

GOVERNANCE COMMITTEE MEETING: 23rd SEPTEMBER 2013

SUBJECT: AUDITED STATEMENT OF ACCOUNTS 2012/2013

REPORT OF THE FINANCE OFFICER

1. INTRODUCTION

- 1.1 Members will be aware that Mazars LLP, who were appointed as the Authority's external auditors from 1st November 2012 replacing the Audit Commission's in-house Audit Practice, are required to report on the final accounts, and report certain matters to Members prior to an opinion being provided on the Authority's accounts.
- 1.2 Mazars LLP has audited the financial statements of the Authority under the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission, and International Standards on Auditing (ISA) issued by the Auditing Practices Board.
- 1.3 Once the Governance Committee has noted the contents of the External Auditors 'Audit Completion Report' (item ii), approved the Letter of Representation (item i), and approved the amended Statement of Accounts (item iii), Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31st March 2013.

2. STATEMENT OF ACCOUNTS 2012/2013

- 2.1 In line with Auditing standards, Mazars LLP produces an Audit Completion Report, in which the external auditor's opinion is given on whether the financial statements give a true and fair view of the financial position of the Authority as at 31st March 2013 and its income and expenditure for the year then ended.
- 2.2 The amended Statement of Accounts, noted previously by the Authority on 24th June 2013, does not contain any misstatements and Mazars LLP is to formally provide an unqualified opinion on the audited Statement of Accounts before the end of September 2013 in accordance with the regulations.
- 2.3 Following the audit, the Statement of Accounts has been amended for a number of presentational issues, which are detailed at Appendix A, and also for some minor changes to the Annual Governance Statement (AGS). A fully revised AGS is therefore set out in Appendix B, for member's information and approval.

2.4 A summary of the audited Statement of Accounts is at Appendix C. This focuses on key points contained within the detailed financial statements.

3. RECOMMENDATIONS

3.1 Members are requested to:

- a) Note and approve the Letter of Representation (Item i),
- b) Note and approve the revised Annual Governance Statement 2012/2013 at Appendix B,
- c) Note the contents of the External Auditors Audit Completion Report (Item ii),
- d) Approve the amended Audited Statement of Accounts for the Financial Year ended 31st March 2013 (Item iii).

Appendix A

STATEMENT OF ACCOUNTS 2012/2013 – PRESENTATIONAL ADJUSTMENTS

The following presentational adjustments have been reflected in the 2012/2013 Statement of Accounts, included with this Agenda:-

Foreword by the Finance Officer

- Contribution to/(from) Accumulated Absences Account shown as a separate line item in the Revenue Expenditure and Income Summary (page 6). The Contribution to/(from) Earmarked Reserves has been adjusted accordingly. This has no impact on the outturn.

Annual Governance Statement

- Amendments have been made following comments from the Auditor. The Statement is detailed separately at Appendix B.

Cash Flow Statement

- The cash outflow for Financing Activities has been increased to include the movement in the PFI liabilities during the year. This has been amended in note 25 on page 63 and the cashflow statement on page 30.

Notes to the Core Financial Statements

- Note 2 'Accounting Standards that have been issued but have not yet been adopted' added to the Notes to the Core Financial Statements. This sets out the accounting standards IAS19 Employee Benefits, IAS1 Presentation of Financial Statements, IAS12 Income Taxes and IFRS7 Financial Instruments: Disclosures that may impact on the Authority when they become standard practice in future years.
- This has changed the numbering of subsequent Notes to the Core Financial Statements.

Property, Plant and Equipment

- Note 11 (pages 54 and 55) amended to restate the opening Cost/Valuation and Accumulated Depreciation/Impairment as at 1 April 2011 for Assets under Construction, and Vehicles, Plant, Furniture and Equipment.
- The amendment to Assets under Construction stems from an impairment charge of £542k on two capital schemes in 2009/2010. This has continued to be shown as accumulated impairment in the table in note 11. This has been removed from the opening Accumulated Impairment balance at 1 April 2011, therefore reducing the Cost/Valuation opening balance. This has no impact on the net book value of assets under construction or on the account balances and is a presentational change to the note only.

- Accumulated depreciation of £2,490k has been removed from the opening Accumulated Depreciation balance at 1 April 2011 of Vehicles, Plant, Furniture and Equipment, therefore reducing the Cost/Valuation opening balance. This is a presentational change only and has no impact on the net book value of the assets or the account balances.

Financial Instruments

- Borrowings and Other Long Term Liabilities have been reclassified between long term and current in note 15 – Financial Instruments, on page 57. This has changed the Current Liabilities and Long Term Liabilities totals on the Balance Sheet but has no impact on the overall accounts.

Grant Income

- Note 31 on page 72 has been amended to include Fire Capital Grant received in previous years that has not yet been recognised as income in the accounts.
- The grants received in advance have been reclassified from Short Term Creditors in the balance sheet to Grant Receipts in Advance. This has no impact on the Current Liabilities total. They have been removed from note 19 – Short Term Creditors on page 59.

Officers' Remuneration

- Note 29 on page 70 has been restated to correct the 2011/2012 Senior Officer Emoluments after an error was found on the payroll report from last financial year.
- This has impacted on the number of employees whose remuneration was £50,000 or more. The table on page 70 has been amended to reflect the changes made to the Total Remuneration.

Leases

- Note 34 on page 74 has been amended to correct duplication of finance leases included in both the finance lease and operating lease tables in the note. This is a presentational change to the note and has no impact on the accounts.

Termination Benefits

- Note 37 on page 76 has been changed to remove retained firefighter settlements which are compensation payments rather than exit packages.

Defined Benefit Pension Schemes

- Minor changes have been made to the wording in Note 38 on page 79.

Appendix B

Revised Annual Governance Statement 2012/2013

1 SCOPE OF RESPONSIBILITY

- 1.1 The Tyne and Wear Fire and Rescue Authority (the 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 responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The Authority has had a Code of Corporate Governance in place since 2003, revised during 2012/13. The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The revised Code is available on the Authority's website (www.twfire.gov.uk) or can be obtained from the Fire and Rescue Service Headquarters.
- 1.4 This Statement explains how the Authority has complied with the code and also meets the requirements to prepare an Annual Governance Statement, as enshrined in the Accounts and Audit (England) Regulations 2011.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework primarily includes systems and processes and culture and values by which the Authority directs and controls its activities and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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.

- 2.3 The governance framework has been in place at the Authority for the year ended 31st March 2013 and up to the date of approval of the Statement of Accounts.

3 THE GOVERNANCE FRAMEWORK

3.1 There is a clear vision of the Authority's purpose and intended outcomes for service users that is clearly communicated, both within the organisation and to external stakeholders:

- The Strategic Community Safety Plan draws together a shared vision, principles for action and priorities (strategic objectives). For each strategic objective, key targets have been identified. The Plan sets out explicitly the key actions and performance targets for the future, and these are clearly linked with functional/departmental/ district/station service plans and resources. The Plan outlines the Authority's roles and responsibilities, the context in which it operates, what the Strategic Priorities and improvement objectives are, how the Authority will realise its vision, what its performance improvement and monitoring arrangements are, performance indicators and a financial overview. The financial overview section provides background commentary to the issues the Authority has considered in setting the Budget and in preparing the Medium Term Financial Strategy.
- The Strategic Community Safety Plan incorporates our Integrated Risk Management Plan actions which recognises the risks within the Authority boundaries that need to be addressed, and ensures that the available resources are targeted at these risks.
- Communication of objectives to staff and stakeholders takes place through the following means:
 - Wide distribution of the Strategic Community Safety Plan, as well as a summary version, including on the Authority's website and intranet;
 - Consultation with staff and stakeholders on IRMP proposals;
 - The issue of an Annual Report and Statement of Assurance setting out the Authority's priorities, how the Authority spent money on achieving these during the last financial year, and how successful the Authority has been;
 - Through the Authority's Investors in People (IIP) processes;

- Posters throughout the Authority's premises;
- Focus groups with members of the public.

3.2 Arrangements are in place to review the Authority's vision and its implications for the Authority's governance arrangements:

The Strategic Community Safety Plan, the Integrated Risk Management Plan and all priorities are regularly reviewed to provide a refined, long-term focus for the Authority.

- Through reviews by external bodies the Authority constantly seeks ways of securing continuous improvement. The Authority has professional and objective relationships with these external bodies.
- There are comprehensive annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

3.3 Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources:

- There are clear and effective performance management arrangements including personal development plans for all staff, which address financial responsibilities and include equality objectives.
- There is regular reporting of performance against key targets and priorities to the Authority's Strategic Management Team, the Governance Committee and the Policy and Performance Committee.
- Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.
- External auditors deliver an opinion annually on whether the Authority is providing value for money.

3.4 The roles and responsibilities of all Officers and staff are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- Standing Orders and Financial Regulations are in place and these set out how the Authority operates and how decisions are made, including a clear Delegation Scheme.

- The Standing Orders and Delegation Scheme indicates responsibilities for functions and sets out how decisions are made.
- A system of scrutiny is in place which allows the Governance Committee to:
 - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Authority's functions;
 - make reports and/or recommendations to the full Authority and/or the Strategic Management Team in connection with the discharge of any functions; and
 - consider any matter affecting the Authority.

3.5 Codes of Conduct defining the standards of behaviour for Members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

- The following are in place:
 - Members' Codes of Conduct;
 - Employees' Code of Conduct;
 - Registers of Interests, Gifts and Hospitality;
 - Monitoring Officer Protocols.

3.6 Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

- The Executive Director of Commercial and Corporate Services at Sunderland City Council is the designated Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Authority's financial affairs.
- The Deputy Clerk is the Authority's Monitoring Officer who has maintained an up-to-date version of the Standing Orders and has endeavoured to ensure lawfulness and fairness of decision making.
- The Authority has in place up to date Financial Procedure Rules and procurement rules which are subject to regular review.
- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:
 - Whistle Blowing Policy;

- Anti Fraud and Corruption Policy;
 - Codes of Conduct;
 - Health and Safety Policy;
 - Compliments, Comments and Complaints Policy;
 - Corporate Risk Management Strategy
 - Procurement Codes of Practice
 - Partnerships procedure;
 - Treasury Management Strategy based upon CIPFA's Treasury Management Codes;
 - Functional budget management schemes.
- There are robust and well embedded risk management processes in place, including;
 - Risk Management Strategy and Policy Statement;
 - Corporate Risk Profile
 - Integrated Risk Management Plan;
 - Risk Management Manual;
 - Nominated Risk Manager;
 - Corporate and Risk Management Groups;
 - Partnerships Risk Register;
 - Member Risk Champion;
 - There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.
 - The Authority has achieved accreditation to BS25999 and Business Continuity Plans are in place which are subject to ongoing review, development and testing.
 - There are clearly defined capital expenditure guidelines and capital appraisal procedures in place.
 - Appropriate project management disciplines are utilised.
 - The Authority participates in the National Fraud Initiative and subsequent investigations.

3.7 The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*, are undertaken by members.

The Authority has a Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the Authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anticorruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the Authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- to receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and other agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and
- make recommendations or comments to the Authority as appropriate.

3.8 Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members:

- The Deputy Clerk is the Authority's designated Monitoring Officer and a protocol is in place with all Principal Officers, to safeguard the legality of all Authority activities.
- The Authority maintains an Internal Audit Service, provided by Sunderland City Council. An independent annual review of its effectiveness is

undertaken which concluded that it operated in accordance with professional standards. Internal audit work is planned on the basis of risk.

3.9 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

- The Authority is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Authority, an Elected Member, or any member of the public, has serious concerns regarding the conduct of any aspect of the Authority's business, they can do so through a variety of avenues, promptly and in a straight forward way.
- The framework in place to ensure the aims of this Policy are met are set out in the 'Whistle Blowing Policy Arrangements' procedure for Authority staff. Members of the public currently raise issues through the Compliments, Comments and Complaints procedure and there is also a whistle blowing policy and procedure for members of the public.
- Monitoring records held by the Deputy Clerk on behalf of Members, and the Chief Fire Officer on behalf of staff and members of the public reveal that the whistle blowing arrangements are being used, and that the Authority is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

3.10 Arrangements exist for identifying the development needs of members and Principal officers in relation to their strategic roles:

- The Authority has a Members Learning and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of Learning and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Authority strategic objectives. In addition Members have access to their nominating authority learning and development policies, plans and procedures.
- The Elected Member Learning and Development Strategy aims:
 - To provide a comprehensive Member Development programme;
 - To ensure that all newly Elected Members are properly inducted into the Authority;
 - To ensure that all emerging needs for both individuals and across the board are identified and addressed;
 - To ensure that resources available for Member Development are effectively used.

- The Authority has a Human Resource Strategy to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices and is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual performance review focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Authority.
- The Authority is also an active member of the Regional People Management Group which identifies and delivers regional learning and development whilst also developing regional framework policies for its constituent members.

3.11 Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

- The Authority has a Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Authority and with partner agencies, impacts on service delivery, and is delivered to a high standard.
- The strategy is complemented by the Community Engagement Strategy which outlines the Authority's approach to engaging with the community, in particular minority and vulnerable sectors of society.

3.12 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the Authority's overall governance arrangements:

- The Authority has published a Partnerships procedure which includes a template for Partnership Agreements and a Partnership Toolkit. The procedure is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.
- A Register of Partnerships is maintained. The deliverables of all prospective and existing partnerships is closely measured using a standard framework.
- A review of all partnerships is presented to the Strategic Management Team on an annual basis.

4 REVIEW OF EFFECTIVENESS

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Members and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:
- The role of the Authority:
 - Elected Members have participated in the annual review of the Authority's Corporate Governance arrangements;
 - The Chair of the Authority, the Chief Fire Officer and the Finance Officer have overseen the review and signed the Annual Governance Statement.
 - The role of the Strategic Management Team:
 - The findings of the Annual Governance Review have been reported to the Strategic Management Team for their consideration and approval of the Annual Governance Statement.
 - The role of the Governance Committee:
 - The findings of the Annual Governance Review have been reported to the Governance Committee. Under their Terms of Reference the Governance Committee has satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
 - There is a system of scrutiny which allows the HR Committee, Governance Committee and the Policy and Performance Committee to:
 - review decisions made or actions taken in connection with the discharge of any of the Authority's functions;
 - make reports and recommendations to the full Authority or the Strategic Management Team in connection with the discharge of any functions; and
 - consider any matter affecting the delivery of service.

- A Standards Committee is also in place in accordance with the Localism Act 2011. The role of this Committee also includes the following:
 - to promote and maintain high standards of conduct by the members of the Authority;
 - to assist the members of the Authority to observe the Members' Code of Conduct;
 - to advise the Authority on the adoption or revision of the Members' Code of Conduct;
 - to monitor the operation of the Members' Code of Conduct; to advise, train or arrange to train members of the Authority on matters relating to the Members' Code of Conduct; to grant dispensations to members from requirements relating to interests set out in the Members' Code of Conduct so far as not delegated to the Monitoring Officer;
 - to deal with written allegations that a member of the Authority (or former member) has failed, or may have failed, to comply with the Members' Code of Conduct. to adopt and amend procedures to be followed for investigations and local determination of complaints.
 - to consider reports of the Monitoring Officer and of the Local Government Ombudsman where they concern the conduct of members of the Authority.
 - to support the Monitoring Officer in his / her role
- 4.3 All Area Managers have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility and have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments.
- 4.4 Internal audit planning processes include consultation with the Principal Officers, reviews of the Strategic Community Safety Plan, Integrated Risk Management Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.
- 4.5 The Authority is subject to external audit which was completed by the appointed auditor from the Audit Commission's in-house audit practice in 2011-12; responsibility for this has since passed to Mazars, a private company appointed by the Audit Commission for this purpose. The Annual Audit Letter and Annual Governance Report gives independent assurance of financial control and Value for Money (including financial resilience and the overall efficiency and effectiveness of the Authority).

4.6 The Annual Audit Letter and Governance Report for 2011-12 issued an unqualified conclusion on both financial arrangements and Value for Money, and identified no significant weaknesses in the Authority's arrangements for internal control. Comments within the report included:

- Financial plans are based on a realistic assessment of future funding levels, coupled with a clear commitment to delivering expenditure within budget whilst at the same time maintaining adequate levels of working balances and reserves.
- The updated IRMP, associated action plan and corporate risk register demonstrate an understanding of the possible implications of reducing spend in terms of fire risk, and set out how this is being mitigated and managed
- The Authority's costs per head of population have reduced significantly over the past 5 years

4.7 It is considered that the Annual Audit Letter gives reassurance that the Authority's overall governance and control arrangements are satisfactory.

4.8 Findings of external bodies / audits are collated, acted upon and monitored by the Strategic Management Team.

5 ASSURANCE STATEMENTS

5.1 The Strategic Management Team, the Authority and the Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an action plan covering some minor issues has been agreed for the continuous improvement of the Authority's Corporate Governance and Internal Control Arrangements.

5.2 We propose over the coming year to take steps to implement the action plan to further enhance the Authority's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

Tom Wright
Chair of the Authority

Tom Capeling
Chief Fire Officer

Malcolm Page
Finance Officer

23rd September 2013

**Tyne and Wear Fire
and Rescue Authority**
Creating the Safest Community

www.twfire.gov.uk

