

Mae'r ddogfen hon ar gael yn Gymraeg

AWDURDOD TÂN AC ACHUB GOGLEDD CYMRU



NORTH WALES FIRE AND RESCUE AUTHORITY

The AUDIT COMMITTEE meeting will be held MONDAY 25 JANUARY 2021 at 10.00am via Zoom.

Yours faithfully

Colin Everett
Clerk

AGENDA

1. Apologies

2. Declarations of Interests

3. Notice of Urgent Matters

Notice of items which, in the opinion of the Chairman, should be considered at the meeting as a matter of urgency pursuant to Section 100B (4) of the Local Government Act, 1972.

4. Minutes of the meeting held on 27 January 2020

5. Matters arising

6. Capital Strategy and Treasury Management

7. Internal Audit Strategy and Annual Plan 2021/22

8. Audit Wales Annual Audit Letter 2019/20

9. Financial Reserves Strategy

10. Urgent Matters

To consider any items which the Chair has decided are urgent (pursuant to Section 100B (4) of the Local Government Act, 1972) and of which substance has been declared under item 3 above.

PART II

It is recommended pursuant to Section 100A (4) of the Local Government Act, 1972 that the Press and Public be excluded from the meeting during consideration of the following item(s) of business because it is likely that there would be disclosed to them exempt information as defined in Paragraph(s) 12 to 18 of Part 4 of Schedule 12A of the Local Government Act 1972.

No items.

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

Minutes of the Audit Committee Meeting of the North Wales Fire and Rescue Authority held on 27 January 2020 at the Fire and Rescue Headquarters, St Asaph. Meeting commenced at 10am.

PRESENT

Councillors:

B Apsley (Chair)	Wrexham County Borough Council
A I Dunbar	Flintshire County Council
S Glyn	Gwynedd Council
S Lloyd-Williams	Conwy County Borough Council
G Lowe	Wrexham County Borough Council
E W Jones	Anglesey County Council
B Parry-Jones	Wrexham County Borough Council
W P Shotton	Flintshire County Council
N Smith	Conwy County Borough Council
W O Thomas	Flintshire County Council
D Wisinger (part meeting)	Flintshire County Council

ALSO PRESENT:

K Finch (Treasurer); H MacArthur and S Morris (Assistant Chief Officers); G Williams (Accountancy and Exchequer Services, Conwy County Borough Council); K V Williams (Audit Department, Conwy County Borough Council); A Davies (Member Liaison Officer).

APOLOGIES:

Cllr B Blakeley	Denbighshire County Council
Cllr G A Roberts	Gwynedd Council
G Owens	Deputy Monitoring Officer

1 DECLARATIONS OF INTEREST

1.1 None.

2 MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2019

2.1 The minutes of the meeting held on 16 September 2019 were submitted for approval.

2.2 **RESOLVED to approve the minutes of the last meeting as a correct record.**

3 MATTERS ARISING

3.1 There were no matters arising.

4 CAPITAL STRATEGY AND TREASURY MANAGEMENT

4.1 The Treasurer presented the report and Graham Williams then led Members through the report, with the aid of a detailed presentation, and answered Members' questions.

4.2 The report contained information about how capital expenditure, capital financing and treasury management activity contribute to the provision of a fire and rescue service along with an overview of how associated risk is managed and the implications for future financial sustainability. The report also included the prudential indicators and treasury strategies that need approval by the Fire and Rescue Authority.

4.3 It was noted that the revenue and capital budgets for 2020/21 were approved by the Fire and Rescue Authority at its December 2019 meeting. Members had approved a net revenue budget of £35.9m for 2020/21 with a further £4.1m approved for capital expenditure. It was also noted that the strategies in the report had been prepared using guidance from the Treasury Management advisors, Arlingclose, used by Conwy County Borough Council who has the responsibility for the Fire Service Treasury function.

4.4 In response to a Member's question it was noted that there had been a significant increase in the budget for capital expenditure for the coming year due to decisions taken in previous years to defer capital purchases in order to manage the budget. However, a number of deferred schemes were now planned for 2020/21 including the replacement of a number of fire appliances.

4.5 **RESOLVED to recommend to the Fire and Rescue Authority that it approves each of the five key elements of the report as set out below:**

- (i) Overall Capital Strategy;**
- (ii) Prudential Indicators;**
- (iii) Treasury Management Strategy for 2020/21;**
- (iv) Investment Strategy;**
- (v) Minimum Revenue Provision Policy.**

5 INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2020/21

5.1 Keith V Williams from the Internal Audit Department of CCBC presented the Internal Audit Strategy and Annual Plan 2020/21. Members were asked to consider and approve the document in compliance with the requirements of the Accounts and Audit Regulations (Wales) 2014.

5.2 The overall strategy of internal audit is to deliver a risk based audit plan in a professional, independent manner, in compliance with the Public Sector Internal Audit Standards 2013. The strategy identifies how the Internal Audit Service will assist the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

5.3 Mr Williams advised that Internal Audit will be focusing on the following areas during 2020/21:

Community Fire Safety – Safe and Well Checks	To review the procedures operating with regard to Community Safety – Safe and Well Checks, particularly in respect of partnership working and the referral and delivery of checks to ‘vulnerable’ members of the community.
HR and Payroll – Starters and Leavers	The objectives are to appraise the adequacy of the HR and payroll procedures in respect of employee starters and leavers, with a view to identifying any internal control weaknesses and areas of potential risk within the system.
Central Stores	A review of the Central Stores procedures in respect of purchasing, receipts, issues, stocks, adjustments and security.

5.4 In addition to the planned audit work, it was noted that ongoing assurances are provided throughout the year due to the financial work that CCBC undertakes for the Authority.

5.5 In response to a Member’s question about acquisition and disposal of vehicles, Mr Williams confirmed that regular audits are undertaken at the Fleet department.

5.6 **RESOLVED to approve the Internal Audit Strategy and Annual Plan 2020/21.**

- 6 ANNUAL AUDIT LETTER 2018/19
- 6.1 The report was presented to inform Members of the annual audit letter received from the Wales Audit Office in relation to the 2018/19 financial year.
- 6.2 It was noted that the letter summarised the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and his reporting responsibilities under the Code of Audit Practice in respect of that year.
- 6.3 Members were pleased that the letter gave a positive message in that it confirmed that the Authority had complied with its responsibilities relating to financial reporting and use of resources and that the Auditor General for Wales was satisfied that the Authority had appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Members congratulated the officers involved with this area of work.
- 6.4 **RESOLVED to note the content of the 2018/19 annual audit letter.**

Report to	Audit Committee
Date	25 January 2021
Lead Officer	Ken Finch - Treasurer
Contact Officer	Ken Finch
Subject	Capital Strategy 2021/22 – 2023/24



PURPOSE OF REPORT

- 1 The Capital Strategy provides information on how capital expenditure, capital financing and treasury management activity contribute to the provision of a Fire and Rescue Service. This includes information on how associated risk is managed and the implications for future financial sustainability. It summarises the overall processes and procedures that govern the purchase and financing of assets in order to enhance members' understanding of these technical areas. The report incorporates the Prudential Indicators and Treasury Management Strategies.

EXECUTIVE SUMMARY

- 2 The revenue and capital budgets for 2021/22 were approved by the Fire and Rescue Authority at its meeting of 9 November 2020. Members approved a net revenue budget of £37.07m for 2021/22 with a further £3.08m approved for capital expenditure. The Capital Strategy has been prepared using the relevant data contained in the revenue and capital budgets approved by Members and from various policies and procedures that are in place to manage the purchase and financing of assets.
- 3 The report at appendix 1 provides further details relating to the Capital Strategy along with detailed information with regards the Prudential Indicators for 2021/22 to 2023/24 and the strategy to be followed regarding borrowing and investing the Authority's funds in the financial year 2021/22.

RECOMMENDATIONS

- 4 That Members recommend to the Fire and Rescue Authority that it approves the Capital Strategy which incorporates the minimum revenue provision policy, the Treasury Management Strategy and the Prudential Indicators.

BACKGROUND

- 5 The Audit Committee has been tasked with ensuring effective scrutiny of the treasury management strategy and policies and based on its findings make recommendations to the Fire and Rescue Authority.

INFORMATION

- 6 The Committee should note that the strategies in the report have been prepared using guidance from the Treasury Management advisors, Arlingclose, used by Conwy County Borough Council who has the responsibility for the Fire and Rescue Service Treasury function.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives and ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. The Capital Strategy ensures that there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	The budget is set annually for capital financing in line with the Medium Term Financial Strategy.
Legal	The regulatory framework is set out in the appendices to the report.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the Service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

CAPITAL STRATEGY

This document sets out the Capital Strategy (the Strategy) for North Wales Fire and Rescue Authority (the Authority) for the financial years 2021/22 through to 2023/24.

This strategy brings together the complex areas relating to capital investment and includes:

1. Capital expenditure plans;
2. Capital financing requirements;
3. The revenue budget implications of capital decisions;
4. Affordability and sustainability of capital plans;
5. Treasury management activity;
6. Prudential indicators; and
7. Governance arrangements.

1.0 Capital Expenditure Plans

Capital expenditure is where the Authority spends money on assets which will be used over a period exceeding one year. This will include amounts spent on buying assets such as property, vehicles or equipment but may also include expenditure on upgrading existing assets. The underlying assets are generally owned by the Authority but capital expenditure may also be incurred on assets owned by other bodies or relate to loans or grants issued to other bodies to enable them to buy assets.

The Authority follows the CIPFA Code of Practice on Local Authority Accounting which includes some limited discretion on what counts as capital expenditure. For example, assets costing below £5,000 are not capitalised and are charged directly to the revenue account in the year that the expenditure is incurred. The Authority's Financial Regulations contain the key controls and confirm that all expenditure must be in accordance with the Authority's Contract Procedure Rules.

The details of the Authority's policy on capitalisation and the treatment of assets for accounting purposes is included as an appendix to the Statement of Accounts under 'Statement of Accounting Policies'. The accounts are published on the Authority's website every year, www.nwales-fireservice.org.uk.

The Authority's Medium Term Financial Strategy recognises the need for continued investment in buildings, vehicles, ICT assets and equipment to ensure that the Authority is able to achieve its stated objectives. Governance arrangements are in place to ensure that all expenditure is aligned to the corporate priorities which are set out in the Authority's Improvement and Well-being Plan.

The capital expenditure detailed below forms part of the Authority's Medium Term Financial Strategy and was approved by the Fire and Rescue Authority in November 2020.

	2019/20 Actual £'000	2020/21 Revised £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital expenditure	775	1,031	3,082	2,576	5,176

2.0 Capital Financing Requirement

As part of the process for establishing the capital expenditure plans, it is important that the Authority considers how such expenditure will be financed and the affordability of these decisions over the lifetime of the asset. Capital expenditure may be financed from internal sources such as revenue budgets, capital receipts or usable reserves or from external sources such as borrowing, leasing or grants.

Borrowing is only a temporary source of finance and must be repaid during the lifetime of the asset. A financing charge is made to the Authority's revenue accounts each year which is known as minimum revenue provision (MRP).

The Authority's cumulative outstanding amount of borrowing is measured by the capital financing requirement (CFR). This increases when further expenditure is funded by borrowing and reduces when debt is repaid using capital receipts and MRP.

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

The Authority's Capital Financing Requirement (CFR) is set out in the table below:

	2019/20 Actual £'000	2020/21 Revised £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement					
Opening CFR	33,382	31,744	30,581	31,505	31,839
Closing CFR	31,744	30,581	31,505	31,839	34,640
Movement in CFR	(1,638)	(1,163)	924	334	2,801

Movement in CFR represented by					
Net financing need for the year (above)	599	1,031	3,082	2,576	5,176
Less MRP/VRP	(2,236)	(2,195)	(2,159)	(2,243)	(2,374)
Movement in CFR	(1,638)	(1,163)	924	334	2,801

3.0 Revenue Budget Implications of Capital Decisions

Capital expenditure is not charged directly to the revenue budget. Instead an annual charge is made to the revenue account for using the capital assets. This charge to revenue reflects the repayment of a proportion of the borrowing incurred to buy the underlying capital assets. The charge to revenue is known as the minimum revenue provision (MRP) and forms part of the capital financing charge. The capital financing charge also includes the interest cost of borrowing but may be offset by any receivable investment income.

The Local Government Act 2003 does not specify how the MRP should be calculated but the Authority must consider the Welsh Government guidance which was issued in 2018. The broad aim of the guidance is to ensure that over the life of the asset the charges made to the Authority's revenue account reflect the underlying costs and finance charges. Thus the full cost of capital decisions will be reflected in the Authority's revenue position.

The Authority's MRP policy is set out below which is consistent with the Welsh Government guidance and reflected in the Medium Term Financial Strategy approved in November 2020:

- The MRP will be calculated by charging the expenditure over the expected useful life of the asset as determined by the Authority's Financial Accounting Policies. The charge will be made in equal instalments and commence in the year after the asset became operational.

The revenue impact of the capital investment plans are outlined below:

	2019/20 actual (£'000)	2020/21 forecast (£'000)	2021/22 budget (£'000)	2022/23 budget (£'000)	2023/24 budget (£'000)
Minimum Revenue Position	2,236	2,195	2,159	2,243	2,374
Financing costs	513	458	592	637	591
Total charge to revenue	2,749	2,653	2,751	2,880	2,965

4.0 Affordability and Sustainability of Capital Plans

Due to the long-term nature of capital assets, the decisions made in relation to capital expenditure will have a revenue consequence for a number of years. The actual number of years is dependent on the type of asset although in respect of buildings this may extend to 50 years. Therefore, the capital planning process must have due regard for the longer term affordability and sustainability of capital expenditure and financing decisions.

The Financial Regulations include controls to ensure that all proposals are subject to appropriate scrutiny and approval. In addition, the Authority has adopted affordability indicators to provide insight into the impact of capital investment plans on the Authority's overall revenue position

The core measure is the actual and estimated financing costs as a percentage of all of the Authority's revenue costs. This identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the expected revenue streams within the medium term financial plans. The estimates of financing costs below include current commitments and the Capital Programme approved by members in November 2020.

	2019/20 Actual %	2020/21 Revised %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Ratio	7.8%	7.4%	7.4%	7.6%	7.6%

5.0 Treasury Management Strategy

The Authority's treasury management arrangements are a key component of the capital strategy and reflect the management of cash flows for both revenue and capital expenditure requirements.

The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Code requires that the Treasury Management Strategy is reported to the Authority on an annual basis. The Treasury Management Strategy sets out how the Authority will meet the funding requirements established within the capital expenditure plans.

A key requirement of the strategy is to explain both the risks, and the management of the risks, associated with treasury activities and set out the Authority's risk appetite and control measures.

Capital Financing Requirement (CFR)

The borrowing requirement comprises the expected movement in the CFR taking into account existing borrowing, loans expected to be paid off and future borrowing requirements arising from the capital expenditure programme. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
External Debt				
Debt at 1 April	31,744	30,581	31,505	31,839
New loans to meet CFR	0	924	334	2,801
Maturing Debt	-26,600	-25,000	-25,000	-25,000
Maturing Debt Replacement	25,437	25,000	25,000	25,000
Debt at 31 March	30,581	31,505	31,839	34,640
Annual change in debt	-1,163	924	334	2,801
Investments				
Total Investments at 31 March	1,000	1,000	1,000	1,000
Investment change	0	0	0	0

Further changes may be required due to technical amendments to the financial reporting standard governing the treatment of leases. This is expected to be introduced during 2022 and will reclassify existing operating leases as capital commitments. Work is currently ongoing to fully quantify the impact, which will be reported to the Authority.

It is important that the Authority sets limits to ensure that the borrowing is carefully managed and this is achieved through two key indicators:

- **The Operational Boundary** – this indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached.
- **The Authorised Limit** – this represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. 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. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The following limits are in place for the periods 2021/2024

	2020/21 Revised £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Operational Boundary	30,581	31,505	31,839	34,640
Authorised Limit	32,581	33,505	33,839	36,640

Economic Background

The economic environment arising from both the coronavirus pandemic and the UK's exit from the European Union is currently very uncertain. The impact on the financial markets remains unclear and the Bank of England has maintained the base rate at 0.1%. The Authority's treasury management adviser Arlingclose is forecasting that the base rate will remain at 0.1% until at least the end of 2023. However, this remains a very uncertain position which may even give rise to negative interest rates.

Gilt yields are expected to remain very low in the medium term with short term rates remaining below or at zero. In the longer term, Arlingclose is forecasting that the 10 and 20 year gilt yields will rise to 0.5% and 0.75% respectively.

Borrowing Strategy 2021/22

The main objectives when borrowing are to achieve low rates, reduce risks and maintain flexibility. These objectives are often conflicting, and it is necessary to achieve a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5% to 2.5%).

The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account any risks and in accordance with the following controls.

Maturity Structure

The upper and lower limits for the maturity structure of the Authority's fixed rate borrowings are set out below:

	Upper Limit	Lower Limit
Under 12 months	60%	0%
12 months and within 24 months	45%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Variable and Fixed Rate Loans

The Treasurer will ensure that the mix of variable and fixed rate loans is maintained within the following limits:

	% Borrowing
Fixed Interest Rate	65 – 100
Variable Interest Rate	0 – 35

Investment Strategy

When cash balances are higher than expected cash outflows, the Authority is able to invest surplus cash. These investments are short term in nature and incidental to the Authority's core business. Therefore, all investment decisions should aim to reduce risk rather than maximise returns and liquidity is a priority.

The Authority's investment strategy primarily seeks to safeguard the principal invested and ensure that it is available in a timely manner when required. The investment returns are a secondary consideration.

The Treasurer will maintain a list of all the financial institutions which the service can utilise for investing funds. The counterparty list will be subject to the following criteria:

Institution	Description	Limit
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m
Central Government	Debt Management Office	Unlimited
Money Market Funds (MMF)	Only in conjunction with advice from Arlingclose.	£1m per fund
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992.	£2m
Building Societies	Building societies with a rating (as for the banking sector).	£2m
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1 billion or more.	£2m/9 months

6.0 Prudential Indicators

The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of the Authority are affordable, prudent and sustainable.

To aid those charged with governance, the Prudential Code requires the adoption of indicators which either summarise the expected capital activity or introduces limits upon that activity. These indicators reflect the outcome of the Authority's capital appraisal systems and ensures that controls are in place, including appropriate risk awareness and management.

The table below confirms the indicators for period 2020/2024 and reflect the capital plans within the medium term financial strategy approved by the Authority on 9 November 2020. These indicators provide the framework of control for the Authority.

		2020/21 Forecast (£'000)	2021/22 Budget (£'000)	2022/23 Budget (£'000)	2023/24 Budget (£'000)
1	Capital Expenditure	1,031	3,082	2,576	5,176
2	Capital Financing Requirement	30,581	31,505	31,839	34,640
3	Authorised Limit	32,581	33,505	33,839	36,640
4	Operational Boundary	30,581	31,505	31,839	34,640
5	Ratio of Financing Costs to Net Expenditure	7.4%	7.4%	7.6%	7.6%
6	Investments	1,000	1,000	1,000	1,000
7	Fixed Interest rate loans as a % of Total Borrowing	Minimum 65% Maximum 100%			
8	Variable rate loans as a % of Total Borrowing	Minimum 0% Maximum 35%			
9	Maturity Structure of Fixed Rate Borrowing				
		Upper Limit		Lower Limit	
	Under 12 months	60%		0%	
	12 months to 2 years	45%		0%	
	2 years to 5 years	45%		0%	
	5 years to 10 years	75%		0%	
	10 years and above	100%		0%	

7.0 Governance Arrangements

The governance framework for the capital strategy is underpinned by a number of codes of practice as outlined within this document. The Prudential Indicators are monitored and reported to the Audit Committee during the financial year with variances highlighted and investigated.

Control and oversight is maintained by the Treasurer with day to day decision making delegated to officers. The capital expenditure plans are managed by the Service, with financing and treasury management arrangements delegated to Conwy County Borough Council as part of the Financial Services contract.

Officers and staff are supported through the appointment of professional advisors, Arlingclose Limited who provide professional Treasury Management services, thus ensuring appropriate risk management.

Report to	Audit Committee
Date	25 January 2021
Lead Officer	Mike Halstead, Head of Audit and Procurement Services
Contact Officer	Keith V Williams, Audit, Conwy CBC
Subject	Internal Audit Strategy and Annual Plan 2021/22



PURPOSE OF REPORT

- 1 The Internal Audit Strategy and Annual Plan 2021/22 is submitted to the Audit Committee for consideration and approval, in compliance with the Public Sector Internal Audit Standards.

EXECUTIVE SUMMARY

- 2 The overall strategy of Internal Audit is to deliver a risk based audit plan in a professional, independent manner, in compliance with the Public Sector Internal Audit Standards. The Strategy identifies how the Internal Audit Service will assist the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Strategy and Annual Plan is submitted for approval on an annual basis.

RECOMMENDATIONS

- 3 That Members consider and approve the Internal Audit Strategy and Annual Plan 2021/22.

BACKGROUND

- 4 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit Regulations (Wales) 2014 places a statutory obligation on the Authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control".
- 5 The Internal Audit Service's terms of reference are documented in the Service Level Agreement for the provision of financial services with Conwy County Borough Council for the period to 31st March 2022.

INFORMATION

STRATEGY STATEMENT

- 6 The overall strategy of Internal Audit is to deliver a risk based audit plan in a professional, independent manner, in compliance with the Public Sector Internal Audit Standards 2017. Internal Audit provides the organisation with objective assurance and undertakes consulting activities designed to add value and improve the Authority's operations. The Internal Audit Service will assist the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

DEFINITION AND OBJECTIVE

- 7 In compliance with the Public Sector Internal Audit Standards, the Head of Internal Audit is required to develop and maintain a strategy for delivering the Internal Audit service. Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The control environment includes all authority operations, resources, services, and its responsibilities to other bodies.
- 8 The Accounts and Audit Regulations require the NWFRA to produce an Annual Governance Statement each year. The Head of Audit provides an annual report to those charged with governance to support the production of the Annual Governance Statement. This formal report includes an opinion on the overall adequacy and effectiveness of the risk management systems and the internal control environment; disclosure of any qualifications to that opinion together with reasons; a summary of the of the audit work upon which the opinion is based; the extent to which reliance upon the work of other assurance bodies has been placed; and any issues considered relevant to the preparation of the Annual Governance Statement.
- 9 Internal Audit operates in a consultancy role in advising managers in relation to issues within its remit, such as the implementation of appropriate controls in terms of new projects, developments and systems. The exact allocation of resources in respect of consultancy work is determined in the audit plan. Separate time allocations are allowed for consultancy activities, fraud related work and follow up audits.

STATUS

- 10 Internal Audit is responsible to the Treasurer for line management purposes, and helps to discharge the statutory functions of the Chief Finance Officer as defined in Section 151 of the Local Government Act 1972. However Internal Audit is independent in its planning and operation.
- 11 The Head of Audit Services has direct access to the Chief Fire Officer, all levels of management and elected members. Internal Auditors have the authority to:
- Enter at all reasonable times any authority establishment.
 - Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary, for the purposes of audit review and/or investigations.
 - Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
 - Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
 - Require any employee of the NWFRA to produce cash, materials or any other property belonging to the authority in their possession or under their control.
 - Access records belonging to third parties, such as contractors or partners, when required and appropriate.

DELIVERY OF THE AUDIT SERVICE

- 12 The Head of Audit Services is responsible for delivering the audit service in accordance with the Service Level Agreement. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out based upon a Needs Assessment and a risk based planning process, an annual operational audit plan and monthly work plans. All plans are based on an assessment of risk.
 - Providing the resources required to deliver the audit plan, the necessary skills (both in general audit and technical areas) and support facilities, such as IT facilities, equipment and management and administration processes.

INTERNAL AUDIT PLAN 2021/22

- 13 The Draft Annual Plan for 2021/22 is attached at **Appendix A**. The purpose of the annual audit plan is to:-
- Establish audit priorities in conjunction with Fire and Rescue Authority Management based upon a risk based approach of determining the audit needs of the Authority at the start of each year.
 - Determine the resources needed to carry out the required audit duties.
 - Review and follow up the audit work of the previous year.
- 14 The audit plan is designed to act as a guide only. Changes in circumstances or other emerging risks may result in deviations from the plan. The plan for 2021/22 has been prepared following consultation with Fire and Rescue Authority Management. The plan also includes time to follow up recommendations from previous audits.
- 15 The Internal Audit service will be delivered on the basis of a Needs Assessment, a risk based approach to determining the needs of the Authority at the start of each year and detailed operational plans which will be presented to the Audit Committee on an annual basis for approval. The assessment sets out the number of days required for Internal Audit to adequately review the areas involved, and a risk assessment level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks, including those identified through the Risk Management process and by the external auditor and the views of senior management on these issues. Where resources available are not considered by the Head of Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation through the Audit Committee.
- 16 The Plan balances the following requirements:
- the need to ensure the Audit Plan is completed to the target levels established by the section's performance indicators;
 - the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control on which External Audit will place reliance;
 - the need to appropriately review other strategic and operational arrangements;
 - the need to have uncommitted time available to deal with unplanned issues which may need to be reviewed or investigated;

- the relative allocation of resources between assurance, fraud related and consultancy services provided by internal audit.
- 17 Progress against the operational plan and the content of the plan, will be kept under review by the Head of Audit Services in liaison with the Treasurer and through monitoring corporate and service developments. The Audit Committee will be advised of performance against the operational plan.
 - 18 Internal Audit will comply with the Public Sector Internal Audit Standards (PSIAS). The Head of Audit Services will ensure that there is an up to date Audit Manual in place setting out expected standards for the service and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments.
 - 19 An external assessment of Internal Audit's conformance against the PSIAS was undertaken on 31st October 2016 by Wrexham County Borough Council. The external assessors' overall opinion was that the Internal Audit Service generally conforms with the PSIAS and Code of Ethics in all significant areas and that it operates independently and objectively.
 - 20 Conwy County Borough Council has established a Performance and Development Review Policy, which identifies the training, and development needs of its employees. The Internal Audit Section relies heavily upon the effectiveness of its staff to deliver high quality services. The aim of the PDR process is to reinforce and strengthen the relationship between individual performances, expectations of management, and organisational goals. In addition, the PSIAS (1230) requires the Head of Audit and Procurement Services to ensure that the Internal Audit Section has access to the full range of knowledge, skills, qualifications and experience to meet the Section's objectives and standards.
 - 21 Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.
 - 22 The reporting approach for Internal Audit is set out in the approved Service Level Agreement and Internal Audit will comply with this approach as the most efficient method of delivering the outcomes of its work.

- 23 In the delivery of each assignment Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management, such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

IMPLICATIONS

Wellbeing Objectives	Taken into consideration and incorporated within the Strategy.
Budget	No additional cost pressures; budget set for 2021/22 incorporates the SLA with CCBC for the provision of financial services.
Legal	Compliance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations (Wales) 2014.
Staffing	No implications; Internal Audit Strategy implemented by Conwy Internal Audit staff.
Equalities/Human Rights/ Welsh Language	Conwy Internal Audit Services operates in accordance with legislation.
Risks	Failure to produce a strategy and appropriately plan the work of the Internal Audit Service would result in an undisciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes and negatively impact on improvement of the Authority's operations. This would weaken the governance framework and could lead to the Authority receiving an adverse opinion on its arrangements for an effective Internal Audit Service, as required under relevant legislation.

**North Wales Fire and Rescue Authority
Draft Internal Audit Annual Plan 2021/22**

APPENDIX A

Ref	Audit Review	Comments	Days	Planned Timing
Risk Area – Financial and Fraud Risks				
17	Payroll – Payments and Deductions	The objectives are to appraise the adequacy of the payroll procedures in respect of salary payments and employee deductions, with a view to identifying any internal control weaknesses and areas of potential risk within the system.	13	August 2021
24	Central Stores	A review of the Central Stores procedures in respect of purchasing, receipts, issues, stocks, adjustments and security.	13	September 2021
27	National Fraud Initiative	NFI is a comprehensive and thorough 'data matching' exercise organised by the Cabinet Office in partnership with Audit Wales.	8	January 2022
Other Audit Work				
-	Audit Planning, Annual Report and Management	Provision for time required for management element of contract.	6	Ongoing
-	Follow up of Previous Recommendations	Following up recommendations made in 2020/21 – <ul style="list-style-type: none"> • Safe and Well Checks • Payroll – Starters and Leavers 	8	Ongoing
-	Contingency Reserve	For unplanned work identified during the year and liaison/advice as required.	2	
Total Days Required for Audit Work			50	
Total Days Allocated 2021/22			50	
Totals Days b/f from 2020/21			-	
Total Days Available 2021/22			50	

Report to	Audit Committee
Date	25 January 2021
Lead Officer	Ken Finch, Treasurer
Contact Officer	Ken Finch, 01745 535286
Subject	Audit Wales Annual Audit Letter 2019/20



PURPOSE OF REPORT

- 1 To present the Annual Audit Letter from Audit Wales to Members for noting.

EXECUTIVE SUMMARY

- 2 The 2019/20 annual audit letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and his reporting responsibilities under the Code of Audit Practice in respect of that year.

RECOMMENDATIONS

- 3 Members are requested to note the content of the 2019/20 Annual Audit Letter.

BACKGROUND

- 4 The Auditor General for Wales is the statutory auditor for the North Wales Fire and Rescue Authority

INFORMATION

- 5 The Auditor General is required to summarise the key messages from his work during the year. The Annual Audit Letter also includes his conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. It reports on the work of the service in the year and includes an assessment of the future plans for the service with regards funding and future risks which may impact on service delivery.
Budget	This report looks at the Authority's financial arrangements with regards operating within the budget set.
Legal	The report is a statutory requirement as detailed above.
Staffing	None
Equalities/Human Rights/ Welsh Language	None
Risks	Key messages may conclude that there are improvements needed that need to be actioned.

Councillor Peter Lewis (Chair)
North Wales Fire and Rescue Authority
Ffordd Salesbury
St Asaph business park
St Asaph
Denbighshire
LL17 OJJ

Reference: DO21-01

Date issued: 5 January 2021

Dear Councillor Lewis,

Annual Audit Letter – North Wales Fire and Rescue Authority 2019-20

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 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 10 November 2020 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 Fire Fighters' Pension Fund financial position

Page 1 of 2 - **Annual Audit Letter – North Wales Fire and Rescue Authority 2019-20** - please contact us in Welsh or English / cysylltwch â ni'n Gymraeg neu'n Saesneg.

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 Authority in my Audit of Financial Statements report on 9 November 2020.

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 under the Local Government (Wales) Measure 2009 and under the Well-being of Future Generations (Wales) Act 2015. I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and in the New Year, I will issue an audit summary of the work completed since the last Annual Improvement Report 2018-19 which was issued in June 2019.

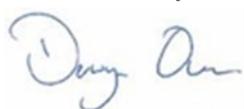
I issued a certificate confirming that the audit of the accounts has been completed on 10 November 2020

I received no electors' questions or objections in relation to the 2019-20 audit. Having given an audit opinion on the financial statements and concluded on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, I was able to certify that the audit was complete when I issued my audit opinion.

Financial audit fee

The financial audit fee for 2019-20 is expected to be in line with the estimated fee set out in the Annual Audit Plan.

Yours sincerely



Derwyn Owen

For and on behalf of the Auditor General for Wales

Cc Simon Smith, Chief Fire Officer
Ken Finch, Treasurer
Helen MacArthur, Assistant Chief Officer Finance and Resources

Report to	Audit Committee
Date	25 January 2021
Lead Officer	Ken Finch, Treasurer
Contact Officer	Helen MacArthur, Assistant Chief Fire Officer
Subject	Financial Reserves Strategy



PURPOSE OF REPORT

1. This purpose of this report is to present to Members the updated Financial Reserves Strategy (the Strategy).

EXECUTIVE SUMMARY

2. The Financial Reserves Strategy was last presented to the Fire and Rescue Authority in March 2016 and in line with good practice has been subject to review.
3. The Strategy has been updated to reflect current practices and procedures.

RECOMMENDATIONS

4. That Members recommend to the Fire and Rescue Authority:
 - (i) Approval of the Financial Reserves Strategy at Appendix 1, as a basis for managing the Fire and Rescue Authority's usable reserves.

BACKGROUND

5. The Fire and Rescue Authority differs from other local authorities in that it is funded from contributions from the six constituent authorities in North Wales, so is not a precepting or billing authority.
6. The Welsh Government enacted 'The Combined Fire and Rescue Services Schemes (Variation) (Wales) Order 2009' in recognition of the possible burden on council budgets should the Authority require an additional contribution in any year. This provided fire and rescue authorities in Wales with a statutory basis for holding reserves.

7. The use of reserves is a critical component in managing the financial affairs of the Authority and has ensured that in any year the need for revised contributions is reduced.

INFORMATION

8. The Financial Reserves Strategy is set out in Appendix 1 and details the reserves held and documents the process for the review and reporting of the reserves.

IMPLICATIONS

Wellbeing Objectives	The holding of reserves enables the Authority to achieve its long-term well-being objectives which are: <ul style="list-style-type: none"> • To support people to prevent accidental dwelling fires and stay safe if they do occur; • To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk
Budget	Current usable reserves total £1.82m
Legal	The Fire and Rescue Authority has a legal duty to set a balanced revenue budget. This may include the use of reserves for known commitments.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Income and expenditure is closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members. This includes the movements in the reserves.



North Wales Fire and Rescue Authority Financial Reserves Strategy

This document is uncontrolled when printed. All users are responsible for checking to confirm that this is the current version before use.

Version:	1.0	Next review:	16/03/2024	Financial Reserves Strategy
Status:	Draft	Issue date:	TBC	

1.0 RESERVES HELD

North Wales Fire and Rescue Authority (the Authority) will maintain reserves in accordance with prevailing legislative and regulatory requirements. The Authority will seek to avoid using reserves to fund a general deficit in the net revenue budget as this represents an unsustainable financial position.

The Authority will not maintain funds for contingency purposes other than those reported as reserves.

In addition to a general reserve, the Authority will maintain earmarked reserves for specified purposes where this is necessary to meet one-off time limited costs associated with specific initiatives or liabilities.

2.0 REPORTING OF RESERVES

The reporting of reserves in the financial statements will meet the prevailing accounting codes of practice applicable to the Authority.

In order to ensure transparency and scrutiny, publicly accessible reports containing further detail will be presented to the Authority when agreeing the Medium Term Financial Strategy and when reporting the financial outturn for the preceding financial year.

When reporting the financial outturn for the previous year the following information will be provided:

- The purpose of the reserves
- The basis of assessment of adequacy
- Transfers in and out of reserves

3.0 RESPONSIBILITY AND DELEGATION

The creation, deletion, assessment of adequacy and transfers in/out of reserves will be delegated to the Section 151 Officer of the Authority.

The adequacy of reserves will be assessed by the Section 151 Officer at least annually, as part of the accounts closedown process.

The Section 151 Officer will report to the Authority as required within this Strategy.

4.0 ROLE OF THE SECTION 151 OFFICER

There is currently no direct role for Welsh Ministers to determine or advise on the appropriate level of reserves for specific Authorities. This is a matter for determination at an organisational level and consideration must be given to the particular risks, circumstances and plans which prevail at any time.

Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer to advise the Authority about the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use.

5.0 USABLE RESERVES

The Authority may hold Usable Reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves; or
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations and Service priorities.	Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance.
Insurance reserves.	In the absence of any statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the definition of a provision under the requirements of International Accounting Standard 37 <i>Provisions, Contingent Assets and Liabilities</i> .
Reserves for unspent revenue grants and donations.	Where revenue grants or donations have no conditions or where the conditions are met and expenditure has yet to take place, the sums are held as earmarked reserves.

The Authority may also hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of non-current assets, and can only be used for those purposes specified in "The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended". That is:

- To meet capital expenditure;
- To repay the principal of any amount borrowed; or
- To meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account.

The Authority may also make provision for expenditure in accordance with the strict definitions contained in accounting codes of practice. These are where specific liabilities exist at the balance sheet date and a reliable estimate of the liability can be made.

6.0 UNUSABLE RESERVES

Unusable reserves arise out of technical accounting adjustments due to interaction of legislation and proper accounting practice. These may be established to either record revaluation gains or as adjustment to reconcile accounting and statutory requirements.

These reserves which are not resource-backed and cannot be used for any other purpose. The common unusable reserves are described below:

Revaluation Reserve	This reserve records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.
Capital Adjustment Account	This reserve reconciles the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. For example, the credit balance on the Account shows that an Authority has generally financed capital investment in advance of receiving the benefits of that investment. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Pensions Reserve	This reserve reconciles the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and the net change in the Authority's recognised liability under International Accounting Standard 19 <i>Employee Benefits</i> , for the same period. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount to be raised in taxation. For example, the debit balance on the Reserve shows that an authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.
Accumulated Absences Account	This account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account.
Financial Instruments Adjustment Account	This account reconciles the different rates at which gains and losses (such as the premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund. For example, the debit balance on the Account shows that the Authority has incurred expenses on borrowings that the Government has permitted it to spread over future years.

Other such reserves may be created in the future where developments in local authority accounting result in timing differences between the recognition of income and expenditure, under proper accounting practice and under statute or regulation.

7.0 REPORTING OF RESERVES

The IFRS-based *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) determines the reporting requirements around reserves. The Movement in Reserves Statement presents the movement in the year of the reserves of the authority analysed into usable and unusable reserves.

The Code recommends that earmarked reserves are reported on the face of the Movement in Reserves Statement. The statutory reporting regime and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and best practice suggests that for each earmarked reserve held the following information should be reported:

- the reason for the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- review mechanisms.

The budget report to the Authority should include:

- any use of or addition to reserves including any specific use of reserves to meet recurring costs;
- a statement from the Section 151 Officer on the adequacy of the general reserves and provisions.

8.0 ADEQUACY OF RESERVES

In order to assess the adequacy of reserves when setting the budget, the Section 151 Officer will take account of the strategic, operational and financial risks facing the Authority. The assessment of risks will include external risks, such as matters that may affect business continuity as well as internal risks, for example, the ability to deliver planned efficiency savings.

In financial terms, the following risks will be considered:

Treatment of inflation and interest rates	<ul style="list-style-type: none"> • The overall financial standing of the authority • Rises in the prices of some commodities and whether reserves are adequate to deal with unexpected price variations. • How changes in interest rates will affect borrowing or income given the agreed Treasury Management Strategy.
Estimates of the level and timing of capital receipts	<ul style="list-style-type: none"> • The Authority's track record in budget and financial management including the robustness of the medium term plans. • How the property market, affects delivery of receipts both in timing and amount.
Treatment of demand led pressures	<ul style="list-style-type: none"> • The Authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.

Treatment of planned efficiency savings/ productivity gains	<ul style="list-style-type: none"> • The strength of the financial information and reporting arrangements.
Financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or Major capital developments	<ul style="list-style-type: none"> • The Authority's virement and end of year procedures in relation to budget under/overspends at authority and department level. • Risk management measures in relation to partnerships, including consideration of risk allocation. • Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.
Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	<ul style="list-style-type: none"> • Risk assessments should be used when balancing the levels of insurance premiums and reserves.
The general financial climate to which the authority is subject	<ul style="list-style-type: none"> • External factors, such as future funding changes, political landscape and world economic conditions.