WEST MIDLANDS FIRE AND RESCUE AUTHORITY

25TH JUNE 2007

1. **STATEMENT ON THE SYSTEM OF INTERNAL CONTROL (SIC) FOR 2006/07**

    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 2006/7.

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 31st March 2007 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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Ref. AU80406071/MG/JEM

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 31st March 2007 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 2006/07 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.

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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. (Following a review of the Business Planning Process, a Corporate Strategy and Annual Service Plan will be produced from 2007/2008 onwards).

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:

4.3 The Treasurer

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 2007), 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.

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4.5   The Monitoring Officer

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.

4.6   Management

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

4.7   Internal Audit

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. Quarterly updates on the work of Internal Audit have been presented at Policy Planning Forums throughout

the year and 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.

4.12   External Audit

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 and findings in relation to the Comprehensive Performance Assessment Process. On completion of their work, the external auditors issued an 'Audit Memorandum – report to those charged with Governance' and an Annual Audit and Inspection Letter to the Authority in relation to 2006/2007.

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

5.   **Significant Internal Control Issues**

5.1   During 2006/07 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.

5.2   Partnership Working

The review raised the issue of the delayed partnership database which is necessary to enable the 'partnerships position' to be readily transparent and to enable appropriate partnership monitoring, although it was acknowledged that the implementation date for the new database is determined by the ICT Prioritisation List.

5.3   Debtors/Accounts Receivable

The management of Debtors is split between WMFS and Sandwell MBC with each side carrying out different aspects of the service both using the Debtors Module of the Oracle based SBS system. A review of the process to manage fire Service Debtors revealed the need on both sides to further improve segregation controls and the management of the Service Level Agreement.

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5.4   Absence Management

The review of Absence Management raised significant issues in relation to:

- Lack of compliance with requirements to complete/maintain manual records.
- Lack of understanding of procedures.
- Lack of adequate Management Information.

One 'fundamental' recommendation was made relating to the need to introduce an appropriate Management Information System with automated monitoring processes, which integrates with existing systems. Two 'significant' recommendations were made relation to the need to carry out a 'root and branch' review of Absence Management Procedures and subsequently to provide appropriate training to managers and staff.

5.5   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 Assessment Improvement Department 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   Treasurer

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