a minimum level of general reserves at £3 million, there is no separate written policy on the use of reserves. The level of reserves is discussed and considered but existing financial arrangements would be strengthened with greater clarity about the future use and policy on reserves.
16. Experienced and effective finance and budget managers are in place. Internal timekeeping around the presentation of financial information is well handled and works well throughout the Authority. The Authority has taken account of the financial challenges and made reasonable assumptions in setting its budget for 2014-15, supported with sound data and information.

## Proposals for improvement

17. There are a small number of proposals for improvement which the fieldwork has identified, and which will help the Authority to strengthen its financial planning arrangements in the future. These are:
  - establish a clear policy around charging for services and income generation;
  - clearer links between improvement objectives and financial plans should be established; and
  - agree a written policy on the use of reserves.

## Appendix 1

### Detailed results of our review

Key line of enquiry	Fieldwork findings	Conclusion
<b>Track record 2011-12 to 2013-14</b>	<ul style="list-style-type: none"> <li>• The Authority accurately identified its annual budget requirements between 2011-12 and 2013-14. It has successfully identified a range of recurring and non-recurring savings to fully meet the budget set with clear early engagement with its constituent authorities.</li> <li>• The Authority has effectively met the challenge of industrial action by staff as a consequence of a national dispute.</li> <li>• In setting the 2011-12 budget, the Authority formed a specific ‘members finance working group’ to review the cost base and consider budget proposals. It also undertook a ‘second pumping appliance review’ to look at opportunities, against a risk profile, for changes in appliance provision.</li> <li>• The Authority has a good track record of accurate budget management and control. It accurately forecasts both revenue and capital expenditure within a prudent framework of risk assessment. It tends to take a conservative and prudent approach to budget setting with a need – as an emergency service – to allow for ‘in-year’ contingencies which may arise due to emergency factors outside of its control. As an emergency service it cannot say ‘we won’t attend these incidents as we have spent our budget in that area’ for instance.</li> <li>• The Authority can request additional funds from its constituent authorities if necessary, so the funding regime needs to be viewed in context. It achieved an underspend, through prudent budgeting during 2011-12. This is not to say that the FRA has not taken action at an early stage to address potential pressures on costs and to adapt to changing pressures on demand for the service. It has carried out various ‘reviews’ of staff structures, provision of equipment and staff, and reorganisation of central services. It has also considered changes to the location of stations and developing one new station where two older stations were previously located – eg, Aberbargoed.</li> </ul>	<p>The Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints</p>

Key line of enquiry	Fieldwork findings	Conclusion
<p><b>Track record 2011-12 to 2013-14</b></p>	<ul style="list-style-type: none"> <li>• There were a number of areas that were considered as potential future changes during the 2013-14 budget process. These flowed out of the 'Special Response Review' and the 'Fire Cover Review'. These changes included changing crewing at Cowbridge from whole time to retained, changing crewing of the second appliance at Barry from whole time to retained, reducing the provision of operational aerial appliances from four to three, thereby removing provision on an ALP from Barry, changing the provision of Chemical Incident capability and units from two to one, reducing the number of foam tenders from three to one, and replacing Porthcawl and Kenfig Hill fire stations with a new station in the Cornelly area when an appropriate site becomes available.</li> </ul>	<p>The Authority has a good track record of effective budgetary control and securing arrangements to operate within its financial constraints.</p>
<p><b>Strategic financial planning</b></p>	<ul style="list-style-type: none"> <li>• The Authority has set a clear vision and aims. Many of the functions of the Authority are statutory and set by legislation. The options to vary its functions are therefore limited. Within these parameters the service has clear aims which have been reset since the current CFO was appointed, and staff are encouraged to learn them and they are posted up on walls etc.</li> <li>• The Authority has an effective corporate framework in place for financial planning. It is currently undertaking workforce modelling – seeking to better understand the likely retirement profile of fire fighters so that expenditure relating to employees can be more accurately predicted. Employee costs are the most significant element of costs within the Fire Service, therefore this is an area where most attention is focussed. There are also special factors outside of the FRA control, like national pay agreements, and very significant pension liabilities. Pension costs are the second largest budget item. In the MTFP for 2014-15, pension costs form 11.3 per cent of the total budget.</li> <li>• The Authority has set coherent and clear improvement objectives. They are understood by staff and fit with the challenges identified within performance assessments – improvement objectives are approved and endorsed by Authority members having a relevance to the areas covered by the service.</li> <li>• A corporate planning framework is in place. Plans cover all aspects of the work of the service and there are links between departmental and corporate service plans. Risk is evaluated effectively and there is sound financial planning across the service.</li> </ul>	<p>The Authority's corporate framework for strategic financial planning is effective but would be strengthened by having a clear link between financial plans and improvement objectives.</p>

Key line of enquiry	Fieldwork findings	Conclusion
<b>Strategic financial planning</b>	<ul style="list-style-type: none"> <li>• There is no direct link between financial plans and improvement objectives. Consideration of improvement objectives and reporting of progress forms part of the improvement process which we have been positive about – however, there are no separate sections of financial plans setting out how the financial implications of improvement objectives will be dealt with.</li> <li>• The Authority has a clear MTFP which was presented to the FAPM committee on November 2013. This plan contains key KPIs and sensitivity analysis relating to key elements of the budget. There is a clear synergy between current and future plans and the MTFP.</li> </ul>	<p>The Authority's corporate framework for strategic financial planning is effective but would be strengthened by having a clear link between financial plans and improvement objectives.</p>
<b>Financial management and control</b>	<ul style="list-style-type: none"> <li>• There are clear policies on financial management – we have observed this through FAPM and other meetings – there are clear annual audit opinions, and the work of internal audit confirms this also. An effective and appropriate budget management policy is included within the MTFP, with effective reporting and detailed discussion and challenge.</li> <li>• The Authority has set a minimum level of general reserves at £3 million. There is no separate written policy on the use of reserves but there are minutes of discussions and reports on the use of reserves at FAPM meetings and therefore the use of reserves is clear. In the recent past the FRA had a policy of 'no new build' unless proceeds were available from the sale of land and existing assets (this related specifically to the sale of Lanley Hall).</li> <li>• There is no written document on the policy on income generation or charging. The opportunities for income generation and charging for services is very limited within the service. However, it would be beneficial, and would strengthen arrangements, if the Authority had a written statement on this subject so that (if challenged) the position was clearly set out and transparent.</li> </ul>	<p>The Authority's financial management and control arrangements are fit for purpose and it regularly measures, monitors, and reports on budget performance. Arrangements would be strengthened by a written policy of the use of reserves and policies on income generation and charging for services.</p>

Key line of enquiry	Fieldwork findings	Conclusion
<b>Financial management and control</b>	<ul style="list-style-type: none"> <li>• Clear and effective financial controls are in place. External audit testing, supported by clear internal audit reports confirm arrangements and our observations and interactions with the service support this also. The FRA also uses an audit database which is reported to every FAPM meeting on the progress of each audit recommendation. This is effective and detailed.</li> <li>• Experienced and effective finance and budget managers in place with a relatively newly appointed, experienced Treasurer also. No evidence of weak finance or budget skills.</li> </ul>	<p>The Authority's financial management and control arrangements are fit for purpose and it regularly measures, monitors, and reports on budget performance. Arrangements would be strengthened by a written policy of the use of reserves and policies on income generation and charging for services.</p>
<b>Financial governance</b>	<ul style="list-style-type: none"> <li>• Effective challenge is provided by members, through Full Authority and FAM meetings. This is a strong feature of the FRA's financial control arrangements. There are Finance and asset management working groups who meet to a regular cycle and report to FAPM.</li> <li>• The Authority regularly measures, monitors and reports on budget performance. This is observed at FAPM. There are challenges around some aspects of the pension liabilities which are complex and have been highlighted in the financial analysis carried out prior to our fieldwork. However, these challenges are well understood by finance staff and senior officers. The quality of reporting is good, and there is clear challenge and debate about aspects of financial performance.</li> <li>• Internal time keeping around presentation of financial information is well handled and works well throughout the organisation. The Authority has a good track record of accurate and timely reporting of budget performance. Long-term borrowing has increased from 2008-09 to 2013-14. The increase shown in the financial analysis around 2009-10 relates to additional borrowing associated with the purchase of the new HQ at Llantrisant.</li> <li>• The track record of delivering within set budgets is sound. The Authority tends to underspend within a prudent regime, but the reasons for the underspending are well articulated and relates to assumptions within the largest budget heading of employee costs.</li> </ul>	<p>The Authority has a robust framework for reviewing and challenging financial performance.</p>

Key line of enquiry	Fieldwork findings	Conclusion
<p><b>Current savings plans 2014-15</b></p>	<ul style="list-style-type: none"> <li>• The Authority does not have a specific budget shortfall (gap) for 2014-15 and beyond. In the context in which it operates it has scope to levy an increased amount on constituent local authorities if it wished. It engages with its constituent local authorities and sets a budget within the existing arrangements and has taken a cautious approach - it has engaged with communities, partners and the workforce around changes to the service in the face of challenge so is not taking the challenge of future resources lightly.</li> <li>• It has taken account of the financial challenges and made reasonable assumptions in setting its budget for 2014-15. It has a balanced budget with some scope for additional financial burdens - e.g. NATO summit, cost of industrial actions, maintaining an emergency statutory service.</li> <li>• The three Fire and Rescue Authorities in Wales do not use exactly the same set of inflation assumptions. There is some interaction between them to discuss factors and there are some common assumptions (for example about national pay agreements) but they each develop their own set of wider assumptions for budgeting.</li> <li>• The Authority has sound information and data across its range of activities to set out cost pressures. It has to work within a national context as far as elements of employee costs are concerned, which is the largest element of the budget.</li> <li>• One area where the Authority (and the other Welsh FRA) does not have clear costing information is around its work on special service incidents. It does not have a robust charging and income generating strategy - however, the opportunities to generate income are limited therefore this is not a major risk factor and the possibilities to generate substantial income are marginal.</li> <li>• The service has carried out a substantial exercise in relation to the Fire Cover review. This has considered the service provision right across South Wales and developed proposals for the future of certain services. There are challenges from the community whenever fire services are modified or restructured - the strength of Union representation is a significant factor in developing change. However the service has a clear basis for analysing and calculating costs.</li> </ul>	<p>The Authority's 2014-15 plans are fit for purpose, are being effectively managed and are likely to be achieved, but the medium-term outlook remains challenging.</p>



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**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE DEPUTY CHIEF OFFICER

AGENDA ITEM NO 10  
9 MARCH 2015

**WALES AUDIT OFFICE – DATA QUALITY REVIEW**

**SUMMARY**

This report brings to Members' attention the outcome of a data quality review undertaken by the Wales Audit Office.

**RECOMMENDATION**

That Members note the content of this report.

**1. BACKGROUND**

- 1.1 As part of this year's performance audit work, the Wales Audit Office carried out a review of a sample of the Authority's performance measures and operational data systems.

**2. ISSUE**

- 2.1 Attached at Appendix 1 is a copy of the outcome of the review and Members will note the statements that:

- Well embedded systems produce accurate management information that is used to support improvement planning although some gaps exist in equality information.
- National strategic and core indicators for 2013/14 are correctly stated.
- Data is well used to inform improvement planning and support performance reporting.

**3. EQUALITY RISK ASSESSMENT**

- 3.1 Whilst the report identifies that there is limited information captured on all of the protected characteristics identified in the 2010 Equality Act, officers have recognised this and continue to identify opportunities for easier collection of such data.

**4. RECOMMENDATION**

- 4.1 That Members note the content of this report.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Calvin Powell Head of Business Support	Appendix 1 – Data Quality Review



WALES AUDIT OFFICE  
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Mr H Jakeway  
Chief Fire Officer  
South Wales Fire and Rescue Authority  
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Reference	*Our Ref
Date	7 January 2015
Pages	1 of 2

Dear Huw,

### Data Quality Review

As part of this year's performance audit work the Wales Audit Office carried out a review of a sample of the South Wales Fire and Rescue Authority (the Authority) performance measures and operational data systems. The purpose of the review was to:

- test systems and arrangements that support the production of performance management information, including national strategic, core and local performance indicators that are used to support improvement reporting and planning;
- verify and confirm the accuracy of submissions made to the Welsh Government in respect of National Strategic and Core Indicators and associated data returns; and
- review how the Authority identifies trends and changes in performance to inform improvement planning and reporting.

This letter provides an overview of the results of our review. It does not provide a conclusion on the accuracy of all of the out-turn figures included in the Authority's published performance report. This is because the existence of sound data systems reduces, but does not eliminate, the possibility of error in reported data.

### **Well embedded systems produce accurate management information that is used to support improvement planning although some gaps exist in equality information**

Although there is not a formal written timetable for completion of the annual National Strategic and Core indicators we found that staff were clear about the timing of the submission and were clear about roles and responsibilities. Activities are co-ordinated effectively by the Service Performance and Communications Team (SP&C).

Key milestones are monitored by SP&C staff to ensure they are met, including analysis of cross-border incident information and coroner findings regarding fire-related death figures.

There is limited information on equality and diversity covering all of the protected characteristics as set out in the Equality Act 2010. Some information is available and collected in relation to incident data, and information relating to staff is maintained by HR. However, in neither area is this data fully comprehensive, officers have recognised the

challenges in ensuring full coverage and are continuing to identify opportunities that enable easier collection of such data.

### **National strategic and core indicators for 2013-14 are correctly stated**

To arrive at our conclusions we tested

- Eleven National strategic indicators, of which 11 were found to be correct.
- Fifteen core data and/or local indicators and found that 15 were correct.
- Reviewed processes for producing associated data returns for HR, workforce and non-domestic property database information. The Authority has some challenges in correctly stating the number of properties within South Wales and is working to refine the database.

The Authority used existing guidance from the various fire circulars in an accurate way. However, in one area, fire related injuries, the Authority identified it has recorded and reported the figure incorrectly since 2009. Published figures have been overstated, because the Authority misinterpreted guidance, and have counted 'first aid given at scene' within all their injury figures. The Welsh Government is arranging to publish corrected figures and a review of definitions to give clarity is planned for the future.

The Authority's Internal Audit service examined the core Performance Indicators for 2013-14. Substantial assurance was reported to the Authority's Finance, Audit and Performance Management Committee (FAPM) on 15 September 2014 with no urgent or important matters identified. Two recommendations included in the 2012-13 internal audit report have been effectively implemented.

### **Data is used well to inform improvement planning and support performance reporting**

The Authority uses a balanced range of management information to identify improvement areas and monitor its performance across a full range of its activities. Performance information is used to support judgements, strategies and business planning with regular reporting to the Fire Authority which makes referrals for further analysis to FAPM if this is considered necessary.

Yours sincerely

**Steve Barry**

Manager Local Government South Region and Fire and Rescue Authorities

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE TREASURER

AGENDA ITEM NO 11  
9 MARCH 2015

**TREASURY MANAGEMENT STRATEGY 2015/16**

**SUMMARY**

To provide Members with the Treasury Management Strategy, policies and indicators for approval and as required by statute.

**RECOMMENDATION**

The Finance, Audit & Performance Management Committee recommend to the full Fire & Rescue Authority, the approval of the proposed Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual Investment Strategy, Capital and Prudential Indicators for 2015/16, as is required by section 3 of the Local Government Act 2003.

That the Fire & Rescue Authority give approval to the Treasurer to update the Strategy in line with the economic forecasts as necessary throughout the year.

**1. BACKGROUND**

- 1.1 The Fire & Rescue Authority has adopted the Revised CIPFA Treasury Management Code of Practice 2011. The Code requires that the Authority approve annually a Treasury Management Strategy, a MRP Strategy and Annual Investment Strategy and prudential/ treasury indicators these are referred to in Appendix 1.
- 1.2 The revised Prudential Code for Capital Finance in Local Authorities outlines the requirements for which capital spending plans are considered and approved. The intention is to ensure that capital budgets are affordable and sustainable and are developed as part of an integrated treasury management strategy.
- 1.3 This requirement is translated into a set of indicators which form the control framework within which Officers undertake treasury management activities.
- 1.4 The Authority also has regard to the Welsh Government (WG) Guidance on Local Government Investment. The guidance requires the production of an Annual Investment Strategy, a MRP Policy and a Treasury Management Strategy, and allows Authority's to combine these strategies into one document.

## 2. ISSUE

- 2.1 The purpose of this report is for Members to consider the treasury management activities required to deliver capital spending plans and ensure cash resources are managed effectively for the next 3 years. The following information has been compiled with the assistance of Capita Asset Services.
- 2.2 The recommendation also enables compliance with the necessary regulatory requirements.

## 3. EQUALITY RISK ASSESSMENT

- 3.1 There are no Equality implications resulting directly from this report. Each element of both the capital and revenue budgets will have undergone Equality Risk Assessments by the responsible project lead. The Treasury Management Strategy determines our counter parties in accordance with Member appetite for risk and return and in the context of affordability.

## 4. FINANCIAL IMPLICATIONS

- 4.1 The approval of the Treasury Management Strategy provides the control framework within which Officers can operate to ensure that as far as possible the costs of borrowing are minimised, and investment opportunities are maximised, whilst ensuring risk is kept to a minimum.

## 5. RECOMMENDATION

- 5.1 The Finance, Audit & Performance Management Committee recommend to the full Fire & Rescue Authority, the approval of the proposed Treasury Management Strategy, MRP Policy, Annual Investment Strategy, Capital and Prudential Indicators for 2015/16, as is required by section 3 of the Local Government Act 2003 and prior to the 31 March 2015.
- 5.2 The Fire & Rescue Authority give approval to the Treasurer to update the Strategy in line with the economic forecasts as necessary throughout the year.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	<ul style="list-style-type: none"> <li>- Revised CIPFA Treasury Management Code of Practice 2011</li> <li>- Revised CIPFA Prudential Code</li> <li>- WG Investment Guidance</li> <li>- 2015/16 Capital budget submissions</li> <li>- 2015/16 Budget setting report</li> </ul>

## Appendix 1

### 1. INTRODUCTION

#### 1.1 Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spending obligations.

The accounting body for public bodies i.e. CIPFA defines treasury management as:

*“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

#### 1.2 Reporting requirements

The Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy
- the treasury management strategy and indicators; and
- an investment strategy

**A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Finance, Audit & Performance Management (FAPM) Committee.

### **1.3 Treasury Management Strategy for 2015/16**

The strategy for 2015/16 covers two main areas:

#### **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- position on debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Welsh Government MRP Guidance, the CIPFA Treasury Management Code and Welsh Government Investment Guidance.

### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny.

### **1.5 Treasury management consultants**

The Authority uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by

which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £000's	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
<b>Total</b>	<b>5,979</b>	<b>5,826</b>	<b>8,740</b>	<b>4,572</b>	<b>6,849</b>

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £000's	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
capital expenditure	<b>5,979</b>	<b>5,826</b>	<b>8,740</b>	<b>4,572</b>	<b>6,849</b>
<b>Financed by:</b>					
Capital receipts	415	65	1,900	1,350	0
Capital grants	48	0	0	0	0
Capital reserves	2,861	288	0	0	0
Revenue	200	200	200	200	200
<b>Net financing need for the year</b>	<b>2,455</b>	<b>5,273</b>	<b>6,640</b>	<b>3,022</b>	<b>6,649</b>

### 2.2 The Authority's borrowing need (Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing

need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities e.g. PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority currently has £5,142 million of such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>44,442</b>	<b>47,066</b>	<b>50,710</b>	<b>50,519</b>	<b>53,598</b>
<b>Movement in CFR</b>	<b>264</b>	<b>2,624</b>	<b>3,644</b>	<b>-191</b>	<b>3,079</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	<b>2,455</b>	<b>5,273</b>	<b>6,640</b>	<b>3,022</b>	<b>6,649</b>
Less MRP	-2,191	2,649	2,996	3,213	3,570
<b>Movement in CFR</b>	<b>264</b>	<b>2,624</b>	<b>3,644</b>	<b>-191</b>	<b>3,079</b>

### 2.3 Minimum revenue provision (MRP) policy statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Welsh Government regulations have been issued which require the full Authority to approve an **MRP Statement** in advance of each year. A variety of options are provided to Authority's and a selection should reflect a prudent provision. The Authority is recommended to approve the following MRP Statement;

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former Welsh Government regulations (option 1)

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

## 2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, revenue surpluses etc.). Detailed below are estimates of the year end balances for each resource.

<b>Year End Resources £000's</b>	<b>2013/14 Actual</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
Usable reserves	12,016	13,191	11,733	9,932	9,938
Capital receipts	86	20	20	20	20
Provisions	268	223	223	223	223
<b>Total core funds</b>	<b>12,370</b>	<b>13,434</b>	<b>11,976</b>	<b>10,175</b>	<b>10,181</b>
Working capital*	<b>5,805</b>	<b>5,684</b>	<b>5,184</b>	<b>4,684</b>	<b>4,484</b>
<b>Expected investments</b>	<b>5,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*Working capital includes year end stock, debtors and creditors balances which may be higher mid year but albeit estimates are at year end.

## 2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the

Authority's overall finances. The Authority is asked to approve the following indicators:

## 2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio	5.52%	6.61%	7.29%	7.83%	8.7%

The estimates of financing costs include current commitments and the proposals in this budget report.

## 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current portfolio position

The Authority's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000's	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
<b>External Debt</b>					
Debt at 1 April	34,856	38,554	37,952	39,456	42,077
Expected change in Debt	3,698	-602	1,504	2,621	4,247
Other long-term liabilities (OLTL)	6,848	6,457	5,990	5,577	5,199
Expected change in OLTL	-391	-467	-412	-378	-420
<b>Actual gross debt at 31 March</b>	<b>45,011</b>	<b>43,942</b>	<b>45,034</b>	<b>47,276</b>	<b>51,103</b>

<b>CFR</b>	<b>44,442</b>	<b>47,066</b>	<b>50,710</b>	<b>50,573</b>	<b>53,706</b>
<b>Under/over borrowing</b>	<b>-569*</b>	<b>3,124</b>	<b>5,676</b>	<b>3,297</b>	<b>2,603</b>

\* The CFR was breached by gross borrowing at the end of 2013/14. £5 million of long term borrowing enabled SWFRS to benefit from the certainty rate discount, to access low rates and fix these for the long term as indications detailed a rise in the coming period. This position has been rectified during 2014/15 where borrowing has not been undertaken nor is it planned. Cash flow requirements are being serviced by internal cash balances enabled through the maturity of £5 million of investments earlier in the year.

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Treasurer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed.

<b>£000's</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
Debt	46,000	50,000	51,000	52,000
Other long term liabilities	10,000	10,000	10,000	10,000
Total	56,000	60,000	61,000	62,000

**The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

2. The Authority is asked to approve the following authorised limit:

<b>£000's</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
Debt	48,000	52,000	54,000	56,000
Other long term liabilities	10,000	10,000	10,000	10,000
<b>Total</b>	<b>58,000</b>	<b>62,000</b>	<b>54,000</b>	<b>66,000</b>

### 3.3 Prospects for interest rates

The following provides a view of future interest rates movements;

<b>Annual Average %</b>	<b>Bank Rate %</b>	<b>PWLB Borrowing Rates % (including certainty rate adjustment)</b>		
		<b>5 year</b>	<b>25 year</b>	<b>50 year</b>
Mar 2015	0.50	2.10	3.30	3.30
Jun 2015	0.50	2.20	3.40	3.40
Sep 2015	0.50	2.30	3.60	3.60
Dec 2015	0.50	2.50	3.80	3.80
Mar 2016	0.75	2.60	3.90	3.90
Jun 2016	0.75	2.70	4.00	4.00
Sep 2016	1.00	2.80	4.20	4.20
Dec 2016	1.25	3.00	4.30	4.30
Mar 2017	1.25	3.10	4.40	4.40
Jun 2017	1.50	3.20	4.50	4.50
Sep 2017	1.50	3.30	4.60	4.60
Dec 2017	1.75	3.40	4.60	4.60
Mar 2018	2.00	3.50	4.70	4.70

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 17 June 2012 brought to power a coalition which is strongly anti EU imposed austerity.
- EZ concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, worries over the Ukraine situation and the Middle East, have led to a resurgence of those concerns as risks increase a prolonged period of deflation and very weak growth.
- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing rates have been highly volatile during 2014 and early 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism in financial markets.
- There will remain a cost of carry to any new borrowing which result in an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

### **3.4 Borrowing strategy**

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need i.e. CFR, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure (as above). This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this backdrop and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or deflation), then long term borrowings will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

In consideration of the above and over laying this with the requirement for budget certainty provides some explanation as to the temporary breach of CFR. This position has however been tempered by the need to avoid any significant 'costs of carry' with progress of capital investment being closely monitored in conjunction with interest rate movements and forecasts.

### **Treasury management limits on activity**

There are three debt related treasury limits and the purpose of these are to restrain the activity of the treasury function, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. **This Authority does not undertake variable rate borrowing due to the need for budget certainty.**
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

£000's	2015/16	2016/17	2017/18
<b>Interest rate exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	0%	0%	0%
<b>Maturity structure of fixed interest rate borrowing 2015/16</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	10%	
12 months to 2 years	0%	20%	
2 years to 5 years	0%	35%	
5 years to 10 years	0%	35%	
10 years to 20 years	0%	50%	
20 years to 30 years	0%	50%	
30 years to 40 years	0%	50%	
40 years to 50 years	0%	50%	

### 3.5 Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its need purely in order to profit from the investment of the extra sums borrowed (as above). Any decision to borrow in advance will be within forward approved borrowing limits set above and will be considered to ensure value for money and security of funds.

### 3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Authority, at the earliest meeting following its action.

## **4. ANNUAL INVESTMENT STRATEGY**

### **4.1 Investment policy**

The Authority's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (CIPFA TM Code). The Authority's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay it with credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in section 6 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Authority's treasury management practices.

## 4.2 Creditworthiness policy

This Authority applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies i.e. Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines the above for a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments;

- Yellow 5 years \*
- Dark pink 5 years for EMMFs with a credit score of 1.25
- Light pink 5 years for EMMFs with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Authority will therefore use counterparties colour coded yellow to blue.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn.
- in addition to the use of credit ratings the Authority will be advised of information in movements in CDS spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

In addition, the Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

### 4.3 Country limits

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *A- or equivalent*. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%

- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

2015/16	0.60%
2016/17	1.10%
2017/18	1.75%
2018/19	2.25%
2019/20	2.75%
2020/21	3.00%
2021/22	3.25%
2022/23	3.25%
Later years	3.50%

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the treasury indicator and limit: -

<b>Maximum principal sums invested &gt; 364 days</b>			
<b>£000's</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Principal sums invested > 364 days	£10,000	£10,000	£10,000

For its cash flow generated balances, the Authority will seek to potentially utilise a combination of its business bank account structure, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **4.5 Icelandic bank investments**

No deposits were made with Icelandic banks

#### **4.6 End of year investment report**

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

## 5. Economic Background

**UK.** After strong UK GDP growth in 2013 at an annual rate of 2.7%, growth is expected to gain increased momentum during 2015 and 2016 to annual rates of 2.9% and 2.7% in 2017. This will be a response to two developments; firstly, the stimulative effect of the sharp fall in oil prices in quarter 4 of 2014 and then inflation potentially falling into negative territory during 2015. Secondly, due to an expected return to a significant rise in average wage rates due to the continuing fall in unemployment to approx 5.5% by mid 2015, (the long run equilibrium level is 5.0%), and the further erosion of spare capacity. This is expected to lead to total consumer disposable income rising by approx 3.5% during quarter 3 2015. This would therefore strengthen consumer expenditure, but without much downside risk to the savings ratio.

However, for this recovery to become more balanced and sustainable in the longer term, the recovery still needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. In addition, there has been a need for a major improvement in labour productivity, which has languished at dismal levels since 2008, to support longer term increases in pay rates and economic growth after the positive effect of the fall in oil prices dissipates. The February Inflation Report contained good news that productivity was forecast to increase by just under 0.75% in the first three quarters of 2015.

The February Inflation Report also explained that the initial fall in the price of oil of over 50% would cause an overall reduction in CPI and boost UK GDP during the Monetary Policy Committee's (MPC's) three year forecast period. It also forecast that the sharp fall in the price of oil and its effects, would start falling out of the twelve month calculation of CPI inflation in quarter 4 of 2015. This is expected to result in a sharp rise in inflation from zero and onward into 2016. The report also mentioned a potential risk of deflation becoming embedded, which could then require remedial action by the MPC such as a cut in Bank Rate and/or further quantitative easing. This is viewed as being a small risk given the above expected sharp increase in inflationary pressures. However, while inflation is at or will be near 0% for much of 2015, it is unlikely that the MPC would make a start on increasing Bank Rate. Market expectations for the first increase in Bank Rate have therefore moved from quarter 3 2015, to around mid year 2016. However, the MPC is focused on where inflation will be over a 2–3 year time horizon, so too much emphasis should not be placed on the short term inflation outlook, especially when the February report identified a slight increase in inflationary pressures on that time horizon to just above the 2% target. This treasury management report is therefore based on a forecast of a first increase in Bank Rate in quarter 1 of 2016, though it would be quite possible for it to be in quarter 4 of 2015 if events were to turn out favourably in Greece, the Euro Zone (EZ) as a whole and elsewhere.

The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed, being only a fraction lower than the previous year through to December 2014. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated. The flight to quality in January 2015 has seen gilt yields fall to incredibly low levels, which will reduce interest costs on new and replacement government debt.

**Eurozone (EZ).** The EZ is facing an increasing threat from weak or negative growth and from deflation. In January 2015, the inflation rate fell further to reach a low of -0.6%. However, this is an average for all EZ countries and includes some countries with even higher negative rates of inflation. Initially, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. As this failed to have much of a discernible effect, the ECB launched a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme will run to September 2016.

Concern in financial markets for the EZ had subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause for concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

**Greece:** the general election on 25 January 2015 has brought to power a coalition which is anti EU imposed austerity. Although it is not certain that Greece will leave the Euro, the recent intractability of the troika (the EU, ECB and IMF), to finding a negotiated compromise with the new Greek government leaves this as a real possibility. However, if Greece was to leave the EZ, it is unlikely that this will directly destabilise it as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. Nevertheless, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is

much more difficult to gauge. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. Of particular concern is the fact that Spain and Portugal have general elections coming up in late 2015. This will give ample opportunity for anti austerity parties to make a big impact.

There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest EZ economies after Germany, would present a huge challenge to the resources of the ECB to defend their debt.

### **CAPITA ASSET SERVICES FORWARD VIEW**

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

There has been exceptionally high volatility in gilt yields and PWLB rates during January and February 2015. It is likely that this trend could continue through 2015 and that there could be swings of 50 basis points, (0.50%), during a quarter.

The overall balance of risks to economic recovery in the UK is even. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets

lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and/or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the EZ sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the EZ and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the EU, economic and debt management policies adopted by the new government.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities. There could also be a sharp fundamental reassessment of investments in the debt and equities of emerging countries which have chased higher yields during a prolonged period when yields and returns in western countries have been heavily suppressed; countries such as Brazil and Russia are already in recession and facing major economic and political challenges.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

## 6. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** There will be no investments of this nature undertaken in the period.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	<b>Minimum credit criteria / colour band</b>	<b>** Max % of total investment s/ £ limit per institution</b>	<b>Max. maturity period</b>
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	100%	1 year
UK Government Treasury blls	UK sovereign rating	100%	1 year
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	100%	6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	1 year

Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Gilt funds	UK sovereign rating	100%	1 year

## 7. Approved countries for investments

### AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

### AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

### AA

- Abu Dhabi (UAE)
- France
- Qatar

### AA-

- Belgium
- Saudi Arabia

## **8. Treasury management scheme of delegation**

### **(i) Authority**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

### **(ii) Finance, Audit & Performance Management (FAPM) Committees/Full Authority**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Treasurer (S151 Officer)**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## **9. The treasury management role of the section 151 officer**

### **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.



## **INTERNAL AUDIT REPORT**

### **SUMMARY**

This report updates Members upon progress being made against the Internal Audit Plan 2014/15.

### **RECOMMENDATION**

That Members note the work and findings of the Internal Audit.

## **1. BACKGROUND**

- 1.1 TIAA Ltd are the Authority's appointed Internal Auditors and undertake work covered in the Internal Audit Plan 2014/2015 which was approved by this Committee on 3 March 2014. Where necessary areas identified for audit work additional to the plan are also requested.
- 1.2 As previously agreed, all audit reports with an assurance level of limited or no assurance will be provided in full. Recommendations i.e. summary reports only will be provided for reports with an assurance level of substantial or reasonable.

## **2. ISSUE**

- 2.1 Good progress of internal audit reviews has been made with a further seven final reports being issued. The areas covered are Estates Management – Planned Repairs, Employability Scheme Arrangements, Station Visits, HR Rostering System, New Finance System Controls Check, Key Financial Controls and audit recommendations follow up. The Summary Internal Audit Progress Report is attached as Appendix 1, with audit summary reports for each area attached as Appendix 2-8.

### **2.2 Estates Management – Planned Repairs**

2.2.1 This review considered the identification of need, scheduling the work, monitoring, and authorising payments for planned repairs within the Estates Department.

2.2.2 The audit received a reasonable assurance level with three recommendations, two important and one routine. One of the important recommendations was implemented immediately following the review.

## **2.3 Employability Scheme Arrangements**

2.3.1 The employability scheme was a new externally funded programme established in 2014. Therefore this review was added to the Audit Plan for the year to ensure compliance with the grant conditions set out by Welsh Government.

2.3.2 The audit received a reasonable level of assurance with three recommendations, two important, and one routine.

## **2.4 Station Visits**

2.4.1 The review considered the arrangements for administering the internal station visits programme, including a visit to one whole-time fire station to review compliance with the organisation's financial procedures.

2.4.2 The audit received a reasonable level of assurance with 11 recommendations. Four important, six routine and one area of operational effectiveness identified.

## **2.5 HR Rostering System**

2.5.1 The review considered the effectiveness of the arrangements for the new HR Rostering System. Following the introduction of flexible rostering in 2011, the Service implemented an electronic rostering and advanced planning system (RAPS) in June 2013.

2.5.2 The audit received a reasonable level of assurance with three important recommendations and four areas of operational effectiveness identified.

## **2.6 New Finance/HR System Controls Check**

2.6.1 Following the successful implementation project, the new finance system went live on 1 April 2014. The audit was included in the Annual Plan to review the controls within the purchase ordering, invoice payment, BACS bank payments, and stock procedures.

2.6.2 The audit was given a reasonable level of assurance with five recommendations, four important, and one routine.

## **2.7 Key Financial Controls**

2.7.1 The key financial controls are reviewed annually to check the effectiveness of various aspects of budgetary control, general

ledger, cash, banking, income, payments, payroll and security of assets.

- 2.7.2 The audit received a reasonable level of assurance with seven recommendations, four important, three routine, and three operational effectiveness areas identified.

## 2.8 Follow Up Audit

- 2.8.1 The follow up audit reviewed all actions and progress made in respect of previous audit reports which had identified priority 1 and 2 recommendations. This included recommendations made in the previous financial year which required actions in 2014/2015.
- 2.8.2 The internal auditors identified that good progress had been made against recommendations with 76% having been completed and the remaining 24% having revised target dates for completion or no longer applicable. There were no areas identified where recommendations have not been completed or acted upon.

## 3. EQUALITY RISK ASSESSMENT

- 3.1 The issues raised within this report have no adverse impact on the protected characteristics, and would have been considered during the audit process.

## 4. RECOMMENDATION

- 4.1 That Members note the work and findings of the Internal Audit.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	Appendix 1 – Summary Internal Audit Progress Report Appendix 2 – Estate Management – Planned Repairs Appendix 3 – Employability Scheme Arrangements Appendix 4 – Station Visits Appendix 5 – HR Rostering System Appendix 6 – New Finance System Controls Check Appendix 7 – Key Financial Controls Appendix 8 – Follow up audit





# Summary Internal Audit Progress Report

## South Wales Fire & Rescue Service



February 2015

2014/15

## Summary Internal Audit Controls Assurance Report February 2015

### INTRODUCTION

1. This Summary Report provides the Audit Committee with an update on the Controls Assurance framework at South Wales Fire & Rescue Service as at 20<sup>th</sup> February 2015. The Summary Internal Controls Assurance report ('SICA') is based on the internal audit work carried out by TIAA and management representations that have been received during the period.

### PROGRESS AGAINST THE 2014/15 ANNUAL PLAN

2. Planned work for the year is being completed to schedule with progress set out in Appendix A.

### AUDITS CARRIED OUT SINCE THE PREVIOUS SICA REPORT

3. The table below sets out details of audits carried out since the previous meeting of the Finance, Audit and Performance Management (FAPM) Committee.

Review	Evaluation	Key Dates			Number of Recommendations			
		Draft issued	Responses Received	Final issued	1	2	3	OE
Estate Management	Reasonable	31/10/14	11/11/14	14/11/14	-	2	1	-
Employability Scheme	Reasonable	09/12/14	15/12/14	15/12/14	-	2	1	-
New Finance System Controls	Reasonable	29/11/14	16/01/15	19/01/15	-	3	0	2
Station Visits	Reasonable	15/08/14	16/01/15	19/01/15	-	4	6	1
HR Rostering	Reasonable	07/10/14	16/01/15	19/01/15	-	3	0	4
Key Financial Controls	Reasonable	22/01/15	006/02/15	10/02/15	-	4	3	3

## CHANGES TO THE ANNUAL PLAN 2014/15

4. There have been no changes to the Annual Plan at this time.

## LIAISON MEETINGS

5. There have been no liaison meetings with the external auditor or other bodies during the period covered by this report.

## FRAUDS/IRREGULARITIES

6. We have not been advised of any frauds or irregularities during the period.

## PROGRESS IN ACTIONING PRIORITY 1 RECOMMENDATIONS

7. We have made 3 Priority 1 recommendations (i.e. fundamental control issue on which action should be taken immediately) in the Community Stock report. Management representation confirmed that the issues identified were completed with the exception of the new form which would not impact on the control objectives.

## RESPONSIBILITY

8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

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## Appendix A

### PROGRESS AGAINST THE ANNUAL PLAN FOR 2014/15

System	Planned Qtr	Current Status	Audit Observations
Governance – Performance Management	1	Final report issued July 2014	
Risk Management – Insurance	1	Final report issued May 2014	
Anti Fraud – Pay and Allowances	1	Final report issued June 2014	
ICT Strategy, Policies and Procedures	1	Final report issued July 2014	
Estate Management – Planned Repairs	1	Final report issued November 2014	
Fleet Management – Disposals	2	Final report issued October 2014	
Third Party Income (Babocks)	2	Final report issued September 2014	
Station Visits	2	Final report issued January 2015	
Stocks and Stores (Community Safety stock)	2	Final report issued September 2014	
HR – Rostering system	3	Final report issued January 2015	
New Finance/HR System Control Check	3	Final report issued January 2015	
Key Financial Controls	4	Final report issued February 2015	
Audit Follow up	4	Draft report issued	

#### KEY

	=	To be commenced
	=	Site work commenced
	=	Draft report issued
	=	Final report issued



## South Wales Fire and Rescue Service

### Assurance Review of the Estates Management – Planned Repairs Arrangements

2014/15

FINAL

November 2014

# Assurance Review of the Estates Management – Planned Repairs Arrangements

## Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• A more detailed and precise planned maintenance programme needs to be developed.</li> <li>• Copies of quotations and employer instructions not always retained on the appropriate electronic files.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review considered the identification of need, scheduling the work, monitoring, and authorising payments for planned repairs within the Estates Department. The scope of the review did not consider health &amp; safety arrangements or the specification of the works.</p>	<p><b>ACTION POINTS</b></p> <table border="1" data-bbox="1137 1038 2018 1220"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>2</td> <td>1</td> <td>0</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	2	1	0
Urgent	Important	Routine	Operational						
0	2	1	0						

## Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Compliance	There are two types of expenditure for planned maintenance. Firstly there is station specific maintenance where the previous stock condition survey and recent inspections have identified the specified work and secondly there are generic maintenance on stations such as doors and boilers where budgets have been set based upon a number per year. It is anticipated that the new stock condition survey will grade all	The stock condition database be utilised to generate the planned maintenance programme for future years once all the data is received from Faithful & Gould Limited.	2	<i>The recommendation is in the process of being implemented and once the data has been collated and analysed it will be used to inform our planned maintenance programme and assist in the preparation of budgets.</i>	Commencement: January 2015 Collation of Data: January – April 2015 Data Inputting April – June 2015 Analysis of data for planned	BBM / PSM

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
		components within stations and this will generate a more detailed and precise planned maintenance programme broken down per station subject to budgetary requirement.				<i>maintenance programme: June – September 2015</i>	
2	Compliance	A sample of fifteen costs coded to planned maintenance was selected and in each invoices were authorised in accordance with delegated authority. The review revealed that there was no evidence of quotations received on file for five out of the fifteen.	Copies of quotes and Employer Instructions be retained on file as an audit trail to support the procurement process.	2	<i>The recommendation has been noted and staff have been instructed to comply with the requirement and ensure all supporting documentation is placed on the file for audit purposes.</i>	<i>November 2014</i>	<i>PSM</i>

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Compliance	The Stock Condition Database is not being updated at the end of each contract or once any planned maintenance work has been completed. The BBM stated that this is due to resources but a spreadsheet of all work completed this year is to be provided to Faithful & Gould Limited prior to the commencement of the surveys.	The Stock Condition Database be populated with the relevant data on completion of contracts or any planned maintenance work.	3	<i>Any works which will have an impact on the condition of key elements will be reflected in the condition survey for that asset and updated accordingly.</i>	September 2015 onwards	BBM

## PRIORITY GRADINGS

1	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	2	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	3	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational Effectiveness Matters

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Ref	Risk Area	Item	Management Comments
There are no operational effectiveness matters.			

### PRIORITY GRADINGS

1	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	2	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	3	<b>ROUTINE</b>	Control issue on which action should be taken.
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**South Wales Fire & Rescue Service**

**Compliance Review of the Employability Scheme Arrangements**

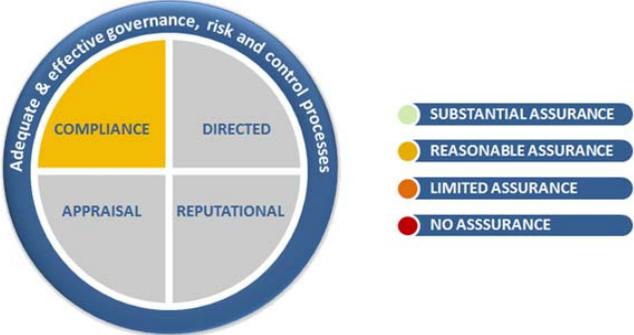
**2014/15**

**FINAL**

**December 2014**

## Compliance Review of the Employability Scheme Arrangements

### Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT - REASONABLE</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• Procedures have not been documented.</li> <li>• No future strategy developed.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review assessed compliance with the grant conditions for the employability scheme.</p>	<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>2</td> <td>1</td> <td>0</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	2	1	0
Urgent	Important	Routine	Operational						
0	2	1	0						

## Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Compliance	The programme involves a considerable amount of organisation and whilst it was evident the Area Manager was fully conversant with the process it would be prudent to document the process in the form of detailed procedures. The procedures could include a checklist of key checks that are important to the successful delivery of the programme and could assist if the staff were absent for any reason.	Procedures be documented for the process of the delivery of the programme. The Procedures to include a checklist of the key actions to be taken to ensure the ongoing successful delivery of the programme.	2	<i>Agreed – although the programme has developed through an iterative process of review, This has included a growth in the number of agencies involved and programme content – which is why a definitive checklist has not yet been produced.</i>	30/04/15	AM Henderson

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Compliance	The positive comments received from the Welsh Government in that the initial outcome supports the "tackling Poverty Agenda" may suggest that future grants could be made available. The organisation will need to consider the strategy going forward depending what grant becomes available.	A future strategy on the Employability Scheme be developed to determine what direction the organisation is to take especially if further grants become available.	2	<i>Agreed – a recent meeting with Communities Division of WG has afforded an indication that a proportion of ESF funding may be available from April 2015. A business case will be made prior to this date in order to secure funding for continuance and potential alternate funding for other SWFRS youth programmes that are currently Authority and WG grant funded.</i>	30/04/15	AM Henderson
2	Compliance	Given the initial success the positive outcomes and other bodies interested in buying into the project, it would be prudent to report the work undertaken to date and positive outcomes to the Senior Management Team and the Authority. This could give the Authority a different	A report be provided to the Senior Management Team and the Authority on the project and the overall outcomes of the Employability Scheme.	3	<i>Agreed – although not considered a priority at this stage until funding has been secured. The end of year report being provided to WG will mirror any report provided to SMT by AM Henderson. ELT to consider if information is provided to FA.</i>	31/05/15	AM Henderson

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
		dimension to how the organisation is providing a service in the community and provide positive publicity.					

PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.
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<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.
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<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Detailed Findings

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### INTRODUCTION

1. This review was carried out in November 2014 and was in addition to the planned internal audit work for 2014/15. The review was to assess compliance with the grant conditions for the employability scheme. Based on the work carried out an assessment of the overall compliance with the Organisation's arrangements to mitigate the key control risk areas is provided in the Executive Summary.

### KEY FINDINGS & ACTION POINTS

2. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

### SCOPE AND LIMITATIONS OF THE REVIEW

3. The review set out the terms of reference the following specific areas were reviewed:
  - Roles and responsibilities defined.
  - Grant award terms and conditions compliance (maintenance of evidence).
  - Outcomes achieved and recorded.
  - Budgetary control, monitoring and management.
  - Programme planning and reporting.
4. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### MATERIALITY

5. The organisation has been awarded a grant of £139,263 in September 2014 as the Lead Delivery Body for the Employability Scheme project.

**DISCLAIMER**

6. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**RISK AREA ASSURANCE ASSESSMENTS**

7. The review is limited to carrying out transactional testing and therefore cannot be relied upon to provide assurance on the overall fitness for purpose of the controls over this process. The definitions of the compliance assurance assessments are:

<b>Substantial Assurance</b>	Based upon our findings arising from a review of a sample of transactions the approved policy and procedure is complied with.
<b>Reasonable Assurance</b>	Based upon our findings arising from a review of a sample of transactions the approved policy and procedure is complied with, although the evidence to support the processing of the transactions could be more robust.
<b>Limited Assurance</b>	Based upon our findings from a review of a sample of transactions the approved policy and procedure is not being continuously complied with. Significant improvements in the processing of transactions are required.
<b>No Assurance</b>	Based upon our findings from a review of a sample of transactions there is a fundamental breakdown or absence of compliance with the approved policy and procedure. Immediate action is required to improve the adequacy and effectiveness of controls.

**ACKNOWLEDGEMENT**

8. We would like to thank staff for their co-operation and assistance during the course of our work.

**RELEASE OF REPORT**

9. The table (Figure 1) below sets out the history of this report.

*Figure 1 - Report History*

<b>Date draft report issued:</b>	9 <sup>th</sup> December 2014
<b>Date management responses recd:</b>	15 <sup>th</sup> December 2014
<b>Date final report issued:</b>	15 <sup>th</sup> December 2014



## South Wales Fire & Rescue Service

### Station Visits

2014/15

FINAL

January 2015

# Station Visits

## Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• Some of the comments on the audits at stations was very superficial and did not appear to address the issues where no score was provided.</li> <li>• The training report for the RDS highlighted large percentages of red uncompleted training areas.</li> <li>• Community Stock is not held in a secure location.</li> <li>• Weekly and monthly checks on fire alarms, emergency lighting and fire equipment are not always completed.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review considers the arrangements corporately for administering the internal station visits programme including learning from issues and a visit to one whole-time fire station to review compliance with the organisation’s financial procedures.</p>	<p><b>ACTION POINTS</b></p> <table border="1" data-bbox="1137 1024 2018 1189"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>4</td> <td>6</td> <td>1</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	4	6	1
Urgent	Important	Routine	Operational						
0	4	6	1						

## Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Compliance	<p>Some of the comments on the audits at the stations was very superficial and did not appear to address the issues where no score was provided. An example of this was for a station visited in July 2014 where no scores were provided for the following tests:</p> <ul style="list-style-type: none"> <li>-IRS where two there were two outstanding incidents in April and June that were still not recorded</li> <li>-Driving licence checks outstanding where checks for six employees had not been undertaken</li> </ul> <p>The comments on the cover of the report did not make reference to any of these issues and actually states "overall a positive audit". This summation from the Group Manager does not support the true outcome of the audit and whilst trying to be positive, is not giving the right impression and the appropriate feedback to address the issues identified.</p>	Group Managers be advised to be more assertive in their comments on Station Audit reports to address unsatisfactory performance/standards in relation to high risk/high profile areas in order that the desired outcome is achieved.	2	<p><i>The Audit and Review Team will incorporate the need for more meaningful comments on the revised station audit reports to be implemented in April 2015.</i></p> <p><i>Increased monitoring of IRS forms now taking place with an introduction of a five day target date for completion.</i></p> <p><i>Road Risk Group now focussing on Driving Licence checks. OART to ensure all staff have undertaken check by end of 2014</i></p>	<p>1<sup>st</sup> April 2015</p> <p>Completed</p> <p>31<sup>st</sup> March 2015</p>	Jeff Scrivens (Group Manager OART)

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
4	Compliance	A review of each watch revealed that white, green, blue and red watch were generally up to date with training. However, the report for the RDS highlighted large percentages of red uncompleted training areas.	Uncompleted training areas for the RDS at Cwmbran be brought up to date.	2	<i>This issue has been dealt with by GM and Sm responsible for Station to ensure all training for 2014-15 is complete by end of year. This will be checked as part of station audit process.</i>	31 <sup>st</sup> March 2015	Dai Bents (Group Manager OPS)
5	Compliance	Cwmbran has been provided with a SWFRS log book for recording monthly fire alarm tests, emergency lighting tests and firefighting equipment tests (fire extinguishers checks). A review of the log book could not be undertaken during the visit as the watch were out on several "shouts" and the SC could not find the book. After the visit the SC located the book and confirmed that the weekly and monthly checks were not always completed.	Routine tests on fire alarm systems, emergency lighting and fire extinguishers be carried out on a monthly basis in accordance with procedures.	2	<i>Station Commander to Monitor. New Log books have now been issued to all Stations as part of premises information manual. Review on next Station Audit</i>	Completed  31 <sup>st</sup> March 2015	Jeff Scrivens (Group Manager OART)
6	Compliance	Community Stock is not held in a secure location. Whilst the stock was in a cupboard in the Watch room the door was not locked.	Community Stock be held in a more secure location.	2	<i>Dealt with by Station Commander - new lock Purchased.</i>	Completed	Station Commander Cwmbran

## PRIORITY GRADINGS

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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Compliance	The current scoring mechanism and lack of overall score would not appear to achieve the desired objective of the audit process to ensure standards are maintained and to improve standards and performance where necessary. A review of some of the audit reports highlight that in some cases a score of 1 was given for not achieving the standard and in some cases no score was provided especially where incidents have yet to be reported on the Incident Reporting System (IRS). The overall comments on the audits at these stations was very superficial and did not appear to address the issues where no score was provided. It was noted some of the audit tests are more important than others yet the current scoring mechanism does not really account for this. The introduction of a weighting to each question would give the audit greater profile and identify unsatisfactory performance as the overall scores would become lower.	The audit scoring mechanism be reviewed and changed to a more risk based approach with the greater number of points applied to the higher risk and higher profile tests to achieve the desired objective of the audit process of ensuring standards are maintained and to improve standards and performance.	3	<i>New Audit process is being devised, the comments from the external audit will be considered as part of any new process.</i> <i>Meeting with members of the Operational Management team have been programmed for December and early in 2015 to ratify revised audit procedure.</i> <i>Meetings with external audit team from TIAA will also be arranged to inform improvement.</i>	1 <sup>st</sup> April 2015	Steve Richards (SM OART)

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Compliance	On completion of an audit the results are then input a standard report format by the Lead Operations Audit Team Officer and then sent to the Group Manager and RDS Admin Officer, where applicable, to complete their sections within a reasonable timeframe. Once completed the reports are sent to the Station Commander (SC) to review and address any unsatisfactory areas. It was noted that there is a delay where some Group Managers are not completing their sections within the reasonable timeframe. The late publication of reports could reduce the impact, profile and importance of the audits as SCs may see the late publication of reports as just a paper exercise and as a result may not have the impact they are intended for.	Group Managers be required to complete draft audit reports in a timely manner in accordance with procedures.	3	<i>Deadline for return of reports linked to station audits to be considered in any future process.</i> <i>Management Team reminded of need for prompt returns at next Task and Brief Meeting.</i>	1 <sup>st</sup> April 2015	Steve Richards (SM OART)
7	Compliance	There was no evidence that the First Aid box at Cwmbran was being regularly checked. The First Aid box contained out of date items.	A periodic review be undertaken to confirm that the contents of the First Aid boxes are in date and to replenish were necessary.	3	<i>This will be included in station Audit process and consideration given to Redkite First Aid box.</i>	28 <sup>th</sup> February 2015	Steve Richards (SM OART)

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
8	Compliance	An Asset list was sent to the Operations team in HQ last year. A sample of 15 asset codes was selected from the list and each asset was found. A further sample of 10 assets were also selected and checked top the list. The following assets were not recorded on the list.	The Asset List at Cwmbran station be brought up to date.	3	<i>Station Manager to ensure Asset list is reviewed and brought up to date.</i>	31 <sup>st</sup> March 2015	Station Commander Cwmbran
9	Compliance	The catering at Cwmbran was until recently undertaken by a cook who has now retired. The catering is now shared by the firefighters. The Firefighters have not received any basic hygiene training to fulfil this role. Management stated during previous audits of stations that "A training DVD on food hygiene has been provided to all stations, and personnel have had sight of this,	Basic food hygiene and preparation be provided to all relevant personnel to minimise the risk of bacterial infections at Cwmbran.	3	<i>OART to confirm with H&amp;S department if awareness Training provided through PDR is sufficient. Outcome to be discussed at Operational Management Team meeting to determine appropriate action.</i>	31 <sup>st</sup> March 2015	Steve Richards (SM OART)

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
10	Compliance	Each Watch Manager has sight of driving licences of each Firefighter on at least an annual basis. At the time of the review there were two outstanding licence checks that were overdue, one of which related to Firefighter who was transfer to Cwmbran whose licence was last checked on 14 <sup>th</sup> January 2013. The other was FF Williams who was last checked on 28 <sup>th</sup> July 2013.	Driving licences be checked for all firefighters now overdue a check.	3	Station Commander at Cwmbran arranging to check outstanding driving licences. Driving licences of all staff in Operations to be checked by end March 15.	31 <sup>st</sup> March 2015	Jeff Scrivens (Group Manager OART)

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational Effectiveness Matters

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Ref	Risk Area	Item	Management Comments
1	Compliance	Consideration be given to introducing a score for each area and an overall score with the possibility of a traffic light system to highlight the overall result to enhance the process to improve standards and performance.	<i>This is being considered as part of the introduction of a new audit system to be introduced in April 2015.</i>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

## Detailed Findings

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### INTRODUCTION

1. This review was carried out in August 2014 as part of the planned internal audit work for 2014/15. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

### KEY FINDINGS & ACTION POINTS

2. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

### SCOPE AND LIMITATIONS OF THE REVIEW

3. The review considers the arrangements corporately for administering the internal station visits programme including learning from issues and a visit to one whole-time fire station to review compliance with the organisation's financial procedures.
4. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### DISCLAIMER

5. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

## RISK AREA ASSURANCE ASSESSMENTS

6. The definitions of the assurance assessments are:

<b>Substantial Assurance</b>	Based upon our findings there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risk of failure of the continuous and effective achievement of the objectives of the process, which at the time of our review were being consistently applied.
<b>Reasonable Assurance</b>	Based upon our findings there is a series of controls in place, however there are potential risks that they may not be sufficient to ensure that the individual objectives of the process are achieved in a continuous and effective manner. Improvements are required to enhance the adequacy and effectiveness of the controls to mitigate these risks.
<b>Limited Assurance</b>	Based upon our findings the controls in place are not sufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls.
<b>No Assurance</b>	Based upon our findings there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage the risks to the continuous and effective achievement the objectives of the process. Immediate action is required to improve the adequacy and effectiveness of controls.

## ACKNOWLEDGEMENT

7. We would like to thank staff for their co-operation and assistance during the course of our work.

## RELEASE OF REPORT

8. The table (Figure 1) below sets out the history of this report.

*Figure 1 - Report History*

<b>Date draft report issued:</b>	15 <sup>th</sup> August 2014
<b>Date management responses recd:</b>	16 <sup>th</sup> January 2015
<b>Date final report issued:</b>	19 <sup>th</sup> January 2015





**South Wales Fire & Rescue Service**

**Assurance Review of the HR Rostering System Arrangements**

**2014/15**

**FINAL**

**January 2015**

## Assurance Review of the HR Rostering System Arrangements

### Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• Issues were identified with printing reports from the RAPS system.</li> <li>• All watches spoken with during this review have issues with accessing the RAPS system from their fire stations.</li> <li>• Individuals who are four watches in credit are not able to book a tour of leave.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review considered the effectiveness of the arrangements for the new HR roosting system.</p>	<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>3</td> <td>0</td> <td>4</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	3	0	4
Urgent	Important	Routine	Operational						
0	3	0	4						

PRIORITY GRADINGS

1	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	2	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	3	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Management Action Plan - Priority 1, 2 and 3 Recommendations

Re c.	Risk Area	Finding	Recommendation	Pri ority	Management Comments	Implementat ion Timetable (dd/mm/yy)	Responsi ble Officer (Job Title)
1	Directed	Discussions with Central Staffing identified difficulties in obtaining reports from the RAPS system.	The reporting capabilities of the RAPS system be investigated and improved to enable reports to be produced directly from the reporting package without requiring significant input of Central Staffing time.	2	<i>Central staffing recognises the need for improved reporting tools. This will hopefully be addressed by the introduction of Core HR (phase II). Additional reporting functions on RAPS are available but previous tools have proven to be ineffective and will require additional financing. Central staffing continue to run reports using current</i>	01/10/15	Sue Counsell Office Manager - Operations

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Re c.	Risk Area	Finding	Recommendation	Priori ty	Management Comments	Implementat ion Timetable (dd/mm/yy)	Responsi ble Officer (Job Title)
					<i>functions prior to introduction of Core HR.</i>		
2	Compliance	All watches spoken to in this review identified issues with access to the RAPS system.	The issues relating to difficulties in accessing the RAPS system from fire stations be reviewed.	2	<i>As the Service is investing in a new ICT management system (CORE HR) and has commenced the ICT infrastructure project, which includes virtual desktop initiative and remote "access for all", it is not cost effective or an efficient use of resources to implement a solution independent of the ICT infrastructure project. Therefore, current arrangements will remain in place.</i>	01/04/16	ICT Dept. Darren Smith

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Re c.	Risk Area	Finding	Recommendation	Pri ority	Management Comments	Implementat ion Timetable (dd/mm/yy)	Responsi ble Officer (Job Title)
3	Operational	One of the benefits advised when flexible rostering was introduced relating to individuals with four watches in credit to be able to book a tour off as leave has not been implemented yet.	The ability for an individual with four watches in credit to book leave for a tour be implemented as advised when the RAPS system was introduced.	2	<i>This was not part of original proposal but is being considered by the representative bodies via the Service's 'Other Ranks Committee'. Awaiting update from FBU.</i>	01/03/15	<i>Dewi Rose Head of Operations</i>

## PRIORITY GRADINGS

1	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	2	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	3	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
1	Compliance	Consideration be given to how the visibility of the expiry dates for shifts owed and PH days can be improved so that station staff can access this data for themselves rather than having to request this data through Central Services.	<i>These issues will hopefully be addressed by the introduction of Core HR. However, The team will consider how to improve Station personnel's understanding of the information they can already access on RAP.</i>
2	Operational	Consideration be given to providing further training to firefighters on using the RAPS system to enable individuals to build up confidence in using the system.	<i>The team will consider how to improve Station personnel's understanding of the information they can already access on RAP.  In addition, appropriate training will be considered alongside the introduction of Core HR. This is likely to be given to SMs for cascading to staff with additional video support material.</i>
3	Operational	The possibility of enabling firefighters to access the RAPS system from home be investigated.	<i>This is being addressed by ICT as part of ICT Infrastructure project.</i>
4	Operational	The possibility of enabling junior officers who are detached to have access to the RAPS records for the watch they are detached to be investigated.	<i>It is recognised this function is not available on RAPS but it is hoped Core HR will be able to address this.</i>



**South Wales Fire & Rescue Service**

**Appraisal Review of the New Finance System Controls**

**2014/15**

**FINAL**

**January 2015**

# Appraisal Review of the New Finance System Controls

## Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT - REASONABLE</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• The controls in the new finance system relating to creditor payments, stock issues and returns, control account reconciliations and bank account reconciliations were found to be effective.</li> <li>• The Service needs to confirm supplier bank changes with suppliers before the change is actioned to prevent changes being made fraudulently.</li> <li>• The segregation of duties relating to the importing of BACs files and the release of these files for payment needs to be improved.</li> </ul>								
<p><b>SCOPE</b></p> <p>The review considered the arrangements for the controls within the new Finance/HR system. The review focussed on the controls relating to: Creditor Payments, Stock Issues &amp; Returns and Control Account Reconciliations &amp; Bank Reconciliations.</p>	<p><b>ACTION POINTS</b></p> <table border="1" data-bbox="1137 1007 2018 1177"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>3</td> <td>0</td> <td>2</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	3	0	2
Urgent	Important	Routine	Operational						
0	3	0	2						

## Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Operational	It was identified in the review that staff are not confirming supplier bank account changes with the supplier before actioning the change.	All requested changes to supplier bank accounts be independently verified with the supplier prior to being actioned.	2	<i>This forms part of the process notes that was drafted in October 2014. The Procurement Coordinator to re-emphasise the importance of compliance to the process notes.</i>	31/03/15	<i>Procurement Coordinator</i>
2	Operational	It was noted during this review that the same officer is able to import a BACs file and release the batch for payment and this process does not provide full segregation of duties.	Controls be implemented to ensure that the same officer cannot import a BACs file and release the same batch for payment without the involvement of another officer.	2	<i>Currently the payment batch File is compiled by the P2P team and authorised by the Procurement Coordinator. The file is then picked up by the Accountancy Assistant and imported into DBBacs to make payment. To this extent there is a segregation of duties between the Accountancy and P2P teams.</i>	N/A	<i>Senior Acct/Procurement Coordinator</i>

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Operational	It was identified during the review that staff are requisitioning personal items against station or operational area codes rather than using their staff numbers despite having been instructed to requisition personal items using their staff number.	All staff be reminded of the requirement to requisition personal items using their staff number and supervisory staff be required to ensure that this requirement is followed.	2	<i>This has been communicated to all personnel. Stores personnel are also returning items that have been requested via station number and not individual and an email sent to the individual to re requisition for the goods correctly.</i>	31/03/15	<i>Procurement Office and Stores Personnel</i>

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
1	Operational	The reasons why supplier e-mail addresses are not always entered for replenishment orders be investigated and a solution implemented to ensure that supplier e-mail addresses are automatically loaded.	<i>In majority of the cases orders are sent directly to the supplier. On other occasions the purchase orders are sent directly to our internal department, for additional information to be attached, i.e. lease agreements. Other occasions where email address are not automatically loaded are for property repairs, as these are usually phoned through, due to the urgency of certain orders.</i>
2	Operational	All bank accounts be fully reconciled and signed off each month if there are transactions through the account.	<i>We are currently implementing a process of reconciling all bank accounts on a monthly basis.</i>

### ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

## Detailed Findings

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### INTRODUCTION

1. This review was carried out in October 2014 as part of the planned internal audit work for 2014/15. Based on the work carried out an assessment of the overall compliance with the Organisation's arrangements to mitigate the key control risk areas is provided in the Executive Summary.

### KEY FINDINGS & ACTION POINTS

2. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

### SCOPE AND LIMITATIONS OF THE REVIEW

3. The review considered the arrangements for the controls within the new Finance/HR system. The review focussed on the controls relating to:
  - Creditor Payments.
  - Stock Issues & Returns.
  - Control Account Reconciliations.
  - Bank Reconciliations.
4. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### MATERIALITY

5. SWF&RS needs to have effective controls in place within its finance systems to ensure that all financial assets are used in an effective and efficient manner and to prevent fraud.

**DISCLAIMER**

6. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**RISK AREA ASSURANCE ASSESSMENTS**

7. The review is limited to carrying out appraisal work on the practices adopted and therefore cannot be relied upon to provide assurance on the overall fitness for purpose of the controls over this process. The definitions of the appraisal assurance assessments are:

<b>Substantial Assurance</b>	Based upon our findings arising from a review which did not consider the internal control arrangements the expected practices and processes are in place.
<b>Reasonable Assurance</b>	Based upon our findings arising from a review which did not consider the internal control arrangements some of the expected practices and processes are in place, although improvements could be made to the arrangements.
<b>Limited Assurance</b>	Based upon our findings arising from a review which did not consider the internal control arrangements a small number of the expected practices and processes are in place. Significant improvements to the arrangements are required.
<b>No Assurance</b>	Based upon our findings arising from a review which did not consider the internal control arrangements there is a fundamental absence of the expected practices and processes are in place. Immediate action is required to improve the arrangements.

**ACKNOWLEDGEMENT**

8. We would like to thank staff for their co-operation and assistance during the course of our work.

**RELEASE OF REPORT**

9. The table (Figure 1) below sets out the history of this report.

*Figure 1 - Report History*

<b>Date draft report issued:</b>	29 <sup>th</sup> November 2014
<b>Date management responses recd:</b>	16 <sup>th</sup> January 2015
<b>Date final report issued:</b>	19 <sup>th</sup> January 2015



**South Wales Fire & Rescue Service**

**Compliance Review of the Key Financial Controls Arrangements**

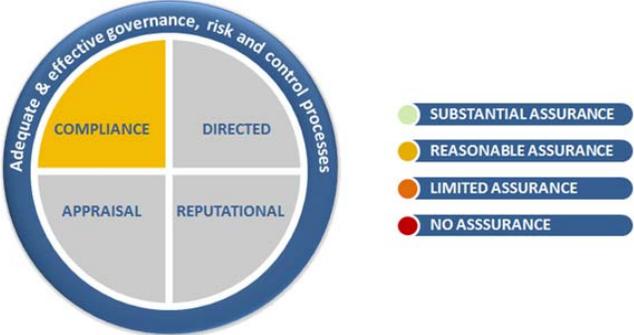
**2014/15**

**FINAL**

**February 2015**

# Compliance Review of the of the Key Financial Controls Arrangements

## Executive Summary

<p><b>OVERALL ASSURANCE ASSESSMENT - REASONABLE</b></p> 	<p><b>KEY FINDINGS</b></p> <ul style="list-style-type: none"> <li>• Collaborative Planning budget reporting needs to be fully implemented so that budget meetings can re-commence.</li> <li>• Checks undertaken to confirm the existence of suppliers so that they are bona-fide are not always evidenced.</li> <li>• Debt recovery in relation to sundry debtors is not always undertaken in a timely manner.</li> <li>• There is currently no periodic verification checks carried out of assets.</li> </ul>								
<p><b>SCOPE</b></p> <p>This review considers the effectiveness of the key financial controls which provide assurance that the following systems are operating in accordance with the Authority's requirements:</p> <p>Budgetary control, General ledger, Cash, banking &amp; treasury management, Income &amp; debtors, Payments, Payroll and Security of assets.</p>	<p><b>ACTION POINTS</b></p> <table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>-</td> <td>4</td> <td>3</td> <td>3</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	-	4	3	3
Urgent	Important	Routine	Operational						
-	4	3	3						

## Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Compliance	There have been no meetings with Budget Holders to review and discuss devolved budgets. This is due to the delay in implementing the online budget reporting tool, Collaborative Planning. The delay was caused by implementation of the core element of the financial system, taking precedence in addition to staff sickness absence within the Accountancy section. Budget meetings did however commence during the week of the review.	The Collaborative planning budget reporting tool be fully implemented, rolled out and meetings with Budget Holders be re-commenced as planned.	2	<p><i>The budgeting module i.e. CP, was part of a bigger financial system implementation i.e. efin. As such the embedding of efin took precedence as this represented the spinal system for 'all others'. Budget meetings for both revenue and capital have been completed for reporting to 9<sup>th</sup> March FAPM meeting with a further tranche of meetings scheduled to take in March for the 11<sup>th</sup> May meeting.</i></p> <p><i>The annual budget book provides budget holders with detail of their annual revenue and capital allocations for the financial year and in addition, the Accountancy</i></p>	31/03/15	Senior Accountant

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
					<p>section has provided budget holders with supplementary budget information to allow budget management in the absence of online reports.</p> <p>Training sessions on the Collaborative planning module have been delivered in December with wider use of this application being made by budget holders in the last quarter of the financial year.</p>		
4	Compliance	A sample of ten new suppliers created in the last three months was selected and checked to the PROC 7 – New Supplier Request/Amendment forms. Issues were identified with 8 out of the 10 checked.	Evidence of checks undertaken to confirm the existence of suppliers so that they are bona-fide be attached to the PROC7 - New supplier/Amendment form.	2	<p>Checking the existence of suppliers is part of the new supplier creation procedure. It has been re iterated to the Procure to Pay (P2P) team of the need to evidence the checks and record on the new Supplier Form. This will be reviewed by the Procurement Coordinator as part of the monthly review procedure</p>	31/01/15	Procurement Coordinator

## PRIORITY GRADINGS

1	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	2	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	3	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
					<i>ensuring all parts of the form are completed and evidenced.</i>		
6	Compliance	A sample of 10 unpaid debtor accounts was selected from an Aged Debtor Balance Report generated from the Sales Ledger. The testing revealed that the recovery of the debt was not in a timely manner for 6 out of the 10 selected and hence not in accordance with the Credit Control Procedural Notes or the Financial Regulations.	Debt recovery in relation to sundry debtors be undertaken in a more timely manner in accordance with the Credit Control Procedures and Financial Regulations.	2	<i>System implementation and staff sickness affected capacity within the Accountancy section and timely debt retrieval suffered. Regular recovery processes will be reinstated in compliance with financial regulations.</i>	31/01/15	Senior Accountant
7	Compliance	There are currently no periodic verification checks carried out of the assets recorded within the fixed asset registers. It is accepted that this could be a difficult task for the Finance Department to undertake. However, in other sectors the Finance Department gets around these issues by sending inventories of assets under the	Each Department/Station Commander be required to complete an annual check of the inventory of assets under their control and it be signed as evidence of the check and this be retained Finance Department as evidence of the	2	<i>This recommendation could be implemented for home fire safety inventory items (non asset register) and potentially station based items (Fleet/Equip) although consideration of existing measures may be required, i.e. Fleet assets are mobile and are managed by the</i>		

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
		responsibility of various management to complete and confirm that they are still in existence and under their control.	check.		<p><i>Fleet dept who already record vehicle detail and their location. On an annual basis Fleet will provide the Accountancy section with this list as at 31<sup>st</sup> March for accounting purposes. The asset register is updated using the info and adjusted for addition/disposal details contained in the general ledger. The reconciled asset register is forwarded to Fleet after year end-closure for information.</i></p> <p><i>Itemised detail for the 'equipment' asset register is not kept by the accountancy section, although asset numbers (stickers) are allocated to ICT equipment and office furniture etc to allow management by the respective depts.</i></p> <p><i>For the equip register, additions are made en-masse to arrive at a total</i></p>		

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
					<i>Net Book Value.</i>		
1	Directed	The Finance Department has a suite of Financial Procedures, the majority of which have been reviewed and updated to reflect the changes as a result of the implementation of the new Finance system.	All relevant Financial Procedures be reviewed and updated to reflect the changes as a result of the implementation of the new Finance system.	3	<i>These are being updated on an ongoing basis and need to constantly refined</i>	31/03/15	Senior Accountant & Procurement Officer
3	Compliance	It was noted that receipts are retained by the cardholders and no checks are performed to ensure receipts are present to support the expenditure incurred. Discussions with the Senior Procurement Officer revealed that there is a facility on the system to import scanned receipts and link them to each transaction and that this is to be considered. Until such time, it would be prudent to undertake random sample checks to check receipts as some of the receipts would have 'vatable'	Random sample checks be undertaken to check receipts to statements to support the expenditure incurred.	3	<i>As part of the approval process a random check of invoices will be undertaken by the approver to support the expenditure incurred. A signature and date to be recorded on the sample invoices. This will be undertaken in the finance section in the first instance.</i>	31/03/15	Procurement Coordinator,

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
		implications if not found.					
5	Compliance	The "Justification for Requesting a New Supplier" box within the PROC7 - New Supplier/Amendment form is not being completed and that the forms are not being signed by the person reviewing the form and creation of a new supplier.	The "Justification for Requesting a New Supplier" box within the PROC 7 – New Supplier Request/Amendment form be fully completed and the form be signed by the person reviewing the form.	3	<i>Agreed – Where the justification box is not completed these will be returned to the user departments for completion prior to it being entered onto the system as new suppliers.</i>	31/03/15	<i>Procurement Coordinator</i>

## PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
1	Compliance	Consideration be given to contacting certain suppliers who submit numerous low value invoices to discuss the possibility of providing invoices containing numerous orders to reduce the volume of invoices for processing and hence improve the efficiency of the Procure2Pay Team.	<i>Consideration will be given to consolidating invoices. Procurement Officer to look at the low value invoices, high volume, (in particular in fleet orders) with a view of discussing consolidated invoices implementation with suppliers where possible.</i>
2	Compliance	Consideration be given to asking appropriate supplier contacts for their existing bank account details whenever contact is made to confirm bank account changes with suppliers as evidence of good practice.	<i>Agreed, when amendments are made to supplier bank details that the P2P member checks the old and new details and evidence on the amended form. The supplier procedure to be amended to take into account this good practice. P2P staff will also be required to check details even when speaking with suppliers for invoice queries.</i>
3	Compliance	Sales Invoice Request forms be dated so that an audit trail is present to monitor the time taken to raise an invoice from the date of any request received.	<i>Agreed. The request to raise a sales invoice is now completed electronically and submitted via to the new Sales Invoice account allowing a measure to be made.</i>

### PRIORITY GRADINGS

<b>1</b>	<b>URGENT</b>	Fundamental control issue on which action should be taken immediately.	<b>2</b>	<b>IMPORTANT</b>	Control issue on which action should be taken at the earliest opportunity.	<b>3</b>	<b>ROUTINE</b>	Control issue on which action should be taken.
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## Detailed Findings

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### INTRODUCTION

1. This review was carried out in January 2015 as part of the planned internal audit work for 2014/15. Based on the work carried out an assessment of the overall compliance with the Organisation's arrangements to mitigate the key control risk areas is provided in the Executive Summary.

### KEY FINDINGS & ACTION POINTS

2. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements to be assessed for their full impact before they are implemented.

### SCOPE AND LIMITATIONS OF THE REVIEW

3. This review considers the effectiveness of the key financial controls which provide assurance that the following systems are operating in accordance with the organisation's requirements:
  - Budgetary control.
  - General ledger.
  - Cash, banking & treasury management.
  - Creditors & debtors.
  - Payroll.
  - Security of assets.
4. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### MATERIALITY

5. The latest Budget Monitoring report to the Finance, Audit & Performance Committee in November 2014 reported total costs of £25,492,094 with an overall forecast to the end of the financial year of £68,499,970, a potential under spend of £1,456,015.

### DISCLAIMER

6. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

### RISK AREA ASSURANCE ASSESSMENTS

7. The review is limited to carrying out transactional testing and therefore cannot be relied upon to provide assurance on the overall fitness for purpose of the controls over this process. The definitions of the compliance assurance assessments are:

<b>Substantial Assurance</b>	Based upon our findings arising from a review of a sample of transactions the approved policy and procedure is complied with.
<b>Reasonable Assurance</b>	Based upon our findings arising from a review of a sample of transactions the approved policy and procedure is complied with, although the evidence to support the processing of the transactions could be more robust.
<b>Limited Assurance</b>	Based upon our findings from a review of a sample of transactions the approved policy and procedure is not being continuously complied with. Significant improvements in the processing of transactions are required.
<b>No Assurance</b>	Based upon our findings from a review of a sample of transactions there is a fundamental breakdown or absence of compliance with the approved policy and procedure. Immediate action is required to improve the adequacy and effectiveness of controls.

### ACKNOWLEDGEMENT

8. We would like to thank staff for their co-operation and assistance during the course of our work.

**RELEASE OF REPORT**

9. The table (Figure 1) below sets out the history of this report.

*Figure 1 - Report History*

Date draft report issued:	22 <sup>nd</sup> January 2015
Date management responses recd:	6 <sup>th</sup> February 2015
Date final report issued:	10 <sup>th</sup> February 2015



**South Wales Fire & Rescue Service**

**Follow up Review**

**2014/15**

**FINAL**

**February 2015**

## Follow up Review

### Executive Summary

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#### INTRODUCTION

1. This follow up review by TIAA established the management action that has been taken in respect of the priority 1 and 2 recommendations arising from the internal audit reviews listed below at South Wales Fire & Rescue Service. The review was carried out in January 2015.

*Figure 1 – Reviews followed up*

Review	Year	Date Presented to Finance, Audit and Performance Management Committee
Follow up 13-14	2013-14	March 2014
Key Financial Systems	2013-14	March 2014
Risk – Insurance	2014-15	June 2014
New Finance System Key Controls	2014-15	September 2014
ICT Strategy Policy and Procedures	2014-15	September 2014
Stock & Stores (Community Safety Stock) –	2014-15	November 2014
Fleet Disposal	2014-15	November 2014
Third Party Income	2014-15	November 2014
Estate Management – Planned Repairs	2014-15	To be presented

## KEY FINDINGS

2. The follow up review considered whether the management action taken addresses the control issues that gave rise to the recommendations. The implementation of these recommendations can only provide reasonable and not absolute assurance against misstatement or loss. From the work carried out the following evaluations of the progress of the management actions taken to date have been identified.

*Figure 2 - Summary of the action taken on Recommendations made*

Evaluation	Number of Recommendations
Implemented	21
In Process of Being Implemented	8
Revised Target Date	9
Considered but not Implemented	-
No Longer Applicable	3
Not Implemented	-

3. There has been good progress with the completion of the recommendations with 76% being implemented or work was progressing on implementing the recommendations by the original target dates set. 24% of the recommendations have been given revised target dates and these need to be completed by the new dates set.

## SCOPE AND LIMITATIONS OF THE REVIEW

4. The review considers the progress made in implementing the recommendations made in the previous internal audit reports and to establish the extent to which management has taken the necessary actions to address the control issues that gave rise to the internal audit recommendations.
5. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

6. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

#### RELEASE OF REPORT

7. The table below sets out the history of this report.

*Figure 3 - Report History*

Date draft report issued:	16 <sup>th</sup> January 2015
Date management responses recd:	23 <sup>rd</sup> February 2015
Date final report issued:	25 <sup>th</sup> February 2015

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE ACTING DEPUTY CHIEF OFFICER & THE INTERNAL  
AUDITORS

AGENDA ITEM NO 13  
9 MARCH 2015

**INTERNAL AUDITORS ANNUAL REPORT YEAR ENDING 31 MARCH 2015**

**SUMMARY**

This report summarises the Internal Audit work that has been undertaken this year.

**RECOMMENDATION**

That Members note the work and findings of the Internal Auditors for 2014/2015.

**1. BACKGROUND**

- 1.1 As Members will be aware TIAA Limited are appointed as the Authority's Internal Auditors to undertake work covered in the Internal Audit Action Plan which was approved by this Committee on 3 March 2014.

**2. ISSUE**

- 2.1 During the year Members have received regular reports updating them on progress being made against the Plan and this report summarises for Members the outcomes of all the audits undertaken.
- 2.2 Throughout the Financial Year 2014/15, the thirteen planned reviews (73 days) were undertaken within scheduled timescales.
- 2.3 An additional review and further internal audit work (3 days) was requested and these were also undertaken within agreed timescales.
- 2.4 Based on the evidence provided the Internal Auditor is able to draw a reasonable conclusion as to the adequacy and effectiveness of the South Wales Fire & Rescue Service's risk management, control and governance processes.

**3. EQUALITY RISK ASSESSMENT**

- 3.1 The issues raised within this report have no adverse impact on the protected characteristics, and would have been considered during the audit process.

**4. RECOMMENDATION**

- 4.1 That Members note the work and findings of the Internal Auditors for 2014/2015.

<b>Contact Officer:</b> Geraint Thomas Head of Finance & Procurement	<b>Background Papers:</b> Appendix 1 – Internal Auditors Annual Report Year ending 31 March 2015
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**South Wales Fire and Rescue Service**

**Internal Audit Annual Report**

**2014/15**

**FINAL**

**February 2015**

## Internal Audit Annual Report

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### - EXECUTIVE SUMMARY -

#### INTRODUCTION

1. This is the 2014/15 Annual Report by TIAA on the internal control environment at South Wales Fire and Rescue Service. The plan was constructed in such a way as to allow TIAA to make a statement of the adequacy and effectiveness of the risk management, control and governance processes.

#### OBJECTIVES OF THE ANNUAL REPORT

2. The annual internal audit report summaries the outcomes of the reviews we have carried out on the organisation's framework of governance, risk management and control. This report is designed to assist the Authority in making its annual statement on internal controls assurance.

#### HEAD OF AUDIT'S ANNUAL OPINION

3. **I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of South Wales Fire and Rescue Service's risk management, control and governance processes. In my opinion, South Wales Fire and Rescue Service has adequate and effective management, control and governance processes to manage the achievement of its objectives.**

#### INTERNAL AUDIT PLANNED COVERAGE AND OUTPUT

4. The governing body agreed to an input of 73 days of internal audit coverage in the year.
5. The planned reviews approved by the Finance, Audit and Performance Committee, the planned number of days and the actual time against plan are shown below. All the planned work has been carried out and the reports have been issued (table 1 below).

Internal Audit Annual Report

Table 1 - Actual against planned Internal Audit Work 2014/15

System	Type	Planned Days	Actual Days	Comments
Governance – Performance Management	Governance	6	6	Final report issued
Risk Management - Insurance	Risk	6	6	Final report issued
Anti-Fraud – Pay and Allowances	Compliance	5	5	Final report issued
Estate Management – Planned Repairs	Assurance	5	5	Final report issued
ICT Strategy, Policy and Procedures	ICT	5	5	Final report issued
Fleet Management - Disposals	Assurance	5	5	Final report issued
Third Party Income – Babcocks	Compliance	3	3	Final report issued
Station Visits	Regularity	4	4	Final report issued
Stocks and Stores – Community Stock	Compliance	5	5	Final report issued
HR Rostering System	Assurance	5	5	Final report issued
New Finance/HR system controls check	Appraisal	5	5	Final report issued
Key Financial Controls	Compliance	6	6	Final report issued
Employability Scheme	Appraisal	-	3	Final report issued
Follow Up		3	3	Draft report issued
Audit Plan		1	1	Final report issued
Annual Report		1	1	Final report issued
Audit Management		7	7	
		73	76	

**OTHER WORK CARRIED OUT**

6. The following work was/is to be carried out which was agreed in advance and was/is in addition to the work set out in the Annual Plan:
- Employability Scheme
  - Attendance at the annual stock-take
  - Briefing/training on Station Audits.

**OPERATIONAL ASSURANCE**

7. A number of national anti-fraud reviews carried out during 2014/15 by counter fraud bodies have all reported the increasing incidences of fraud and in particular internal fraud. The internal audit programme for 2014/15 included the following specific targeted anti-fraud review work.
- Anti-Fraud – Pay and Allowance
8. The Authority is reminded that as set out in the approved Audit Strategy internal audit work cannot be relied upon to identify all circumstances of fraud or irregularity. The responsibility for the identification of fraud rests with management and work performed by internal audit should not be relied upon to identify all opportunities for fraud that may exist.
9. TIAA carried out 12 reviews, which were designed to ascertain the extent to which the internal controls in the system are adequate to ensure that activities and procedures are operating to achieve the South Wales Fire and Rescue Service's objectives. Table 2 below summarises the assessments.

Table 2 – Assurance Assessments 2014/15

System	Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
Governance – Performance Management	✓			
Risk Management - Insurance		✓		
Anti-Fraud – Pay and Allowances	✓			
Estate Management – Planned Repairs		✓		
ICT Strategy, Policy and Procedures		✓		
Fleet Management - Disposals		✓		
Third Party Income – Babcocks		✓		
Station Visits		✓		
Stocks and Stores – Community Stock			✓	
HR Rostering System		✓		
New Finance/HR system controls check		✓		
Key Financial Controls		✓		
Employability Scheme		✓		

10. Management have taken or planned appropriate and timely action to implement our recommendations.

**STATUS REPORT ON KEY CONTROL WEAKNESSES IDENTIFIED AND MAIN FINDINGS ARISING FROM INTERNAL AUDIT WORK**

11. For each review the key control objective was identified. To assess whether the key control objective is being met each review identified and tested the controls that are being operated by South Wales Fire and Rescue Service and an assessment of the effectiveness of the controls in meeting the key control objective was provided in each report (table 2 above). The definitions of the assessments are:

<b>Substantial Assurance</b>	Based upon our findings there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risk of failure of the continuous and effective achievement of the objectives of the process, which at the time of our review were being consistently applied.
<b>Reasonable Assurance</b>	Based upon our findings there is a series of controls in place, however there are potential risks that they may not be sufficient to ensure that the individual objectives of the process are achieved in a continuous and effective manner. Improvements are required to enhance the adequacy and effectiveness of the controls to mitigate these risks.
<b>Limited Assurance</b>	Based upon our findings the controls in place are not sufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls.
<b>No Assurance</b>	Based upon our findings there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage the risks to the continuous and effective achievement the objectives of the process. Immediate action is required to improve the adequacy and effectiveness of controls.

12. TIAA provides one overall assessment for each system reviewed, in line with published guidance. The systems can only provide reasonable and not absolute assurance against misstatement or loss and their effectiveness is reduced if:
- the internal audit recommendations made during the year have not been fully implemented.
  - changes are made to operating practices subsequent to the internal audit review, which either reduce the segregation of duties or diminish the effectiveness of the internal controls.

13. There were one systems reviewed by internal audit where it was assessed that the effectiveness of some of the internal control arrangements provided 'limited' or 'no assurance'. Recommendations were made to further strengthen the control environment in these areas and the management responses indicated that the recommendations had been accepted. Table 3 (below) sets out the Authority's risk exposure in these areas and the number of Priority 1 recommendations made to mitigate the risk exposure.

*Table 3 – Risk Exposure based on Internal Audit work 2014/15*

System	Assurance Assessment	Control Risk Exposure
Stock and Stores – Community Stock	Limited	Failure to comply with approved Policy and Procedure leads to losses.

14. Priority 1 recommendations are 'Urgent' and relate to fundamental control issues on which action should be taken immediately. During the year 3 Priority 1 recommendations were made. Management representations indicate that all of these recommendations have been implemented prior to the end of 2014/15. The position in relation to those Priority 1 recommendations which management have indicated as not having been fully implemented by the year end are set out in the table below.

**OPERATIONAL EFFECTIVENESS OPPORTUNITIES**

15. One of the roles of internal audit is to add value and during the financial year we provided advice on opportunities to enhance the operational effectiveness of the areas reviewed and the numbers of these opportunities per area are summarised below (Table 5).

*Table 5 – Operational Effectiveness Opportunities - 2014/15*

Review Area	Number of OEMs
Anti-Fraud – Pay and Allowances	3
ICT Strategy, Policy and Procedures	6
Fleet Management – Disposals	1
Third Party Income – Babcocks	3
Station Visits	1
HR Rostering System	4
New Finance/HR system controls check	2
Key Financial Controls	3

### **INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDIT**

16. There were no limitations or restrictions placed on the internal audit service which impaired either the independence or objectivity of the service provided.

### **PERFORMANCE AND QUALITY ASSURANCE PROGRAMME**

17. Performance Targets agreed in the annual plan during the year were met.
18. Ongoing quality assurance work was carried out throughout the year and we continue to comply with ISO 9001 standards.

### **RESPONSIBILITY**

19. The Authority is responsible for ensuring that appropriate action has been taken on audit findings. All the internal audit reports produced for 2014/15 have been presented to the Finance and Audit Performance Committee and any matters of significance that

## Internal Audit Annual Report

impacted on internal controls assurance were drawn to the Finance and Audit Performance Committee's attention at the meetings at which the reports were presented.

20. It is this Authority's responsibility to maintain effective internal controls. The Finance and Audit Performance Committee is invited to note the contents of this report.

Signed:

*V. Davies.*

Vicky Davies  
Director

**Date report issued:** 20<sup>th</sup> February 2015

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**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE DEPUTY CHIEF OFFICER

AGENDA ITEM NO14  
9 MARCH 2015

**INTERNAL AUDIT ANNUAL PLAN 2015/2016**

**SUMMARY**

This report details the proposed Internal Audit Annual Plan 2015/2016 for Members approval.

**RECOMMENDATION**

That Members approve the Internal Audit Annual Plan for 2015/2016.

**1. BACKGROUND**

- 1.1 In April 2012 the Authority awarded a contract for Internal Audit services to TIAA Ltd for a period of four years. As a requirement of the internal audit work of the Fire & Rescue Authority, it is necessary for Members of the Finance, Audit & Performance Management Committee to agree to an Internal Audit Annual Plan for the financial year.

**2. ISSUE**

- 2.1 Attached at Appendix 1 is the proposed Internal Audit Annual Plan for 2015/2016 for Members consideration. The rationale for the plan is contained within the appended report.
- 2.2 To monitor progress against the internal audit annual plan, regular reports will be presented to this Committee outlining the audits undertaken, the status of reports and the recommendations being made by the internal auditors.

**3. FINANCIAL IMPLICATIONS**

- 3.1 The work proposed to be undertaken by Internal Audit as part of the proposed Annual Plan 2015/2016 is allocated as a budget line within the total revenue budget for 2015/2016.

**4. EQUALITY RISK ASSESSMENT**

- 4.1 The issues raised within this report have no adverse impact on the protected characteristics, and will be considered during the audit process.

## 5. RECOMMENDATION

5.1 That Members approve the Internal Audit Annual Plan for 2015/2016.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Geraint Thomas Head of Finance & Procurement	Appendix 1 – Internal Audit Annual Plan 2015/2016

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
**FINANCE, AUDIT & PERFORMANCE**  
**MANAGEMENT COMMITTEE**  
**REPORT OF THE ASSISTANT CHIEF FIRE OFFICER DIRECTOR OF**  
**SERVICE DELIVERY**

AGENDA ITEM NO 15  
 9 MARCH 2015

**PERFORMANCE MONITORING REPORT – QUARTER 3 (Q3) OCTOBER**  
**2014 TO DECEMBER 2014**

**SUMMARY**

To review the performance information and recorded incident statistics from October 2014 to December 2014.

**RECOMMENDATION**

That Members review the performance details and statistical data for Quarter 3 (2014/15) contained within this report.

That Members approve its publication onto the South Wales Fire & Rescue Service website.

**1. BACKGROUND**

1.1 To support the performance management framework within South Wales Fire & Rescue Service, a quarterly report is submitted to our Senior Management Team and to our Fire & Rescue Authority. This report underpins the Strategic and Core Indicators and provides data and information to inform and support decision making processes.

**2. ISSUE**

2.1 The Appendix attached is a summary of the Performance Monitoring Report Q3 2014/15. This summarises our Q3 performance for the National Strategic Performance Indicators and Indicators of Interest for 2014-2015. The summary provides a graphical view of the indicators of interest for Q3 2014/2015. Comparisons and trend lines are added comparing the reported quarter with the previous 5 years of data.

2.2 The Background Paper identifies an overall reduction in Fires, Special Service Calls and Malicious False Alarms when compared with Q3 last year. Total Fires showed an overall reduction of 50 (-4.49%) and was heavily influenced by a reduction in Secondary Fires which reduced by 44 (-7.30%). Overall deliberate fires reduced by 44 (-6.36%) while accidental fires showed a slight decrease of 6 (-1.43%).

2.3 One Strategic Indicator relating to Deliberate Fire Injuries has hit its annual target of 8 during Q3 and will potentially exceed this total in Q4.

The indicator was heavily influenced by a single deliberate fire incident in Q2 where 4 fire injuries were reported.

- 2.4 Four other indicators are showing as amber in the Q3 report. All Fires Attended, All Deliberate Fires Attended, The Number of Fire Injuries and The Number of Fires in Non-Domestic Premises. These are potentially going to exceed their targets set at the beginning of the year. However, if we experience fewer incidents of these types in Q4 the predicted end of year targets can still be met. In all cases they are still expected to show an improvement when compared to last year's performance.
- 2.5 The four amber indicators are being monitored closely and a number of initiatives and activities are being delivered to target these incident types and reduce risk. Areas being targeted include Home Fire Safety Check (HFSCs), specific kitchen and cooking fire initiatives including targeted campaigns like National Chip Week.
- 2.6 There has been a positive reduction of 8 (-2.3%) in Road Traffic Collisions (RTC's) attended when compared with Q3 last year. The reduction at Q3 builds on the reduction experienced during the first half of the year. These reductions have been influenced by a number of RTC reduction initiatives carried out across South Wales.
- 2.7 The Background Paper will be emailed to each member to review and can also be found at the Fire & Rescue Authority Members Page on the SWFRS website. It provides further in-depth analysis of incidents by type and by Unitary Authority Area and it also includes full details of the five year trend performance of the National Strategic Indicators and the Indicators of Interest.
- 2.8 The data in the Background Paper is derived from the Incident Recording System (IRS) and is still provisional pending final quality assurance and annual audit. There were 18 incidents still awaiting completion in the Incident Recording System and are not included in this report.

### **3. EQUALITY RISK ASSESSMENT**

- 3.1 This report, accompanying Appendix, Background Papers and the targets themselves have no Equality Risk Assessment impact. However, Service Performance and Communication department and the respective Directorates are working with the performance data to establish any trends and implications that would include equality implications. These will be addressed at that time.

#### 4. RECOMMENDATION

- 4.1 That Members review the performance details and statistical data for Quarter 3 (2014/15) contained within this report.
- 4.2 That Members approve its publication onto the South Wales Fire & Rescue Service website.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Wayne Thomas Statistical Analyst	Background Paper - Performance Monitoring Report Q3 2014/2015 Appendix 1 - Presentation Performance Monitoring Report Q3 2014/2015

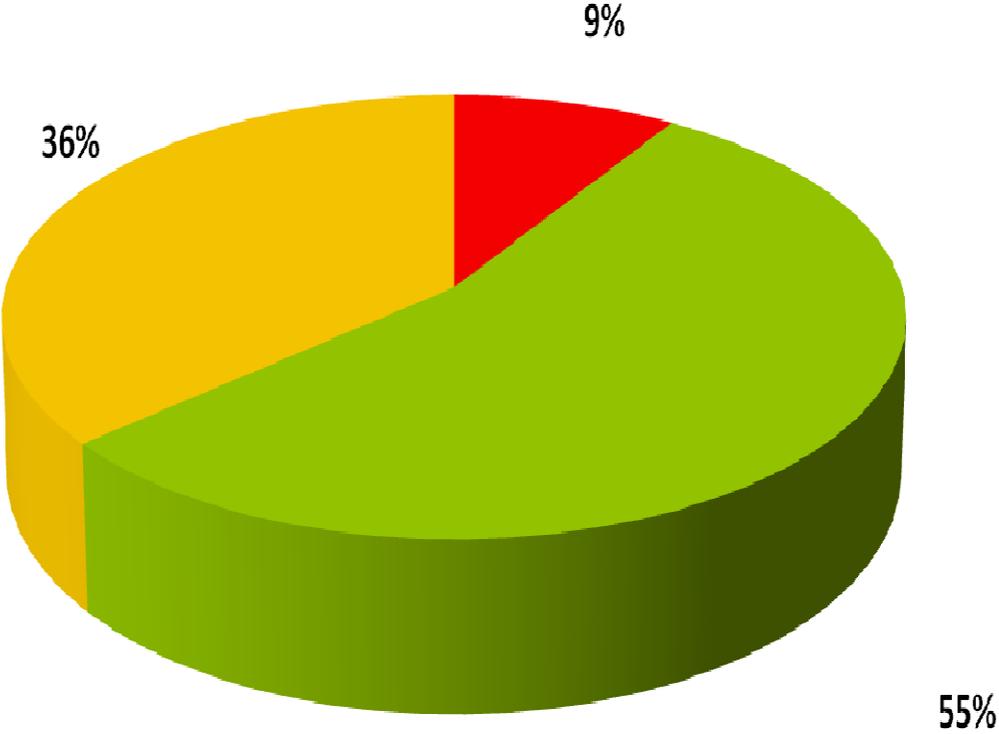


# **Appendix 1 – Presentation**

## **Performance Monitoring Report Q3 2014/2015**

# Strategic Indicators

Strategic Indicators 2014/2015 - Performance



■ The following indicator(s) are not expected to achieve the target. (1)

■ The following indicator(s) are expected to achieve the target. (6)

■ The following indicator(s) are improving in comparison with last year but are at risk of not achieving the target. (4)

## Strategic Indicator(s) that are expected to achieve target

The following indicator(s) are expected to achieve the target		
Type	Indicator Ref	Description
Fire Measures	FRS/RRC/S/001 (ii)	All Primary Fires Attended per 10,000 population
Fire Measures	FRS/RRC/S/001 (iii)	All Accidental Fires in Dwellings per 10,000 dwellings
Deaths and Injuries	FRS/RRC/S/002 (i)	The No of Fire Deaths per 100,000 population
Deaths and Injuries	FRS/RRC/S/002 (ii)	The No of Accidental Fire Deaths per 100,000 population
Deaths and Injuries	FRS/RRC/S/002 (iii)	The No of Deliberate Fire Deaths per 100,000 population
Deaths and Injuries	FRS/RRC/S/002 (v)	The No of Accidental Fire injuries excluding precautionary checks per 100,000 population

Detailed graphs and commentaries on the strategic indicators can be reviewed in the background paper “Performance Monitoring Report 2014/2015” which will be emailed to each member of the Fire & Rescue Authority to review.

## Strategic Indicator(s) at risk of not achieving the target

The following indicator(s) are at risk of not achieving the target this year.		
Fire Measures	FRS/RRC/S/001 (i)	All Fires Attended per 10,000 population
Fire Measures	FRS/RRC/S/001 (iv)	All Deliberate Fires Attended per 10,000 population
Fire Measures	FRS/RRC/S/003	The No of Fires in Non-domestic premises per 1,000 non domestic properties
Deaths and Injuries	FRS/RRC/S/002 (iv)	The No of Fire Injuries per 100,000 population

Detailed graphs and commentaries on the strategic indicators can be reviewed in the background paper “Performance Monitoring Report 2014/2015” which will be emailed to each member of the Fire & Rescue Authority to review.

## Strategic Indicator(s) expecting to or have failed to achieve the target

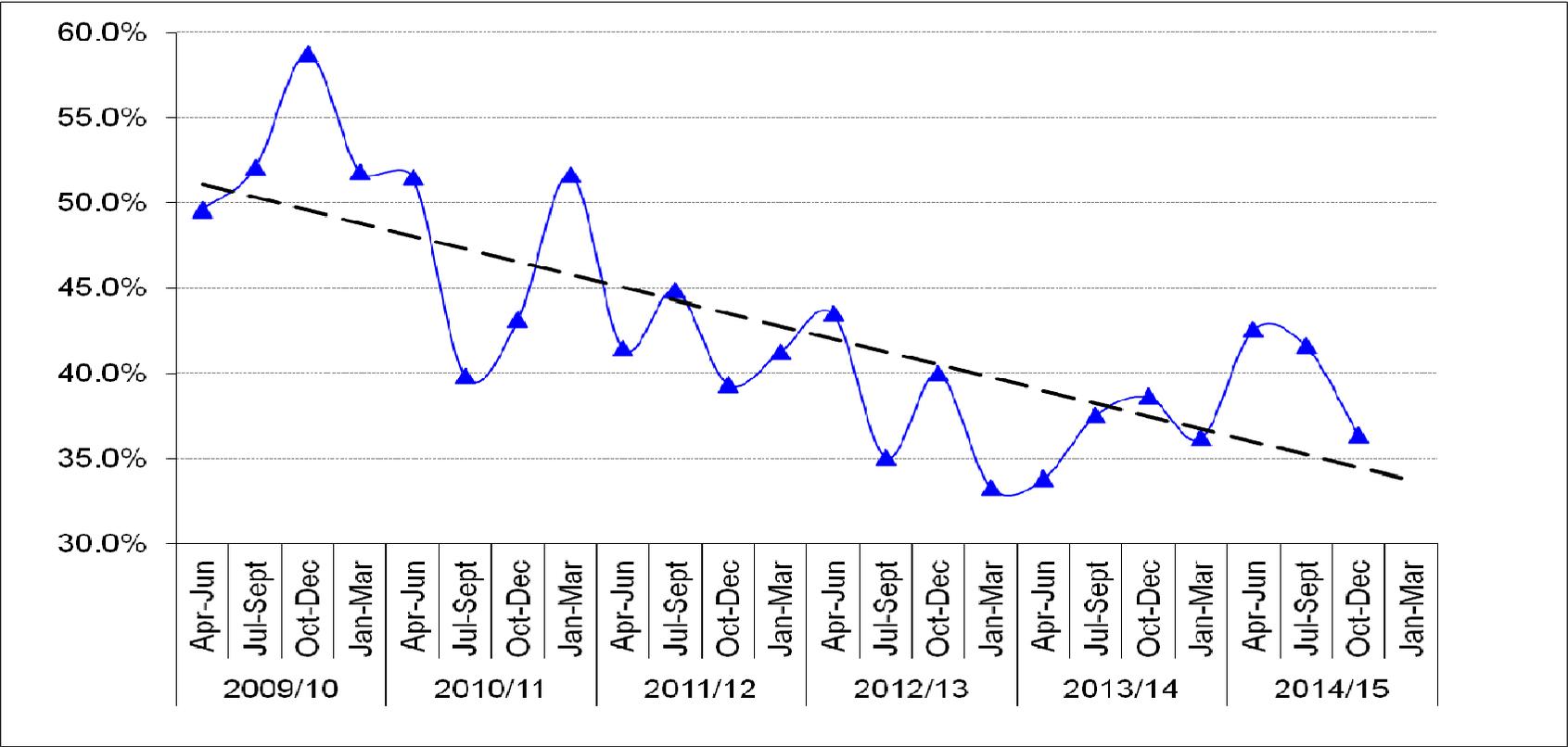
The following indicator(s) will not achieve the target.		
Type	Indicator Ref	Description
Deaths and Injuries	FRS/RRC/S/002 (vi)	The No of Deliberate Fire Injuries excluding precautionary checks per 100,000 population

Of the six strategic indicators covering deaths and injuries, one is currently expected to fail to achieve its target based on historical profiling and forecasting. There has been 8 deliberate fire injuries this year, which was the target threshold that was agreed at the start for the year.

It is worth noting that 4 of the 8 deliberate fire injuries recorded this year occurred at the same incident.

**Detailed graphs and commentaries on the strategic indicators can be reviewed in the background paper “Performance Monitoring Report 2014/2015” which will be emailed to each member of the Fire & Rescue Authority to review.**

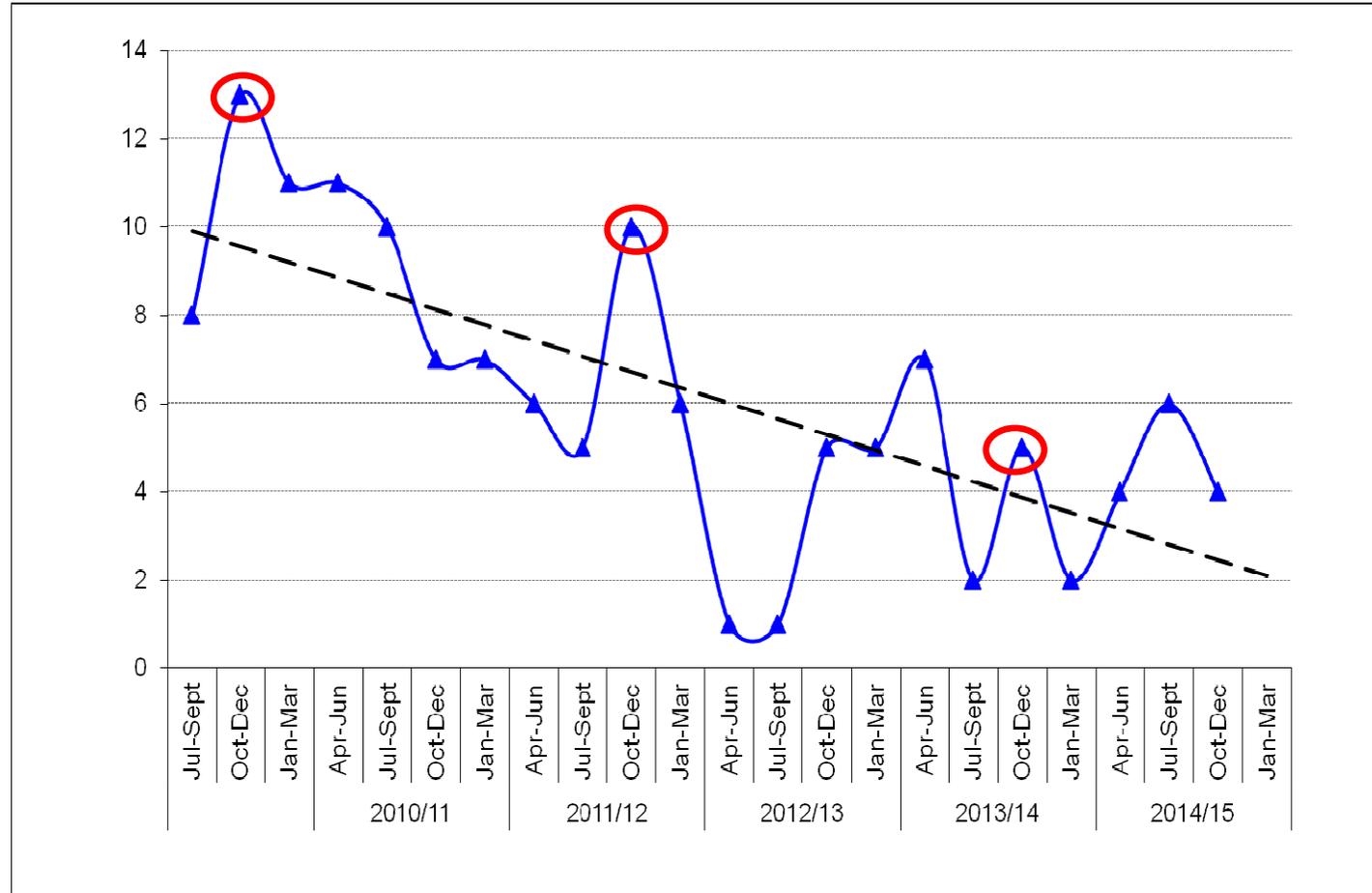
# Percentage of Dwelling Fires Where No Smoke Alarms Were Fitted



The percentage of dwelling fires where no smoke alarm was fitted during quarter 3 of 2014/15 has decreased by 2.3% compared to the same quarter last year and has decreased by 5.2% since the last quarter. The trend line illustrates a significant decrease in the percentage of dwelling fires where no smoke alarm was fitted.

The Unitary Authorities with the highest percentage of dwelling fires in which there was no smoke alarm fitted during this quarter were Blaenau Gwent (2 dwelling fires from 4, 50%) and Newport (7 dwelling fires from 16, 43.8%). The Unitary Authorities with the lowest percentage of dwelling fires in which there was no smoke alarm fitted during this quarter were Bridgend (3 from 14, 21.4%) and Monmouthshire (2 from 8, 25.0%).

# Attacks on Crews

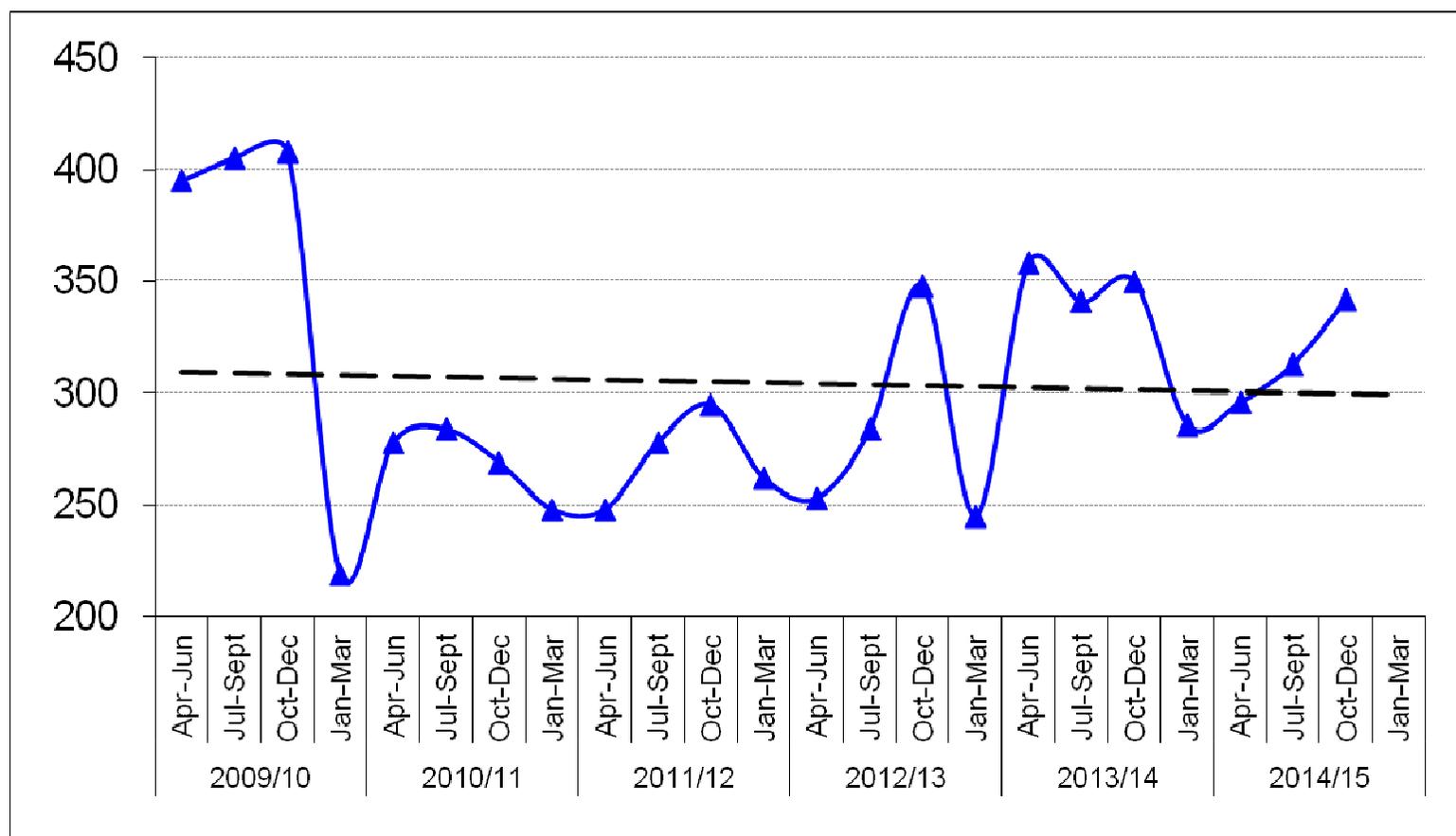


**Many of the identified peaks are due to antisocial behaviour around the Halloween period**

In this period there have been four attacks on crews at operational incidents, all of which involved crews being verbally abused. There were five incidents during the same period of 2013, where crews were verbally abused on one occasion, objects were thrown at fire fighters and fire appliances at three of the incidents while crews experienced another act of aggression at the other.

The Service, in partnership with the Police, will look to prosecute more individuals who behave aggressively at operational incidents with the aid of body worn cameras and vehicle cameras. Police made 22 arrests at operational incidents during Q3 of 2014/15.

# Road Traffic Collisions (RTCs)



The number of Road Traffic Collisions (RTCs) attended during quarter 3 has decreased by 8 (-2.3%) compared to the same quarter last year but has increased by 29 (+9.3%) when compared to the previous quarter. The Authorities experiencing the greatest increase in RTCs compared to the same quarter last year were Blaenau Gwent with an increase of 3 incidents (+30.0%) and Newport who experienced an increase of 8 incidents (+28.6%). The Unitary Authorities experiencing the greatest decrease in the number of RTCs were Monmouthshire with a decrease of 13 incidents (-34.2%) and RCT with a decrease of 15 incidents (-19.5%).

The number of Road Traffic Collisions attended where people were extricated during 2014/15 to date has decreased from 186 to 154 when compared to the same period last year (-17.2%).

**SOUTH WALES FIRE & RESCUE AUTHORITY**  
FINANCE, AUDIT & PERFORMANCE  
MANAGEMENT COMMITTEE  
REPORT OF THE DEPUTY CHIEF OFFICER

AGENDA ITEM NO 16  
9 MARCH 2015

**DRAFT ANNUAL REPORT ON THE WORK OF THE FINANCE, AUDIT &  
PERFORMANCE MANAGEMENT COMMITTEE**

**SUMMARY**

This report proposes a draft annual report on the work of the Finance, Audit & Performance Management Committee and its Working Group to be presented to the Fire & Rescue Authority at its meeting on 16 March 2015.

**RECOMMENDATION**

That Members consider the draft report and any additions, deletions or alterations they would like to make to this prior to submission to the Fire & Rescue Authority in March 2015.

**1. BACKGROUND**

- 1.1 This report sets out in draft form a proposed annual report to be taken to the Fire & Rescue Authority on 16 March 2015, summarising the work of the Committee and its Working Group during the municipal year.

**2. ISSUE**

- 2.1 As Members will be aware, the Finance, Audit & Performance Management Committee was established to demonstrate the Authority's commitment to the efficient and effective deployment of public resources and the attainment of related performance targets.
- 2.2 The Committee is responsible for the planning and management of the Authority's financial resources including authorising expenditure, virement of funds and donations of equipment or other property. It oversees the financial reporting process and provides a detailed examination of financial performance including the extent that this affects the Authority's exposure to risk and weakens the control environment. The Committee also provides assurance of the adequacy of the risk management framework and associated control environment. Within the scope of the Committee it also assists the Fire & Rescue Authority in policy and strategy development issues relating to Finance, Audit & Performance Management and Good Governance issues.

- 2.3 To discharge its functions the Committee plans its work through a forward work programme. The work of the Committee broadly falls under three distinct categories, namely: financial; policy, audit or development; and scrutiny. For the purposes of this report it is intended that an overview of the work undertaken by the Committee in the 2014/15 municipal year is detailed under each of the sub headings.
- 2.4 In addition, the Committee is also responsible for the Authority's Finance, Asset & Performance Management Working Group. The Working Group has prepared an annual report which forms part of this report at Appendix 1.

## 2.5 Financial

- 2.5.1 The Committee is specifically tasked with reviewing and challenging where necessary the Authority's financial statements, interim reports, preliminary projections and related formal statements before clearance by the auditors. Particular attention is paid to:
- 2.5.1.1 The critical accounting policies and practices and any changes in them
  - 2.5.1.2 The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
  - 2.5.1.3 The clarity of reports
  - 2.5.1.4 Significant adjustments resulting from audits
  - 2.5.1.5 Compliance with accounting standards
  - 2.5.1.6 Compliance with other legal requirements
- 2.5.2 The Committee also monitors the management action in response to issues raised in relation to financial reporting and carries out spending reviews of budgets to enable reviews of current spending policy.
- 2.5.3 In discharging these functions the Committee has undertaken a large amount of work this year on a variety of financial issues. This work has included the following:
- 2.5.4 **Revenue & Capital Monitoring** – The Committee has considered in detail regular monitoring reports in respect of the current financial year's revenue and capital budgets which provide an update of expenditure against the budget for the year. Detailed scrutiny has taken place in respect of variations against budget, and further reports or information have been requested where appropriate to address Members' queries. Detailed questioning has been undertaken in respect of delays in achieving spends, particularly in respect of capital property works, and the adequacy of measures to mitigate delays have been considered.

Clarifications have also been received where genuine underspends have arisen on specific projects.

**2.5.5 Revenue and Capital Outturn** – Members considered the revenue and capital outturn reports for the previous financial year which advise on total revenue and capital expenditure against the respective set budgets following the year end. Members have scrutinised year end variations and have used this information to help understand the budget pressures and to influence budget setting for subsequent years.

**2.5.6 Revenue and Capital Budget Setting** – The Committee and its Finance, Asset & Performance Management Working Group have taken a particularly detailed role in assisting in the formulation of the appropriate revenue and capital budgets required to meet the Service's requirements for the next financial year. The work has been greatly assisted this year by a full review of the Medium Term Financial Plan. The culmination of this work resulted in a consultation budget recommendation of -1.54% on the equivalent figure for the current financial year. To assist local authorities in their budget setting, the process was brought forward which allowed this Committee to consider the budget in November.

**2.5.7 Audit Office – Audit of Accounting Statements** – The Committee considered the Wales Audit Office report which provides an opinion on the accuracy, adequacy and statutory compliance of the Authority's Statement of Accounts for Members. The Committee was pleased to note the opinion of the Auditor was favourable.

**2.5.8 Treasury Management** – In September, the Committee considered the Treasury Management annual report which advises on performance against the Treasury Management Policy and Strategy following the financial year end. The report provided Members with an opportunity to scrutinise performance and also to assess any implications for the current strategy and budget setting proposals for the following financial year.

**2.5.9** In November, the Committee considered the Treasury Management mid term report which outlined performance against the Treasury Strategy from April to September of the current financial year.

## **2.6 Policy, Audit or Development**

**2.6.1** The Committee has specific responsibilities in relation to internal control and risk management; internal audit; external audit and inspection; performance management; and the Local Government Measure. In relation to internal control and risk management, the Committee is

responsible for reviewing the Authority's procedures for detecting fraud and corruption and whistleblowing, and ensuring that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, finance control and any other matters. The Committee also reviews Officers and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management, and monitors the integrity of the Authority's internal financial controls. The Committee is also required to review and approve the Authority's assurance statements, including the Statement of Internal Control, and be satisfied that they properly reflect the risk environment and any actions required to improve it. In addition Members assess the scope and effectiveness of the systems established to identify, assess, manage and monitor financial risk, and review and approve the Authority's Corporate Risk Register.

**2.6.2 Internal Audit** – In relation to internal audit the Committee is required to review and approve the internal audit programme for the Authority and ensure that the internal audit function is adequately resourced. In this respect it receives reports on the results of the internal auditor's work on a periodic basis and receives the annual report of the internal auditor. The Committee reviews and monitors action taken by departments as a result of the internal auditor's findings and recommendations, and monitors and assesses the role and effectiveness of the internal audit function in the overall context of the Authority's risk management system. Where necessary, direct action is to be taken as a consequence of an internal audit report if required.

**2.6.3** The Committee agreed an annual internal audit programme for 2014/15 covering the areas identified below and has considered in detail the progress and findings of the relevant audits:

- Governance Performance Management
- Risk Management – Insurance
- Anti Fraud – Payroll and Allowances
- ICT Strategy, Policies and Procedures
- Estates Management – Planned Repairs
- Fleet Management – Disposals
- Third Party Income (Babcocks)
- Station Visits
- Stocks and Stores (Community Safety stock)
- HR – Rostering System
- New Finance/HR System controls check
- Key Financial Controls
- Audit Follow Up

**2.6.4 External Audit** – In relation to external audit and inspection the Committee is responsible for overseeing the Authority's relations with the external auditor. It approves the terms of engagement to the

external auditor in respect of auditing inspection services received by the Authority.

- 2.6.5 The Committee also reviews with the external auditor the findings of their work including any major issues that arise during the course of an audit, key accounting and audits judgements, level of errors identified during the audit, and obtain explanations from managers or auditors as to why certain errors might remain unadjusted. In addition the Committee reviews and monitors the actions taken by departments as a result of the external auditor's findings and recommendations and, where necessary, direct action should be taken as a consequence of an external audit report.
- 2.6.6 Members also assess at the end of the audit cycle the effectiveness of the audit process by reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any change (including changes in perceived audit risks and the work undertaken by the external auditors to address those risks); consideration of the robustness and perceptiveness of the auditors in handling of the key accounting and audit judgements; responding to questions from the Committee, and their commentary, where appropriate, on the systems of internal control.
- 2.6.7 Consideration of the annual financial report and the Annual Audit Letter and Improvement Assessment is due to be discharged this year in March 2015.
- 2.6.8 The previous Fire & Rescue Authority required that the Committee meets on an annual basis with both internal and external auditors without management present to discuss the audit work of the Authority. Provision is now made for these meetings to take place after every meeting of the Finance Audit & Performance Management Committee meeting.
- 2.6.9 **Performance Management** – The Committee receives all external reports on the performance of the Authority and considers and recommends to the Fire & Rescue Authority action plans relating to these reports and monitors progress against the approved action plans. In relation to the Wales Programme for Improvement, the Committee reviews, approves and challenges, where necessary, the performance and improvement plan; the operational and non-operational assurance self-assessment; the joint risk assessment; and any other periodic reports on performance management of relevant areas of the Service. In addition, the Committee considers comparative studies, including benchmarking and best practice.

## 2.7 Scrutiny

- 2.7.1 As it has already been highlighted, the Committee is responsible for the scrutiny function of the Authority and has undertaken a considerable amount of scrutiny throughout the year on a variety of topics. It provides service improvement through regular challenge and scrutiny of reports and assumptions, with some detailed scrutiny provided by the Working Group.
- 2.7.2 The Committee, through its Working Group, undertook detailed scrutiny work in relation to the Authority's Medium Term Financial Strategy and assumptions that had been made in writing that strategy.
- 2.7.3 It is considered that the scrutiny role of this Committee can be further enhanced by adopting a thematic approach, whereby a specific topic or area is examined which will allow the Authority to develop its policies and respond more effectively to local needs.

## 3. RECOMMENDATION

- 3.1 That Members consider the draft report and any additions, deletions or alterations they would like to make to this prior to submission to the Fire & Rescue Authority in March 2015.

<b>Contact Officer:</b>	<b>Background Papers:</b>
Sally Chapman Deputy Chief Officer	Appendix 1 – Annual Report of the Finance, Asset Performance Management Working Group

## APPENDIX 1

### 1. PURPOSE OF THE WORKING GROUP

1.1 As Members will be aware, the Finance, Asset & Performance Management Working Group was established to achieve two purposes:

1.1.1 Firstly, to demonstrate the Authority's commitment to the efficient and effective deployment of public resources and to give assurance that available funding is utilised as efficiently and effectively as possible to protect the level of service offered to the public within the core priorities defined by the Fire & Rescue Authority. This was considered necessary to enable detailed and in depth scrutiny of the Service's operations and its budgets in a manner that was not possible within the time constraints posed within the Committee structure.

1.1.2 Secondly, to demonstrate the Authority's commitment to the efficient and effective management of its assets; and to give assurance that its assets are utilised as efficiently and effectively as possible to ensure that the level of service offered to the public, within the core priorities defined by the Fire & Rescue Authority, is delivered.

1.2 For clarity, it is proposed to deal with each of the functions of the Working Group separately.

### 2. FINANCIAL RESPONSIBILITIES

2.1 The Working Group is responsible for reviewing and challenging the make up of the Authority's revenue and capital budget with a view to cost reduction or value enhancement. In carrying out these functions, the working group pays particular regard to:

- The clarity of budget headings
- The statutory requirements of the Authority to deliver a service to the public of South Wales
- The national commitments of the Authority to deliver a service on strategic issues such as national resilience
- The relationship of the budget with key corporate documents of the Authority

- Carrying out spending reviews of budgets to enable assessments of current spending policy against future financial predictions of the organisation within the Medium Term Financial Strategy.
  - Reviewing past performance of selected budget areas when assessing current and future years' requirements; and
  - Reviewing the budget setting process for revenue and capital budgets for improvements that could be made in future years
- 2.2 To discharge its functions the Working Group plans its work through a forward work programme which is agreed at the beginning of the year and reviewed at each meeting. The work of the group broadly comprises scrutiny of the Medium Term Financial Strategy and financial projections for the future, scrutiny of budget holders, scrutiny of revenue and capital budget monitoring reports and reports to the Finance, Audit & Performance Management Committee.
- 2.3 As Members will be aware, much of the work of the Working Group is geared towards preparations for striking the revenue and capital budget each year, set in the context of the adopted Improvement Plan (IP), the Medium Term Financial Strategy (MTFS) and the approved budget strategy. Briefings were received on the budget settlements for Wales and specifically the impact for the Service and a fundamental review and update of the MTFS was undertaken by the Group.
- 2.4 In addition, the following specific areas of work were considered:
- 2.4.1 Medium Term Financial Strategy 2013-17**  
Members received electronic presentations on the determination of the MTFS and were informed of the best, medium and worst case scenarios that had been used in the financial modelling that had been undertaken and were afforded the opportunity to scrutinise the process.
- 2.4.2 Revenue and Capital Setting 2015/16**  
During this process, the Working Group received updates on the main strands of budget production and agreed recommendations for the wider consideration of Members, designed to help balance the 2015/16 budget which was being delivered in a continued period of financial constraint. Members noted the 50% reduction in the National Framework Grants, and also the reduced funding for the Grant Award by 52%, which supported youth engagement, the Phoenix Project and other youth arson reduction activities.

2.4.3 This process allowed Members to apply a robust level of scrutiny by questioning Officers over the process and assumptions made in reaching their conclusions. Members agreed that the budget timetable should be brought forward for the final 2015/16 budget to be approved by the Fire & Rescue Authority in December 2014 which would inevitably assist constituent authorities in their budget setting processes.

2.4.4 **Shaping Our Future Review Programme**

Members were provided with an overview of a large new programme the Service was launching to meet the anticipated budget shortfalls, entitled 'Shaping Our Future Programme'. This programme would scrutinise working processes, patterns, structures, policies and procedures across the organisation over a 2-3 year period and resultant financial savings would be fed into the ongoing budget process. Members were presented with a case study of an example of a process analysis which took place within the Fire Safety Department to help them understand the type of process review that the organisation will be going through.

2.4.5 **Staff Allowances**

Members reviewed the Out of Hours Allowances that had been identified as one of the nine strategic reviews initiated by the South Wales Fire & Rescue Service. Members noted that the Service had evaluated the component parts of Grey Book and Green Book terms and conditions, specifically overtime and allowances.

2.4.6 This information gave Members a better understanding of the relevant national and local terms and conditions that were applied to all groups of employees which assisted Members by summarising the detailed considerations of the Service's out of hours allowances, as incorporated within the revenue budget setting process.

2.4.7 **Strategic Improvement Plan - Consideration of Responses to Stage 1 2014/15 and Plan Overview 2015-20**

Members scrutinised the responses received from the consultation contained within the Strategic Improvement Plan Stage 1 - "How we intend to Improve 2014-15", noting that stakeholders, the public and members of staff could give their views on the document produced, our plans for improvement and suggest future improvement objectives. In particular Members noted the comments around visits to schools and requested further information to increase their knowledge on this area of work undertaken by the Service.

#### 2.4.8 **Strategic Planning**

Members considered the planning framework used by the Service and the plans to change it in favour of the development of a Strategic Plan covering the period 2015-20 which would have annual improvement objectives. This gave Members a fuller understanding of the process and the opportunity to challenge Officers over the concept.

#### 2.4.9 **School Visits – Key Stage Programme**

Members received a report outlining South Wales Fire & Rescue Service's schools visit programme and targeting strategy. This afforded Members the opportunity to scrutinise the initiatives and give their support to future programmes.

### **3. ASSET MANAGEMENT RESPONSIBILITIES**

3.1 The Working Group is responsible for reviewing, monitoring and challenging the management of the Authority's assets. In carrying out these functions, the Working Group pays particular regard to:

- The statutory requirements of the Authority to deliver a service to the public of South Wales
- The statutory requirements of the Authority of running an organisation (including health and safety management)
- The relationship of our assets with key corporate documents of the Authority
- Carrying out specific reviews of the Authority's performance in the management of its assets
- To consider and challenge the performance review systems and targets
- To consider collaborative opportunities for the Authority in the management of its assets

3.2 As with its financial responsibilities, to discharge its functions effectively, the Working Group plans its work through a forward work programme. The work of the group broadly comprises scrutiny of the following documents and reports to the Finance, Audit & Performance Management Committee:

- Asset Management Strategy
- Land and Buildings Management Plan

- ICT Management Plan
- Fleet and Vehicles Management Plan
- Operational Equipment Management Plan
- Minor Assets Management Plan

3.3 In addition, the following specific areas of work were considered:

#### 3.3.1 **Review of Asset Management Strategy**

The group reviewed the Asset Management Strategy 2014-18 and were able to acknowledge the progress that had been made in the development of specific plans to manage each of the asset groups since the first version of the strategy was introduced in 2009, which reinforced the culture of continuous improvement which was inherent within the Service.

#### 3.3.2 **Outcomes of Independent Review into Light Vehicle Fleet**

It was noted that an independent review of the light fleet had been undertaken by the Fleet Transport Association, with the aim of interrogating light vehicle numbers and type and to review the varying provision methodologies as adopted by the Service. Whilst it was noted that the conclusion of the report identified that the provision was fit for purpose with vehicle numbers and type close to or at optimum levels, concerns were expressed about the use of a “grey” fleet through casual and essential user designations, and Members raised concerns about the risk to the Authority concerning insurance liability. This review is to be further considered by this group at their April 2015 meeting.

#### 3.3.3 **Review of Property Strategy including consideration of Sustainability and Environmental issues**

Members received a progress update on each of the following key areas and questioned Officers on specific areas of work.

- Key refurbishments
- Planned maintenance projects
- New builds
- Surplus assets/acquisitions
- Capital Programme forecast

3.3.4 The Group were informed that due to recent budget cuts it had been agreed to put the Property Strategy on hold throughout 2015, and in the meantime the Strategy would be re-designed in order to deliver essential requirements with less funding.

### 3.3.5 Review of Fleet Strategy

The group reviewed the Fleet and Vehicle Strategy through the Fleet Asset Management Plan 2014-17 and noted that the format that the plan was based upon was that recommended by the Chief Fire Officers' Association and with the guidance of the National Issues Committee. The group scrutinised the various elements of the plan including:

- Vehicle Replacement Programme
- Capital budget
- Revenue budget
- Planned preventative maintenance
- Local performance indicators
- Collaboration and National Issues Committee

### 3.3.6 Review of ICT Strategy

The ICT Strategy was considered and Members noted that the current Strategy ended in 2015. It was noted however that a number of the projects would be continuing beyond that date. In particular, the following areas of the strategy were considered:

- External drivers
- Public Service Network
- Common desktop strategy
- Collaboration
- Data Exchange Project
- Firelink Project
- Wales ICT Policy Group
- All Wales ICT Group
- CIO Council for Wales
- Business System Integration Project
- Operational Intelligence Project
- Emergency Services Mobile Communications Project
- Internal drivers
- Governance
- Service management
- Business continuity

3.3.7 Future challenges that the organisation were likely to face in times of fiscal restraint were also considered and the importance that ICT played in the development of the organisation was acknowledged.

## **4. FUTURE WORK FROM FORWARD WORK PROGRAMME**

4.1 Members have yet to consider the following areas of work:

### **4.1.1 January 2015**

- Review of Grant Funding
- Progress on Training PFI
- Review of Fuel Strategy
- Improvement objectives progress Quarter 2
- Changing terms and conditions of service

### **4.1.2 April 2015**

- Review of Personal Equipment Strategy
- Review of Operational Equipment Strategy
- Review of Minor Assets
- Update on financial performance of projects
- Analysis of projected under/overspend
- Annual Governance Statement
- Progress on implementation of Fleet Review



**FORWARD WORK PROGRAMME FOR  
FINANCE, AUDIT & PERFORMANCE MANAGEMENT COMMITTEE 2014/15**

<b>Expected Date of Report</b>	<b>Report Name</b>	<b>Purpose of Piece of Work</b>	<b>Lead Director/ Contact Officer</b>	<b>Progress</b>
Each meeting	Audit & Plan Scheme Updates	To seek Members' views upon the progress of Audit & Plan Scheme Actions	DCO  Contact Officer: Steve Rossiter	On agenda
Each meeting as required	Internal Audit Progress Report & Audit Action Updates	To provide an updated position of work performed against the internal audit plan and to highlight any significant issues arising from the internal audit work performed	DCO  Contact Officer: Geraint Thomas	
As required	Performance Report	To scrutinise specific issues of performance identified and referred by Fire Authority	DCO  Contact Officer: Steve Rossiter	On agenda
As required	Statistics Report	To scrutinise specific statistics or trends as identified and referred by Fire Authority	Andy Thomas  Contact Officer: Steve Rossiter	
As required	WAO Thematic Reviews	To advise Members of the conclusions of thematic studies and to consider the implications for the Service	DCO  Contact Officer: Sally Chapman	
Following	Uniformed & Non-Uniformed	To advise on the agreed pay awards	ACO People	

<b>Expected Date of Report</b>	<b>Report Name</b>	<b>Purpose of Piece of Work</b>	<b>Lead Director/ Contact Officer</b>	<b>Progress</b>
agreement of each pay award	Pay Awards	for the year and how these could be met from existing resources	Services/ Treasurer/DCO  Contact Officer: Mark Malson	
30 June 2014	Revenue Outturn	To advise on total revenue expenditure for the year against the set revenue budget following the year end and to explain variations	Treasurer/DCO  Contact Officer: Geraint Thomas	Completed
30 June 2014	Capital Outturn	To advise on total capital expenditure for the year against the set capital budget following the year end and to explain variations	Treasurer/DCO  Contact Officer: Geraint Thomas	Completed
30 June 2014	Statement of Accounts	To advise Members of the content of the Statement	Treasurer  Contact Officer: Chris Barton/ Geraint Thomas	Completed
30 June 2014	WAO Regulatory Calendar and Fees	To outline the planned external audit coverage for the year and to seek comment and approval	DCO  Contact Officer: Sally Chapman	Completed
30 June 2014	WAO Annual Improvement Report	To advise Members of the key issues emanating from the annual report and	DCO	Completed

Expected Date of Report	Report Name	Purpose of Piece of Work	Lead Director/ Contact Officer	Progress
		to provide an opinion on adequacy and effectiveness of the organisation and its potential to improve, its approach to risk management, control and governance processes based on the WAO work undertaken during the year, including data quality & PIs, HR work, a Framework update, whistleblowing and forward planning	Contact Officer: Sally Chapman	
15 Sept 2014	WAO Improvement Assessment Letter 1	To receive the WAO Improvement Assessment letter 1 that will feed into the Annual Improvement Report later in the year	DCO  Contact Officer: Sally Chapman	Completed
15 Sept 2014	WAO Audit of Accounting Statements (ISA 260 report)	To provide an opinion on the accuracy, adequacy and statutory compliance of the Authority's statement of accounts - for final FA determination	Treasurer  Contact Officer: Chris Barton/ Geraint Thomas	Completed
15 Sept 2014	Treasury Management Outturn Report	To advise on performance against the treasury management policy and strategy following financial year end	Treasurer  Contact Officer: Chris Barton/ Geraint Thomas	Completed

<b>Expected Date of Report</b>	<b>Report Name</b>	<b>Purpose of Piece of Work</b>	<b>Lead Director/ Contact Officer</b>	<b>Progress</b>
24 Nov 2014	Draft Improvement Objectives for 2015/16	To seek Members' approval to the Improvement Objectives being issued for publication for public consultation	DCO  Contact Officer: Steve Rossiter	Completed - Approved by the FA on 29 September 2014
<del>15 Sept 2014</del> 24 Nov 2014	Revenue Budget Setting Report	To assist in determining the appropriate revenue budget required to meet the Service's requirements for the financial year	Treasurer/DCO  Contact Officer: Chris Barton/ Sally Chapman/ Geraint Thomas	Completed
<del>15 Sept 2014</del> 24 Nov 2014	Capital Budget Setting Report	To assist in delivering the appropriate capital budget required to meet the Service's requirements for the financial year	Treasurer/DCO  Contact Officer: Chris Barton/ Sally Chapman/ Geraint Thomas	Completed
24 Nov 2014	Treasury Management Interim Report	To update Members on treasury management activity during the year to date	Treasurer  Contact Officer: Chris Barton/ Geraint Thomas	Completed

<b>Expected Date of Report</b>	<b>Report Name</b>	<b>Purpose of Piece of Work</b>	<b>Lead Director/ Contact Officer</b>	<b>Progress</b>
15 <del>Sept</del> 2014 24 <del>Nov</del> 2014 9 March 2015	Revenue Monitor	To provide an update on revenue expenditure against the revenue budget for the year	Treasurer/DCO  Contact Officer: Geraint Thomas	On agenda
15 <del>Sept</del> 2014 24 <del>Nov</del> 2014 9 March 2015	Capital Monitor	To provide an update on capital expenditure against the capital budget for the year	Treasurer/DCO  Contact Officer: Geraint Thomas	On agenda
24 <del>Nov</del> 2014 9 March 2015	WAO Improvement Assessment Letter 2	To receive the WAO Improvement Assessment Letter 2 that will feed into the Annual Improvement Report later in the year	DCO  Contact Officer: Sally Chapman	On agenda
15 <del>Sept</del> 2014 9 March 2015	Corporate Risk Register	To seek Members' views upon the Corporate Risk Register	DCO  Contact Officer: Steve Rossiter	On agenda
9 March 2015	Appointed Auditors Letter	To provide an opinion on adequacy and effectiveness of risk management, control and governance processes based on the work of KPMG as appointed auditors for WAO undertaken during the year for financial reporting	DCO  Contact Officer: Sally Chapman	On agenda

<b>Expected Date of Report</b>	<b>Report Name</b>	<b>Purpose of Piece of Work</b>	<b>Lead Director/ Contact Officer</b>	<b>Progress</b>
9 March 2015	Treasury Management Strategy	To seek Member approval of the treasury management policy and strategy for the following financial year	Treasurer  Contact Officer: Chris Barton/ Geraint Thomas	On agenda
9 March 2015	Internal Audit Programme	To outline the planned internal audit coverage for the financial year and to seek comment and approval	DCO  Contact Officer: Sally Chapman/ Geraint Thomas	On agenda
9 March 2015	Internal Audit Annual Report	To provide an opinion on the adequacy and effectiveness of risk management, control and governance processes based on the internal audit work undertaken during the financial year. This will support the statement of internal control.	DCO  Contact Officer: Sally Chapman/ Geraint Thomas	On agenda
9 March 2015	Draft annual report of the work of the FAPM Committee and the discharge of the terms of reference of the Finance, Asset & Performance Management Working Group	To consider the draft report on the annual work of the Committee before its submission to the Fire Authority and to ensure the Authority has efficient use of resources and robust procedures in place to ensure and manage this	Chair of FAPM, Chair of Working Group & DCO  Contact Officer: Sally Chapman	On agenda

Expected Date of Report	Report Name	Purpose of Piece of Work	Lead Director/ Contact Officer	Progress
24 Nov 2014 <del>9 March 2015</del> 11 May 2015	Scrutiny of Incidents Where No Smoke Alarm was Fitted or Actuated	To provide a scrutiny of incidents where no smoke alarm was fitted or actuated and a comparison with family group 4 data	ACO SD  Contact Officers: Andy Thomas	Deferred to May's meeting

Sally Chapman - DCO  
 Andy Thomas – ACF O Service Delivery  
 Chris Barton - Treasurer

Geraint Thomas - Head of Finance & Procurement  
 Mark Malson - Head of Human Resources  
 Steve Rossiter - Head of Service Performance & Communications



1. Apologies for Absence
2. Declarations of Interest

Members of the Fire & Rescue Authority are reminded of their personal responsibility to both verbally and in writing declare any personal and/or prejudicial interests in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act 2000, the Fire & Rescue Authority's Standing Orders and the Members Code of Conduct.

3. Chairman's Announcements
4. To Receive the Minutes of:
  - Finance, Asset & Performance Management Working Group held on 20 October 2014 5
  - FAPM Meeting held on 24 November 2015 11
5. Revenue Monitoring Report 2014-15 15
6. Capital Monitoring Report 2014-15 23
7. Corporate Risk Register 2014-15 Quarter 3 Review 29
8. Annual Audit Letter 47
9. Wales Audit Office – Financial Planning Assessment 51
10. Wales Audit Office – Data Quality Review 67
11. Treasury Management Strategy 2015-2016 71
12. Internal Audit Report 97
13. Internal Auditors Annual Report Year Ending 31 March 2015 161
14. Internal Audit Annual Report 2015-2016 173
15. Performance Monitoring Report - Quarter 3 (Q3) October 2014 to December 2014 **(Background papers attached separately to email)** 175
16. Draft Annual Report of the Work of the FAPM Committee & the Discharge of the Terms of Reference of the Finance, Asset & Performance 187



**At the close of the meeting Members will meet with the Wales Audit Office and Internal Auditors to discuss Service progress**