

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**26<sup>TH</sup> JUNE 2006**

1. **STATEMENT ON THE SYSTEM OF INTERNAL CONTROL (SIC)  
FOR 2005/6**

Report of the Treasurer.

RECOMMENDED

THAT Members approve the attached statement on the system of internal control (Appendix 1).

2. **PURPOSE OF REPORT**

This report is submitted to Members to seek approval to the statement on the system of internal control operating during the financial year 2005/6.

3. **BACKGROUND**

- 3.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 3.2 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.
- 3.3 Every Fire and Rescue Authority has to produce a statement on the SIC with its Statement of Accounts.

- 3.4 The SIC is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The SIC is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 3.5 The SIC has operated throughout the year ended 31<sup>st</sup> March 2006 and up to the date of the approval of the annual report and accounts. It accords with proper practice and any significant internal control issues arising are covered in section 5 of the attached statement.
- 3.6 The Statement is signed by the Chair of the Authority and the Treasurer who have a responsibility to ensure that the document is supported by reliable evidence and accurately reflects the Authority's internal control environment.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report, an initial Equality Impact Assessment was undertaken which did not raise issues which required a full Equality Impact Assessment to be completed.

5. **LEGAL IMPLICATIONS**

The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. As part of this it has to produce a Statement on the System of Internal Control.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

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TREASURER

## APPENDIX 1

### **STATEMENT ON THE SYSTEM OF INTERNAL CONTROL**

#### **1. Scope of Responsibility**

- 1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

#### **2. The Purpose of the System of Internal Control**

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.2 The system of internal control has operated throughout the year ended 31<sup>st</sup> March 2006 and up to the date of the approval of the annual accounts. It accords with proper practice and any significant internal control issues arising are covered in section 5 of this statement.

#### **3. The Internal Control Environment**

- 3.1 The Authority has an agreed constitution, which sets out how the Authority operates, how decisions are made, and the procedures, which are followed. This includes Standing Orders, delegations and financial and contract procedure rules.
- 3.2 As recommended by CIPFA (Chartered Institute of Public Finance and Accountancy)/SOLACE (Society of Local Authority Chief Executives), the Authority has adopted a Local Code of Corporate Governance that demonstrates its commitment to the principles of good corporate governance and the importance of operating in an open and accountable manner and demonstrating high standards of conduct.

- 3.3 The Authority has updated and streamlined its Committee structure and political governance arrangements to ensure it is able to respond to a range of internal and external issues and to deliver on its commitment to modernisation and other key objectives in the Authority's Best Value Performance Plan and Business Plan. Furthermore, decision making processes are open, transparent, accountable and inclusive and as such are in line with Government expectations on strengthening local democracy.
- 3.4 In 2004/05 the Authority established portfolios for the Chair and Vice Chair and for the Lead Members for Equality and Diversity and Performance Management as part of the modernisation process. The adoption of "portfolios" is consistent with the approach taken in local authorities generally under the modernisation of decision making structures as required by the Local Government Act 2000.
- 3.5 Lead Members have a key role to "champion" issues at the Policy Planning Forum, the Executive Committee and Authority meetings. Lead Members also meet with Officers on a regular basis to discuss progress on issues within their portfolio area. Both Lead Members are supported by deputies.
- 3.6 The Lead Members with portfolio responsibilities for Performance Management and Equality and Diversity are ex officio members of the Executive Committee. This ensures that these key issues are properly represented in the mainstream decision making processes and governance arrangements of the Authority.
- 3.7 The Authority's Executive Committee provides a structure for speedy decision making to deal with key issues. All Members of the Authority are entitled to attend the Executive Committee and are involved in the discussion of key issues via the Policy Planning Forum.
- 3.8 In 2005/06 the Executive Committee comprised 7 Members as follows:
- Chair of the Authority
  - Vice Chair of the Authority
  - Lead Member for Performance Management
  - Lead Member for Equality and Diversity
  - 3 Additional Members (in accordance with proportionality)
- 3.9 In addition, the Authority undertakes regular Policy Planning Forums which are recognised as a particularly effective way of engaging Members and Officers in key discussions on major issues faced by the Authority. All Members of the Authority are involved in the Policy Planning Process. The Forum is not a decision making body and operates in a less formal setting than full Authority meetings.
- 3.10 The Authority has a Corporate Board (CB), which includes the Chief Fire Officer, Deputy Chief Fire Officer and Functional Directors who provide strategic support and guidance to the Authority, supported by Statutory Officers from the Lead Authority, Sandwell MBC.

- 3.11 The Corporate Board is responsible for producing the Business Plan, which outlines the broad strategic direction and priorities for the Authority; it describes progress and charts the way ahead over the next 3 years. It is the top-level business-planning tool, which is updated annually and directs all Authority Managers to develop their service areas. It drives the medium term financial strategy and overall resource allocation to ensure that these reflect Authority priorities and needs.
- 3.12 It has two parts; the first sets the strategic context and operational focus for improvement supported by the second part, a detailed Appendix of performance indicators and targets. These two documents constitute the Best Value Performance and Business Plan.
- 3.13 Together these provide Managers throughout the organisation with clear direction on what is most important in improving services whilst giving trend and comparative data and targets to help them achieve their goals through their individual Action Plans.
- 3.14 The Authority sets its budget on an established planning cycle for policy development, budget setting and performance management through the business planning process. This process allows the allocation of resources to individual service areas to ensure that the priorities for improvement can be progressed.
- 3.15 The fundamental aim of the budget planning process is the practical implementation of policy and priority led allocation of resources over a 3-year period. This ensures that resources are aligned to priorities and that best value is secured from the resources that are made available.
- 3.16 The process is managed by Corporate Board via Policy Planning Forums which leads to recommendations about the allocation of resources (both capital and revenue) over a 3-year period being made to the Authority.
- 3.17 During the year, financial management information is reported regularly to Corporate Board, Members and all budget holders.
- 3.18 Members and the Corporate Board manage performance via a series of reporting mechanisms. These include Officer Personal Action Plan meetings and Member Portfolio review meetings.
- 3.19 Corporate risk management arrangements are in place supported by an approved Risk Management Strategy and toolkit enabling Managers to identify, assess and prioritise risks within their own work areas, impacting on the ability of the Authority and its services to meet objectives. The Authority is committed to the ongoing monitoring and reporting of risks.

- 3.20 The Authority's Strategic Risk Register, which identifies the principal risks to the achievement of the Authority's objectives, assesses the nature and extent of those risks (through assessment of impact and likelihood) and identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.
- 3.21 Officers throughout the organisation are provided with guidance on the internal control environment in Financial Regulations, Standing Orders, the Confidential Reporting Code (whistle blowing), the Anti-Fraud and Corruption Policy and other procedural documents. These address, amongst others, the processes for financial management, accounting policies, accounting records and returns, financial planning, budgeting, resource allocation, capital programmes, audit, risk management, security of assets, income, expenditure, external funding and partnerships.

#### 4. **Review of Effectiveness**

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Senior Managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

- 4.2 There are various sources of assurance the Authority has gained in order to underpin the Statement of Internal Control. These include:

##### The Treasurer

- 4.3 The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which in terms of the Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and spending for the year (ended 31st March 2006), including:

- Selecting suitable accounting policies and applies them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Complying with the Code;
- Keeping proper, up to date accounting records; and
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

- 4.4 The Treasurer is also responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting records and of its systems of internal control.

The Monitoring Officer

- 4.5 Sandwell MBC's Head of Legal Services is the Authority's Monitoring Officer who has responsibility for maintaining the Authority's Constitution, the promotion and maintenance of high standards of conduct and has the status to provide advice and support and to co-ordinate training to Members.

Management

- 4.6 Directors, Section Heads and Managers provide assurance that:
- The Authority's Core Values are met;
  - Laws and Regulations are complied with;
  - The Authority's policies are put into practice including compliance with the Corporate Risk Management Approach;
  - Required processes (e.g. Financial Regulations, Standing Orders, Financial Guidance etc and various supporting procedures) are adhered to;
  - Financial statements and other published information are accurate and reliable;
  - Human, financial and other resources are managed efficiently and effectively.
  - The Performance Management Framework

Internal Audit

- 4.7 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Authority on the control environment comprising internal control, risk management and governance by evaluating its effectiveness in achieving the Authority'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.
- 4.8 Internal Audit operates in accordance with the standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 4.9 There are a number of key factors for assessing the degree of risk within each auditable area. These have been used in Internal Audit's calculation and are based on the following factors: materiality, business impact, audit experience, risk and potential for fraud.
- 4.10 Internal Audit prepares a written report for each completed review. A key part of each report is to make recommendations in order to improve the control environment in which the systems operate. Each recommendation is categorised as either merits attention, significant or fundamental. Reports, including an assessment of the adequacy of control and action plans to address weaknesses are submitted where appropriate to Senior Officers. Each report gives an overall opinion (substantial, adequate or limited assurance) on how the risks material to the achievement of the objectives for the system are being managed and controlled. An Annual Report has also been produced and presented to the Authority which includes an 'opinion' on the standards of internal control, governance and risk management within the Authority.

- 4.11 Internal Audit leads on promoting a counter-fraud culture within the Authority. This includes the publication of a quarterly anti-fraud and corruption newsletter known as The FRAUDitor, the production of a Raising Fraud Awareness guide for Managers and running a series of Raising Fraud Awareness Seminars.

#### External Audit

- 4.12 The work of the Authority's external auditors includes an assessment of the Authority's overall control environment and controls within the Authority's major financial systems, as well as an examination of the underlying financial accounts. On completion of their work, the external auditors issue an Annual Audit and Inspection Letter to the Authority. The last Audit Letter (issued November 2006) for the financial year 2004/05 gave an unqualified opinion on the accounts and confirmed the following:

- The Authority has made progress in developing its Performance Management arrangements.
- The Authority continued to maintain satisfactory standards of control associated with financial aspects of corporate governance.
- The Authority continues to maintain an effective system of internal control over the Authority's core financial systems and was able to rely on Internal Audit's work on the key financial systems.
- The Authority continues to make progress in the area of risk management.

External Audit placed reliance on the work of Internal Audit wherever possible.

### **5. Significant Internal Control Issues**

- 5.1 During 2005/06 Internal Audit identified a number of key issues, which are summarised below. Action plans have been completed to address these issues and Internal Audit will monitor progress against these action plans.

#### **Freedom of Information**

A pricing policy for information requests needed to be agreed and published and staff awareness of the legislation requirements needed to be increased.

#### **Management of Morale**

Review/target dates needed to be specified in key control records and tangible measures needed to be established to indicate the current level of morale and how this had changed.

#### **Payroll**

Appropriate segregation controls were required in some specific instances and evidencing of verification checks needed strengthening.

#### **CPA Response Process**

Items within the Service Improvement Plan were not prioritised and progress reporting on Departmental Action Plans needed some improvement.



**Creditors**

Appropriate segregation controls were required in some specific instances and payment input verification controls needed to be strengthened.

**5.2 Strategic Risk Register**

The Authority's strategic risk register has been further updated since it was first developed, capturing the risks that threaten the achievement of the Authority's core objectives. Whilst significant progress has been made in the last twelve months, there is still a need for the completion of the embedding process of a managed risk philosophy in the Authority's core culture. This issue is being actively managed through the Authority's Performance and Planning Section and actions of Lead Officers for risk management in each key area.

The constant change environment in which the Authority operates also requires on going review of the internal control environment. The Authority will continue to monitor change and take appropriate action to manage risk arising from future developments in service delivery.

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Chair of the Authority

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Treasurer