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Appendix F

Date: 27th June 2016
Our ref:
Your ref:

Dear Gavin,

Audit of Tyne and Wear Fire and Rescue Authority - Financial Statements for the year end 31 March 2016 - Understanding how those charged with governance gain assurance from management

I am writing with reference to your correspondence dated 17th March 2016, in relation to "Assurances from the Governance Committee as the body charged with Governance", which seeks relevant assurances from those charged with governance required by external auditors under the International Auditing Standards. These assurances are provided below, representing Tyne and Wear Fire and Rescue Authority's formal response from those charged with governance, which, for the purposes of the financial statements, is the Governance Committee.

As in previous years, the Governance Committee has considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the Authority which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements.

The process for the production of the Annual Governance Statement should also mean that all key risks which would relate to the financial statements have been considered. In response to your correspondence please find responses to your questions below and also the completed Appendix 1, as requested.

Specific assurances:

1) I exercise oversight of management's processes through receiving reports as the Chair of the Governance Committee and discussions with key officers. I am aware of the following arrangements:

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

This responsibility is exercised through the effective functioning of the Governance Committee, the constitution and operation of which follows CIPFA guidelines.

The Interim Director of Corporate Services at Sunderland City Council is the designated Finance Officer in accordance with Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985. The Section 151 Officer attends all meetings of the Governance Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management's response. The Governance Committee also consider the Annual Governance Statement and the actions taken and proposed in relation to improving governance and internal controls.

The Committee reviews the Internal Audit Strategy and Annual Internal Audit Plan and is able to comment on areas proposed for review. The Authority's Corporate Risks are regularly reported and reviewed by the committee and the Authority's Anti Fraud and Corruption Policy ensures that fraud risk or related concerns are escalated through to the appropriate level, or to this committee, if appropriate. Ad-hoc meetings between the Chair and the Finance Officer also take place where necessary. Roles and responsibilities of members and officers are clearly set out in 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.

The Governance Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the Authority in relation to the 2015/2016 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 approved by the Committee. The Committee reviews the Internal Audit Strategy and Annual Internal Audit Plan, which includes the Counter Fraud Work Programme for the year. 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. The Committee receives regular 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.

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 participates in the National Fraud Initiative and subsequent investigations.

- ***communicating to employees its view on business practice and ethical behaviour and communicating to you 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 carries 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;
- Corporate Risk Management Strategy;
- Procurement Codes of Practice;
- Partnerships Procedure;
- Treasury Management Strategy;
- Functional budget management schemes.

The Governance Committee met three times during 2015/2016 with an Internal Audit Progress report being submitted to one of these meetings. The Progress report sets 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.

2) I am made aware of management processes for identifying and responding to the risk of fraud and possible breaches of internal control through receiving reports as the Chair of the Governance Committee and discussions with key officers.

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.

I have not been made aware of any breaches of internal control during 2015/2016.

3) 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 2015-16? If so, please provide details

I am not aware of any actual, suspected or alleged frauds. The Committee is aware that all Authority matters are reviewed for their legality to ensure Authority expenditure, services and actions are within the law. As such this Committee has reassurance that legal advice is sought where appropriate and that all reports to Authority and members must be reviewed by the legal services section of Sunderland City Council and that legal representation from the Council is made at all Authority meetings.

Fire Authority reports are vetted by or on behalf of the Monitoring Officer (Deputy Clerk of Sunderland City Council) to ensure compliance with all legal requirements and there is legal representation at Authority meetings. In addition, the Monitoring Officer and senior members

of the Council's Legal Services also have access to reports. 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.

The Lead Authority's Internal Audit Team carries out audits of the Authority's corporate legality arrangements, with the objective of providing assurance that the arrangements in place ensure that the Authority remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law. The last review carried out, in summary reported that there were no issues or concerns raised and the audit gave full assurance of the legality arrangements in place. The audit concluded that the controls evaluated were well designed, appropriate in scope and applied consistently and effectively.

In addition I am further reassured by the fact that the Authority's Monitoring Officer has carried out a self assessment of the legal service which covers the Authority's corporate legality arrangements that informs the Annual Governance Statement and has confirmed that there were no issues to raise and this provides me with the assurance that the Authority has arrangements in place to ensure that it remains within the law as it carries out its business, paying due regard to relevant legislation, statutory requirements and case law.

4) 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 the Governance Committee I declare that I have no knowledge of and have not been notified of any non-compliance with laws and regulations that could impact on the 2015/2016 financial statements other than those that will be properly disclosed in the 2015/2016 financial statements.

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern? If so, please provide details.

The Authority is a going concern and the Committee has no reason to believe that any events would impact on this position. The fact the Authority shows assets worth over £67m and cash backed reserves of over £32m would support this view. Whilst recognising that the Authority has a negative net worth of £684m, most of this relates to the pensions deficiency of £748m which must be disclosed as part of the international financial reporting standard IAS19 requirements.

The fact all pension costs would never be incurred in one year (as implied by IAS19) and that the Authority is addressing the potential deficiency over a 21 year period in accordance with requirements by making additional annual pension deficiency payments, means the Balance Sheet Net Worth is effectively being distorted by this reporting standard. When this is removed the Authority has a real net worth of approximately £64m. The Authority is also extremely well managed and prudent in its approach to all financial matters which is reflected in the strong Balance Sheet presented to this Committee as part of the Statement of Accounts for 2015/2016.

Yours sincerely,

Geoff Cook
Chairman of the Governance Committee

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 2015 – 31 March 2016?	There were no breaches of control at the Authority during 2015/2016.
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Authority? ➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud? ➤ Are there particular locations within the Authority where fraud is more likely to occur? 	<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"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<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 are available to all staff on the Authority intranet and included in the induction process.</p> <p>Other controls in place include a robust budget management framework which includes detailed support of 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 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"> ➤ What concerns about fraud are staff expected to report? 	<p>This is undertaken by officers of the Authority. A Whistle Blowing 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"> ➤ How are the risks relating to these posts identified, assessed and managed? 	<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"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<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 have 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 services for scrutiny and also help to inform the process. Reviews by senior management also help inform the control process.</p>

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"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<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"> ➤ 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? 	<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>