

Mr G Barker  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

## Appendix C

Date: 30<sup>th</sup> June 2014  
Our ref:  
Your ref:

Dear Gavin,

### **Audit of Tyne and Wear Fire and Rescue Authority - Financial Statements for the year end 31 March 2014 - Understanding your management processes and arrangements**

I refer to your letter dated 11<sup>th</sup> April 2014 in respect of the above management arrangements and processes in place within the authority in order to provide you with the necessary assurances from management which you require under International Auditing Standards. The assurances are provided below, representing Tyne and Wear Fire and Rescue Authority's formal response from management in this respect.

As in previous years, as section 151 officer of the authority, on behalf of management I have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the authority which might have had an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where myself and other senior officers with yourselves have identified and discussed key risks faced by the authority) and, to the extent that it is necessary, in the production of the financial statements. The processes and arrangements in place and adhered to by senior management in the production of the Annual Governance Statement also show that all key risks which would relate to the financial statements have been fully and appropriately considered. In response to your letter dated 11<sup>th</sup> April 2014 please therefore find responses to your specific questions and Appendix 1, completed as requested.

Specific assurances:

**1) I can confirm the areas set out below show that appropriate management processes are in place:**

- ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;***

A risk management assessment is carried out and updated regularly (but at least annually) and this helps to ensure that all risks are identified and then addressed appropriately. The review of risks is reported formally to the Governance Committee throughout the year.

I, along with the strategic management team, ensure that arrangements are in place within the authority that achieve the effective and efficient use of resources, policies and procedures are in place so that the authority is effectively managed, and internal control mechanisms are put in place and operating effectively within the authority to help mitigate against all identified risks. These ensure the financial statements are not materially misstated each year.

I, as the section 151 officer, attend all meetings of the Governance Committee to discuss and review findings of all Internal and External Audit reviews and ensure members are kept informed through the regular reporting mechanisms in place. The committee receives and approves the accounts on behalf of the authority and, as such, is kept informed of all issues and risks that could impact upon the financial statements and operates within the guidelines recommended by CIPFA. Management also consider and inform the Annual Governance Statement and the actions set out, in order to further improve governance arrangements, to achieve value for money in its use of resources, and to improve the internal control environment.

Management also receive the independent Internal Audit Strategy and Annual Internal Audit Plan and can comment on areas proposed for review. The authority's Corporate Risks are regularly reported and reviewed by the management within the authority and the authority's Anti Fraud and Corruption Policy ensures that fraud risk or related concerns are escalated through to the appropriate level as appropriate. Ad-hoc meetings between the Chair and myself also take place, where necessary, to discuss matters as they arise. Roles and responsibilities of members and officers are clearly set out in the Codes of Conduct, the Scheme of Delegation, the Anti Fraud and Corruption Policy, and in the Risk Management Strategy and Policy Statement. These also describe the relevant registers, declarations and escalation processes to be complied with.

I would declare on behalf of management that I have no knowledge of any actual, suspected or alleged fraud that could affect the authority in relation to the 2013/2014 financial statements.

- ***identifying and responding to risks of fraud in the Authority;***

The Authority has an Anti Fraud and Corruption Policy which is regularly updated and is also approved by the Governance Committee. Regular reviews and achievement of the annually reviewed audit plan are discussed with me, but importantly, reported separately to the committee. It is important that the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year, is established independently in accordance with best practice.

The Counter Fraud Work Programme is based on a Fraud Risk Assessment for the effective deployment of resources and includes both reactive and proactive work. I receive half yearly updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also presented on the implementation of the control improvements and all findings are reported to members as appropriate.

The system of internal control is a significant part of the Governance framework within the Authority 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. Internal management control arrangements are in place which should identify and prevent fraud risks from occurring and detect them if they do occur. The Authority engages in numerous fraud prevention and identification activity, including corporate processes, such as participating in the National Fraud Initiative

- ***communicating to employees its view on business practice and ethical behaviour and communicating to those charged with governance the processes for identifying and responding to fraud and error;***

Written procedures are in place covering financial and administrative matters which are communicated to staff through the induction process, through management and are available on the Authority's intranet site. These documents are regularly updated and set out the standards of conduct that are expected, the policies and procedures which should be followed and what to do if staff have concerns that these arrangements are not being complied with. Internal Audit carry out a programme of work which includes assessing the level of compliance against the Authority's key policies and procedures. Key procedures include:

- Codes of Conduct;
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Health and Safety Policy;
- Compliments, Comments and Complaints Policy;
- Procurement Codes of Practice;
- Partnerships procedure;
- Treasury Management Strategy;
- Functional budget management schemes.

The Anti Fraud and Corruption Policy for 2013/2014 set out the approach used to identify potential fraud and the resources available. The Governance Committee met three times during 2013/2014 with an Internal Audit Progress report submitted to one of these meetings. The Progress reports set out the work done to identify fraud and the results of this work and the progress against the targets set. Private meetings are held between the head of internal audit, the External Auditor and members of the Governance Committee to discuss the detail of any significant investigations into suspected cases of fraud and corruption.

I am aware that arrangements are set out in the Authority's Anti Fraud and Corruption Policy. This sets out how concerns should be reported and who to, what people who suspect fraud should and should not do, and what the person who receives the concerns should and should not do.

During 2013/14, I was not made aware of any breaches of control.

**2) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2013-14? If so, please provide details**

I am not aware of any actual, suspected or alleged frauds other than those reported to management and members as part of the regular updates on the Counter Fraud Work Programme. I am aware that all authority matters are reviewed for their legality to ensure authority expenditure, services and actions are within the law. As such we have appropriate legal arrangements in place headed by the monitoring officer (Deputy Clerk of Sunderland City Council) who reports to me directly. This gives reassurance that legal advice is sought where appropriate, that all reports to authority and members must be reviewed by the legal services section, and that legal representation is made at all authority meetings.

In addition Authority reports are vetted by or on behalf of the monitoring officer to ensure compliance with legal requirements and there is legal representation at Authority meetings. In addition, the monitoring officer and senior members of Legal Services have access to reports which are considered by the Strategic Management Team. As part of their job description, solicitors are required to keep up to date with new and emerging legislation which affects local government. To assist in this role, the team subscribe to an electronic legal update service and various legal publications and regularly attend relevant training courses. As a member of the Association of Council Secretaries and Solicitors and Northern Secretaries Group, information is shared with other fire and rescue services, both regarding new legislation and case law and the approach and application of existing legal requirements.

In respect of new legislation or developments in case law, briefing notes or reports are prepared as appropriate and policies and procedures developed in conjunction with officers from the relevant areas of the Fire Service.

Regular team meetings are held within Legal Services both at "service area" level and senior management team level, at which any concerns regarding the Authority's compliance with legal requirements could be raised and addressed.

Sunderland City Council recently carried out an audit of corporate legality arrangements, with the objective of providing assurance that the Authority has arrangements in place to ensure it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. There were no issues or concerns raised and the audit gave full assurance regarding the Authority's arrangements to ensure legality. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

**3) Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.**

On behalf of Management I declare that I have no knowledge of, and the authority is not on notice of any non-compliance, with laws and regulations that could impact on the 2013/2014 financial statements. All contingent liabilities are discussed and identified and or updated and reviewed annually and in order to reflect the known position as at the balance sheet date.

- 4) What controls do you have in place to: identify; authorise; approve; account for; and disclose, related party transactions and relationships? For any new related parties (i.e. any not already disclosed in your year end 31 March 2013 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2014.**

On behalf of the Management I declare that I have no knowledge of any such related party transactions that require further disclosure from those previously declared.

The Authority has robust procedures in place to identify and record any related party transactions in respect of its members and senior chief officers included within the statement of accounts which has taken place during the year and is informed by the robust formal year end process of signed declarations outlining all detailed related party transactions and relationships which apply to all individual Members and Senior Chief Officers. Various sources of information held and recorded by the Authority also help to inform the robust procedures in place including its formal Committee protocols (whereby members must declare at meetings they attend any interests of a personal nature (where they can not vote on that item) or of a prejudicial nature where they will have to leave the meeting for that item); the Authority's Constitution; and the detailed policies and procedure rules and financial regulations of the Authority that are required to be observed which are also in place to ensure any related party transactions are identified, fully disclosed and recorded, properly considered and accounted for as necessary.

Yours sincerely,

Sonia Tognarelli

Finance Officer (Tyne and Wear Fire and Rescue Authority)



## Appendix 1

No.	Questions for management	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2013 – 31 March 2014?	There were no breaches of control at the Authority during 2013/14
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> <li>➤ Have you identified any specific fraud risks within the Authority?</li> <li>➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud?</li> <li>➤ Are there particular locations within the Authority where fraud is more likely to occur?</li> </ul>	<p>A fraud risk assessment is in place and is regularly updated which covers all appropriate parts of the Authority. This covers areas of fraud risks, sets out the individual risks, a score for the risks and tests that are carried out to identify potential fraud taking place. A programme of proactive counter fraud work is undertaken every year by Internal Audit which did not identify any areas of concern.</p> <p>The Authority also takes part in the National Fraud Initiative which has not identified any areas of concern.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> <li>➤ If not where are the risk areas?</li> <li>➤ What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	<p>Internal controls regarding segregation of duties are in place and the results of Internal Audit work have not highlighted any material concerns. An adequate opinion on the system of internal control has been reported to the Governance Committee for the year.</p> <p>The Authority has an Anti Fraud and Corruption policy and supporting documents in place which is available to all staff on the Authority intranet and is included in the induction process.</p> <p>Other controls in place include a robust budget management framework which includes detailed support for Financial Resources of Sunderland City Council and verification checks in the Council's key systems such as payroll, BACS payments and Accounts Payable which are aimed at identifying fraud or errors. The majority of Authority payments are through the Supplier Relationship Management system</p>

		<p>which ensures authorisation of payments by an approved authorised officer.</p> <p>There has been a significant amount of work undertaken across the Authority to raise awareness of Information Governance issues and encourage staff to keep information secure.</p>
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> <li>➤ What concerns about fraud are staff expected to report?</li> </ul>	<p>This is undertaken by officers of the Authority. A Whistleblowing policy is in place and is on the Authority's intranet which gives details of how staff can raise concerns. Staff are encouraged to raise concerns about any areas where controls are not being complied with, where there is significant non-compliance with policies and procedures, or where there are concerns regarding corruption or potential financial loss.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> <li>➤ How are the risks relating to these posts identified, assessed and managed?</li> </ul>	<p>The Internal Audit Fraud Risk Assessments identifies potential fraud risks in specific areas which would cover any specific risks in relation to individual posts. Counter fraud checks would be designed to test these risks to identify any potential fraudulent activity.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> <li>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</li> </ul>	<p>No</p> <p>The authority has robust procedures in place to ensure all related party transactions are identified and, where appropriate, are fully disclosed in the Statement of Accounts. The authority has an established Partnerships procedure and maintains and updates its Partnership Register regularly. Internal practices and processes carried out as part of the closing of accounts timetable also has specific tasks and detailed analysis of all member and chief officer interests and related party transactions which are reviewed and collated to form notes in the statement of accounts. All member interests are also documented and held by democratic</p>



		services for scrutiny and also help to inform the process. Reviews by senior management also help inform the control process.
--	--	---

No.	Questions for management	Those charged with governance response
7	<p>Are you aware of any entries made in the accounting records of the Authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> <li>➤ Are there particular balances where fraud is more likely to occur?</li> <li>➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority?</li> <li>➤ Could a false accounting entry escape detection? If so, how?</li> <li>➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?</li> </ul>	<p>No</p> <p>Internal controls and internal check mitigate the risk, as does appropriately qualified and experienced staff involved in compiling the accounts.</p> <p>All areas are subject to a risk review and reports from internal and external audit help identify and report their findings in areas where risk is high. The SAP system makes false accounting unlikely because of the way it is designed and is fed by the bank reconciliation and feeder systems and that have separate controls and reconciliation processes in place to maintain the integrity of the financial system. Strong and robust budgetary control and financial practices are in place across the authority. Areas that are identified as high risk are reviewed more regularly by internal audit as part of their risk based approach to auditing. Legal and financial review is carried out across the fire service spectrum of activity.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> <li>➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</li> </ul>	<p>No – The Medium Term Financial Plan, the budget planning process and the Annual budget, along with agreed cash limits approach, is reviewed and monitored during the year to review achievement and adherence to agreed budget levels agreed by members and the Fire Authority. Actual performance and any actions necessary are reviewed by management and reported to members who receive formal Authority quarterly reports during the year. As a consequence there are no inappropriate pressures or incentives being applied.</p>