



OFFICIAL

# Accounting Policies

## Audit Committee

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Date: 24 April 2020

Agenda Item:

6

Submitted By: Chief Finance and Procurement Officer

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<b>Purpose</b>	To present the accounting policies that will be applied in the preparation and presentation of the Statement of Accounts 2019/20.
<b>Recommendations</b>	That Members endorse the Accounting Policies in advance of the preparation and presentation of the Statement of Accounts 2019 - 20
<b>Summary</b>	It is considered good practice for the Audit Committee to review the proposed accounting policies to be used in the preparation of the Authority's Statement of Accounts.

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Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: None

Annexes: Accounting policies

## **1 Introduction**

- 1.1 The Statement of Accounts summarises the Authority's transactions for the 2019/2020 financial year and its position at the year end of 31 March 2020.
- 1.2 The Authority is required to prepare an annual Statement of the Financial Accounts as per the Accounts and Audit Regulations 2015. These regulations require the Financial Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in 2019/20 and the Service Reporting Code of Practice 2019/20 supported by International Financial Reporting Standards (IFRS).

## **2 Information**

- 2.1 Accounting policies are defined by the Code as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".
- 2.2 As a starting point in selecting its accounting policies, the Authority uses the example policies set out in the CIPFA Code of Practice guidance notes. However, the policies are then tailored to meet the Authority's own needs and circumstances. The policies settled upon should cover all material transactions and balances (e.g. revenue recognition, non-current assets and retirement benefits) and should be followed in practice.
- 2.3 Policies do not need to be disclosed in respect of immaterial transactions or balances, or where they are not applicable to the Authority. The policies are reviewed and, if necessary, updated annually to reflect changes to the Code, accounting standards or statutory guidance.
- 2.4 For 2019/20 there have been no material changes to the set of accounting policies included within the 2018/19 Statement of Accounts.
- 2.5 The policies which will be followed in the preparation of the 2019/20 Statement of Accounts are set out in Annex A.

## **3 Financial Implications**

- 3.1 There are no financial implications associated with this report

## **4 Legal Implications**

- 4.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting.

## **5 Human Resource and Diversity Implications**

5.1 There are no human resources and diversity implications associated with this report.

## **6 Health and Safety Implications**

6.1 There are no health, safety or wellbeing implications associated with this report.

## **7 Environmental Implications**

7.1 There are no environmental implications associated with this report

## **8 Your Fire and Rescue Service priorities**

8.1 This report links to all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

## **9 Conclusions**

9.1 In accordance with good accounting practice it is recommended that Members approve the accounting policies that will be used during the preparation and production of the 2019/20 Statement of Accounts.

## Note 1 – Accounting Policies

### **General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2019/2020 financial year and its position at the year end of 31 March 2020. The Statement of Accounts are prepared on a going concern basis and the Chief Finance and Procurement Officer is unaware of any material uncertainties relating to the Authority's ability to continue as a going concern.

The Authority is required to prepare an annual Statement of the Financial Accounts as per the Accounts and Audit Regulations 2015. These regulations require the Financial Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in 2019/20 and the Service Reporting Code of Practice 2019/20. Supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The following accounting concepts have been applied and policies adopted in preparing the financial accounts:

### **Fundamental Accounting Concepts**

The financial statements, other than cash flow information, are prepared on an accrual's basis. This means that revenue and capital expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.

Consistent accounting policies have been applied both within the year and between years unless otherwise identified.

The accounts have been prepared on a going concern basis that is on the assumption that the Authority will continue in operational existence for the foreseeable future.

The concept of materiality has been utilised such that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided in aggregate they would not affect the interpretation of the accounts.

Where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

### **Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received in accordance with section 2.7 of IFRS15. In particular:

- Revenue from the provision of services is recognised when the Authority can measure reliably the completion of the transaction.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received (including the services from employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowing is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

### **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. The Authority has deposits in financial institutions that are repayable on demand which are classified in the accounts as cash and cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which form an integral part of the Authority's cash management.

### **Exceptional Items**

Any exceptional items are included in the cost of service to which they relate or on the face of the Comprehensive Income and Expenditure Statement, if such a degree of prominence is necessary to give a fair presentation of the accounts. Details of such items are given in the notes to the accounts.

### **Prior Period Adjustments**

Prior year adjustments may arise from changes in accounting policies or from the correction of a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Material errors that are identified in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **Charges to Revenue for Non-Current Assets**

Front line services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the loss can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations; however, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, which is calculated by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are replaced by a contribution in the General Fund Balance of Minimum Revenue Provision, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Employee Benefits**

#### **Benefits payable during employment**

Short term benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements, accrued flexi time and time in lieu earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the deficit on the Provision of Services but then removed from the account, matched by a corresponding adjustment to the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post-Employment Benefits**

Accounting for retirement benefits is carried out in line with International Accounting Standard 19 (IAS19). IAS19 requires an authority to see beyond its commitment to pay contributions to pension funds and to determine the full longer-term effect that the award of retirement benefits in any year has had on the authority's financial position. Inclusion of the attributable share of the fund assets and liabilities does not mean that legal title or obligation has passed to the employer, instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit via reduced contributions from a surplus in the scheme.

IAS19 only applies to defined benefit schemes that are those where retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.

The Authority participates in the following retirement schemes:

- 1992 Firefighters' Pension Scheme (FPS).
- 2006 Firefighters' Pension Scheme (NFPS).
- Retained Modified Scheme.
- 2015 Firefighters' Pension Scheme.
- Firefighters' Compensation Scheme (FCS).
- The Local Government Pension Scheme (LGPS).

The Government introduced a new pension scheme on the 1<sup>st</sup> April 2015, the 2015 Firefighters Pension Scheme. Members of the 1992, 2006 and Retained Modified Scheme either transferred to the scheme with no protection, have tapered protection or have full protection in the existing schemes as follows:

#### 1992 Firefighters' Pension Scheme

If a member at the 1/4/12 was within 10 years of the normal pension age (50 years old), and were aged 45 and over then full protection is awarded and the member remains in the 1992 FPS.

If a member at the 1/4/12 was aged between 41 and 45 they have tapered protection and will join the 2015 scheme at a specified date unique to the member.

#### 2006 Firefighters' Pension Scheme

If a member at the 1/4/12 was within 10 years of the normal pension age, and were aged 50 and over then full protection is awarded and the member remains in the 2006 FPS.

If a member at the 1/4/12 was aged between 46 and 50 they have tapered protection and will join the 2015 scheme at a specified date unique to the member.

#### Retained Modified Scheme

Members have the same protection as those in the 1992 FPS because they have a normal retirement age of 55.

#### Firefighters' Compensation Scheme

Under the Firefighters' Compensation Scheme injury awards are payable to those firefighters who have sustained a qualifying injury in the exercise of their duties as a firefighter which are paid from the Authority's revenue account.

#### Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme

- The liabilities of the LGPS attributable to the Authority are included in the Balance Sheet on an actuarial basis using an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projections of expected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate of 2.9%.
- The assets of the LGPS attributable to the Authority are included in the Balance Sheet at their fair value.

The change in the net pension's liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service to which the employee worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period considering any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) which is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits to employees – debited or credited to the deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the LGPS – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year,

not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirements benefits on the basis of cash flows rather than as benefits earned by employees.

The 2019/20 Code (and IAS 19 Employee Benefits Revised) requires that administration costs directly related to the management of plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligations, are recognised as a reduction in the return on plan assets and recorded in Other Comprehensive Income and Expenditure.

The 2019/20 Code does not prescribe a specific accounting treatment for administration costs that are not deducted from the return on plan assets. The accounting treatment adopted by West Yorkshire Pension Fund is to deduct administration costs from the cost of services.

### **Discretionary Benefits**

The Authority also has the restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **Pension Fund**

The Authority maintains a Firefighters' Pensions Fund from which pension payments are made and into which all contributions (employees and employer's) are received. The annual deficit is topped up as necessary by specific government grant.

### **Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **Financial Instruments**

#### **Financial Liabilities**

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal

repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the re-purchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading losses over the life of the replacement loan and gains over a similar period up to a maximum of ten years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

There are two main classes of financial assets measured within the Authority at:

- Amortised cost and;
- Fair value through other comprehensive income (FVOCI)

The Authority holds investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Authority's financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). The Authority therefore made the irrevocable election to designate changes in equity investments in other comprehensive income as permitted under IFRS. The Authority does not currently hold any equity investments and therefore all assets are currently held at amortised cost.

#### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Where the Authority has entered into a financial asset and recognises the potential for any loss, then this will be recognised over the lifetime of the asset.

### **Available for Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (for example, dividends) is credited to the CIES when it becomes receivable by the Authority.

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, if not, future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. The Authority has set a De-minimis level for revenue grants and contributions at £20,000.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it is applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Intangible Assets**

Expenditure on the acquisition of intangible assets is capitalised, brought onto the Balance Sheet at cost and amortised over the period benefit is received. Software licences that are purchased by access to a web portal rather than the software being installed on a fire Authority IT device are charged as an expense to the revenue account.

Estimated lives for new intangible assets are 5 years and are amortised on a straight-line basis.

Intangible assets are amortised on their current net book value and it is assumed that residual value is insignificant or nil. Intangible assets are reviewed annually for impairment. All services are charged with a provision for amortisation and, where required, any related impairment loss, for all intangible assets used in the provision of the service.

### **Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

### **Leases**

#### **Finance Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

Leases that do not meet the definition of finance leases are accounted for as operating leases. The Authority had no finance leases in 2019/20.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the use of the leased property, plant or equipment.

Charges are made on a straight line basis over the life of the lease, even if this does match the pattern of payments.

The Authority leases no assets to other organisations.

### **Overheads and Support Services**

The cost of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and performance.

### **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the supply of services or for administering services and are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

The cost of enhancement work to existing assets is added to the appropriate fixed asset balance where the enhancement increases either the value or life of the asset. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits is charged as an expense when it is incurred.

The Authority has a De-minimis level of £10,000 whereby new capital schemes below this limit are charged to revenue expenditure.

### **Measurement**

Assets are initially measured at cost comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets are carried in the Balance Sheet using the following measurement bases:

- Assets Under Construction (AUC) – historical cost.
- Operational Assets – including all fire stations, the Urban Search and Rescue Building and buildings at FSHQ - depreciated replacement cost
- Surplus land at Fire Service Head Quarters - market value.
- Non-property assets with short useful lives and/or low values – depreciated historical cost.
- Assets Held for Sale – market value
- Fire Appliances – due to their specialist nature these are valued at depreciated historical cost.

- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use.

The authority formally values via an external valuations team, 20% of its assets each year and for those that are not formally re-valued in year a detailed evaluation of assets is undertaken to assess their current value by the Authority's external valuer. This is determined and set out within the letter of engagement between the Authority and external valuer.

Valuations are also carried out when there is a major natural disaster and/or there are major refurbishments.

Increases in value of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated in the Capital Adjustment Account.

### **Impairment**

Assets are assessed at the end of each financial year as to whether there is any indication that an asset may be impaired.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where identified, the impairment losses are accounted for by:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for all fixed assets with a determinable finite life except for freehold land and assets under construction. Assets are depreciated on a straight-line basis. Buildings and motor vehicles are depreciated from their date they became operational. All other assets are depreciated from 1<sup>st</sup> October in year of acquisition. Estimated lives for new assets can vary but are generally as follows:

- New Buildings and Refurbishments 21-50 years

- Vehicles and Operational Equipment 5-13 years
- Fixtures and Fittings 10 years
- Computer Equipment 5 years

From 2019/20, estimated lives for all new appliances will be 13 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Componentisation**

For those assets where the cost of the component parts is significant, they are depreciated separately from the rest of the asset. The Authority has a £500,000 De-minimis level on the net book value which means that if the carrying value of the asset is lower than this de Minimis the asset is not componentised. For those assets that are assessed for componentisation each component must represent 25% of the total cost of the asset or the depreciation charges must be significant to the charge if componentisation was not used. The componentisation of an asset is also reviewed if the asset has significant enhancement expenditure during the year, is purchased/built from new and also during the formal 5 yearly property valuations.

### **Disposals and Non-Current Assets Held for Sale**

Once Management has made the decision that an asset has become surplus to requirements and it is being actively marketed for sale it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

There is a formal disposal process in place that departments complete when assets are disposed of to ensure that the asset register is complete.

### **Unusual or Material Charges or Credits in the Accounts**

These are items that due to their nature and/or value require separate disclosure. Details of unusual or material charges or credits in the Accounts for 2019/20 are shown in Note 6.

## **Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, considering relevant risks and uncertainties.

When payments are made, they are charged to the provision carried in the Balance Sheet.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Reserves**

These are amounts set aside for purposes falling outside the definition of provisions. The Authority's reserves some of which can be used to support expenditure and others which have been established for other purposes. The General Fund Balance can be used to meet both capital and revenue expenditure, and a minimum level must be maintained for risk management purposes. For the Authority this is considered to be £5m. The Authority also has a number of earmarked reserves which are held for identified specific expenditure in the future. These will be reviewed periodically and those no longer required will be transferred to the General Fund Balance.

The balances on the following reserves: Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve, the Pension Reserve, and the Collection Fund Adjustment Account cannot be used for future expenditure.

### **Revenue Expenditure Funded from Capital under Statute**

This represents expenditure which may properly be capitalised under statutory provisions but which does not represent fixed assets. The expenditure is written off to revenue in the year it is incurred and an adjustment is made on the statement of General Fund Balance for the same amount so that there is no impact on council tax. The Authority uses this approach for the installation of smoke and carbon monoxide alarms within premises.

### **Value Added Tax**

VAT is included in the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure as appropriate. VAT receivable is excluded from income.

### **Council Tax and Business Rates Income**

Billing Authorities in England are currently required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and the Business Rates Retention Scheme. In its capacity as a billing authority, an authority acts as an agent - it collects and distributes council tax and business rates income on behalf of itself and other major preceptors such as the Fire Authority.

Council tax and business rates income collected by billing authorities is credited to their Collection Fund and represents accrued income for the year. Regulations determine when this income should be released from the Collection Fund and transferred to the General Fund of the billing authority and other major preceptors (which in turn is credited to their General Funds). The amount credited under these regulations is the authority's precept and income from the Business Rates Retention Scheme for the year, plus the authority's share of the surplus or deficit on the collection fund for the previous year.

The income which must be included in the Comprehensive Income and Expenditure statement is the accrued income for the year and not the actual income received in the year. Any difference between these figures is charged to the Collection Fund Adjustment Account which is held on the Balance Sheet and is included in the Movement of Reserves Statement. This ensures that the difference between the accrued income and the actual income received does not impact on the General Fund.

Since the collecting Authority is collecting income on behalf of the Fire Authority, then the Fire Authority must also share in any surplus or deficit on collection.

The Authority therefore makes provision for the following items in its Balance Sheet at the financial year end:

- Debtors for the Authority's share of Council Tax and Business Rates Retention arrears at 31 March 2020.
- Provision for impairments of debtors in relation to Council Tax and Business Rates Retention arrears as at 31 March 2020.
- Income in advance from Council Tax and Business Rate payers who have paid their bills early.
- Creditor provision where the billing authorities have over-collected council tax and business rates income in year compared to the value of amounts actually paid over to the Authority.
- Creditor provision for appeals by business rate payers who disagree with the valuation of their premises for business rates purposes.

The relationship with each billing Authority is held within the Balance Sheet as a net debtor or creditor to the Authority.



OFFICIAL

# Internal Audit Annual report 2019 - 20

## Audit Committee

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Date: 24 April 2020

Agenda Item:

7

Submitted By: Chief Finance and Procurement Officer

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### Purpose

To seek Members' endorsement of the Chief Finance and Procurement Officer's conclusion as to the effectiveness of the system of internal audit. To note the audit opinion on risk management and the internal control environment during 2019/20.

### Recommendations

Members endorse the Chief Finance & Procurement Officer's conclusion as to the effectiveness of the system of internal audit.

Members note the audit opinion on governance, risk management arrangements and the internal control environment in 2019/20, thereby providing assurance for the Annual Governance Statement 2019/20.

Members approve the Audit Charter and Strategy

### Summary

The Chief Finance & Procurement Officer concludes the Authority's systems of internal audit are effective.

This report concludes that the Authority's governance, risk management arrangements and internal control environment were effective and robust during the financial year to 31 March 2020.

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Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: Internal audit reports 2019 - 20

Annexes: Annex A – Audit Charter and Strategy  
Annex B – Summary of Audit coverage  
Annex C – Draft Internal Audit Plan

# 1 Introduction

- 1.1 The Authority is required (by the Accounts & Audit Regulations 2015) to undertake an annual review of the effectiveness of its system of internal control which
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - ensure that the financial and operational management of the Authority is effective; and
  - incorporates effective arrangements for the management of risk.
- and includes undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) and Code of Ethics.
- 1.2 Following the previous external assessment of compliance with the PSIAS in 2018 which resulted in a Generally Conforms (to the Standards) opinion, (the highest available), the annual self-assessment has confirmed that the matters arising last year have been actioned and the overall level of compliance has continued to be maintained.
- 1.3 Coupled with the analysis of the performance of the internal audit function against its performance indicators and quality assurance process and delivery of the 2019/20 Audit Plan as far as possible, the Chief Finance & Procurement Officer has used this data in formulating her assessment of the Authority's system of internal audit to conclude the degree of reliance can be placed on its work and opinion on the internal control environment.
- 1.4 In accordance with best practice the annual review of the Audit Charter and Strategy has been conducted and confirmed it remains fit for purpose and no changes are proposed.
- 1.4 This report then provides an opinion on the adequacy and effectiveness of the Authority's governance, risk management system and internal control environment during the year, particularly in support of the Draft Annual Governance Statement that accompanies the Annual Accounts.
- 1.5 The opinion is drawn from the matters included in the Quarterly Reports to the Committee during the year on the audit opinions reached on the level of assurance concerning each risk, system or process controls examined.

# 2 Information

## **Effectiveness of the System of Internal Audit**

- 2.1 The Covid 19 outbreak has necessarily impacted upon the culmination of the delivery of this year's Audit Plan. Several pieces of planned work have either been curtailed indefinitely or not commenced at all. However as almost two thirds of the Plan has been completed and reported there is sufficient evidence to provide a meaningful opinion on the overall internal control, governance and risk management framework in these unprecedented times. The remainder of the work will be delivered when circumstances permit.

2.2 The Internal Audit function is included in the Financial Services Service Level Agreement with Kirklees Council which the Chief Finance & Procurement Officer has reviewed recently in conjunction with officers from the Council. The most recent benchmarking information from CIPFA, albeit increasingly dated, showed internal audit operations have been at approximately the lower quartile of costs (based on £m gross expenditure) compared with Metropolitan and Unitary authorities.

2.2 The actions from the external assessment of compliance with the PSIAS undertaken by Wakefield MDC as regards the Authority have been addressed as follows:

	<b>Recommendation</b>	<b>Progress</b>
1	Accessing the skills necessary to address speciality work areas (e.g. cyber IT) and more generally to secure a sustainable workforce.	Consideration is being given within the region as to a potential collective procurement of IT audit from another local authority with developed specialist experience and capacity following a trial by one of its number.  A trainee auditor/accountant was appointed last year and a further one may be sought in 2020/21.
2	The need to improve feedback/client engagement information.	New post audit e-survey was introduced during the year and is providing useful feedback.
3	Making sure that process documentation is fully completed	Ongoing supervision to address.

The annual self-assessment of compliance for 2019/20 has confirmed the overall position was maintained last year.

2.3 As referred to above, the Audit Charter & Strategy (see Appendix A) has been reviewed to ensure it continues to meet the needs of the Authority. The review has not identified any need for amendment or update, which it Members are content should be formally approved.

2.4 A summary of the performance of Internal Audit in delivering the 2019/20 Plan as reported to the Audit Committee during the year is shown below:

<b>Performance Indicators</b>	<b>19/20 Target</b>	<b>19/20 Actual</b>
Audits completed within the planned time allowance	80%	100 %
Draft reports issued within 10 days of fieldwork completion	90%	91%
Client satisfaction in returned post audit questionnaires	90%	100%
Chargeable audit days (cumulative)	160	130
QA compliance sample checks – pass rate	90%	100%
Planned Audits Completed	17	8
Planned Audits in Progress		2
Planned Audits Postponed		5
Planned audit deferred by Management		2
Unplanned Audits Completed		3

- 2.5 A summary of plan delivery itself is shown as Appendix B, together with the opinion reached for each audit completed.
- 2.6 The positive working relationship with the previous external auditors has continued with Deloitte colleagues, to maximise the use of audit resources and ensure our mutual roles are fulfilled effectively.
- 2.7 Members may wish to endorse the positive opinion on the effectiveness of the system of internal audit and control reached by the Chief Finance & Procurement Officer.

### **3 Operational Information**

- 3.1 The scope of activity is established by the Financial Procedure Rules, the Audit Charter & Strategy and statements of operating practice.
- 3.2 In line with the Audit Strategy, assurance about the governance, risk management and internal control environment is obtained by the maintenance and delivery of a risk based audit plan approved by Members. Planned work during 2019/20 targeted areas of significant risk and where most value could be added, particularly on wider business and governance controls.

- 3.3 Areas of significant risk are determined by the Authority through its risk management process and in particular the Corporate Risk Matrix. Review of this area accounts for approximately 50% of available audit resources, the remaining 50% continued to relate to the review of key financial systems and processes.
- 3.4 Each audit concludes with an opinion about the level of assurance derived on the adequacy and effectiveness of the system, process or location concerned at the time of the audit, based upon the management of risk and the adequacy and operation of financial and other controls. The approach involves the follow up of any activities about which less than "Adequate Assurance" is given, as a means of seeking to ensure that the work carried out by Internal Audit maximises the chances of improving the Authority's control environment.
- 3.5 The Audit Committee has previously agreed definitions of the different levels of assurance given and how these are derived from audit recommendations. Implementation of the agreed recommendations by management should provide for a satisfactory degree of control in all cases.
- 3.6 The outcome of individual audits is summarised quarterly and reported to the Audit Committee for consideration. These reports also include action taken by management regarding the implementation of any agreed key recommendations.

## **4 Summary of Audit Outcomes in 2019/20**

- 4.1 The agreed Audit Plan for 2019/20 included 160 days of planned work in the following main areas:
- financial system and process audits,
  - main business and governance risks and controls,
  - follow up audits, and
  - ongoing project assurance to the  
Emergency Services Mobile Communication Project Board

Liaison with the Chief Finance & Procurement Officer throughout the year ensures that internal audit work undertaken continues to focus on the high risk areas and is reflective of any new developments or particular areas of concern so as to ensure the most appropriate use of internal audit resources. Appendix B provides a summary of the audits undertaken and status reached.

- 4.2 At the time of writing 8 of 15 planned audits had been completed with a further 2 nearing completion, plus 3 follow up audits. Each planned audit performed during the year concluded with a Substantial Assurance opinion.
- 4.3 The original audit of Maintenance of Operational Competence and other mandatory training in 2018/19 supported management's belief that the recording system is inadequate and not fit for purpose. Remediation of this position requires a new software application, either purchased directly or developed in-house. The follow up audit confirmed

that a decision has yet to be made on which avenue to pursue so necessarily concluded that the Limited Assurance opinion remained in place.

As undertaking and recording of training is a key management control action for many of the highest scoring risks in the Corporate Risk Matrix, the current position impacts on the robustness of the risk management arrangements, as a lack of clarity and doubts over the reliability of management information to evidence who has been trained, when and with what outcome remains a key concern. This was evidenced in the audit of flooding risk concerning the robustness of water safety and boat and equipment usage training records. The Risk Management Strategy Group recognised the need for an interim mechanism to provide necessary assurance and a manual workaround has been devised and introduced. A review of the extent to which this has been embedded will be undertaken in the first part of 2020/21.

- 4.4 The Authority's risk management arrangements have been considered in individual pieces of audit work, whereby management activity to address particular business risks, as recorded on the Corporate Risk Matrix, has been assessed. These audits all concluded with positive assurance opinions and conclusions that management controls to address the key risks to the Authority were robust and operating effectively, noting the issue in 4.3 above. Where appropriate, management has agreed recommendations to further enhance the control environment.
- 4.5 Two other follow-up audits were carried out to assess the degree of implementation of recommendations after the original audits had produced Limited Assurance and this was found to be satisfactory, thus providing assurance that management are effective in implementing agreed actions, albeit with some residual issues still to attend to.
- 4.6 In accordance with our commitment to provide help, assistance and add value, questions and issues raised by managers have been resolved, particularly in relation to advice/approval for authorisation of contracting matters, and to evaluation of potential suppliers. In addition, the Audit Plan is designed to be sufficiently flexible to accommodate any ad hoc requests for audit reviews.

## **5. Internal Audit in 2020/21**

- 5.1 Clearly at present there is no reliable indication of when normality will return and audit work can resume. When such a point is reached, a discussion will need to be had with the Chief Finance & Procurement Officer to determine priorities and timescales for completion of the 2019/20 and delivery of all or part of the 2020/21 one, depending on available time and resources. As ever, Internal Audit will continue to strive to reliably achieve planned audit work and to address Authority priorities and activities that will add value for the organisation, particularly supporting the roll out of revised procurement arrangements.
- 5.2 In addition, we will continue to develop the approach to organisational and business controls encompassed in the revised Audit Strategy to focus on areas of highest risk and

thus to contribute to the level of assurance required by the Chief Fire Officer / Chief Executive, Chair of the Authority and Chief Finance & Procurement Officer in order to sign off the Annual Governance Statement.

5.3 Planned audit work built into the agreed 2020/21 Internal Audit Plan includes key financial control audits, review of controls to manage key business risks, follow up audits and the latest National Fraud Initiative data matching exercise.

5.4 The summary Draft Audit Plan for 2020/21 is the subject of a separate report for approval.

## **6 Financial Implications**

6.1 There are no financial implications associated with this report

## **7 Legal Implications**

7.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting

## **8 Human Resource and Diversity Implications**

8.1 There are no human resource and diversity implications associated with this report

## **9 Health, Safety and Wellbeing Implications**

9.1 There are no health, safety and wellbeing implications associated with this report

## **10 Environmental Implications**

10.1 There are no environmental implications associated with this report

## **11 Your Fire and Rescue Service Priorities**

11.1 An effective internal audit system underpins all the fire and rescue service priorities

## **12 Conclusions**

12.1 This report has summarised the main activities of Internal Audit during 2019/20, detailed information on which has been provided to this Committee during the year.

Audit work during the year and the annual self-assessment of PSIAS compliance provided sufficient evidence to demonstrate that overall the system of internal audit is effective and has been undertaken in compliance with the PSIAS.

A review of the Authority's framework of governance, risk management and control, and business systems controls, has provided sufficient evidence and assurance that each is robust and effective and that in the small number of occasions where it has been necessary, management have taken/agreed appropriate action to address weaknesses.

Overall, the Authority has a sound control environment. The matter of maintenance of operational competency training records and reporting and the impact on risk management arrangements is one worthy of consideration for inclusion in the Annual Governance Statement for 2019/20 as a Significant Governance Issue, at least until the manual workaround is embedded.

# **West Yorkshire Fire & Rescue Authority**

## **INTERNAL AUDIT CHARTER & STRATEGY**

April 2020

## **1. Introduction**

The Public Sector Internal Audit Standards (PSIAS) and Code of Ethics are mandatory guidance which state the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority in this respect for local government in the UK.

The PSIAS require that there is a formal Internal Audit Charter defining its purpose, authority and responsibilities, which must be consistent with its definition of internal audit, code of ethics and professional standards.

The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Authority on whether effective and efficient arrangements exist, cumulating in the annual Internal Audit opinion, which informs the Annual Governance Statement. Optimum benefit to the Authority arises when Internal Audit work in partnership with management to improve the control environment and assist in achieving objectives.

## **2. The Purpose of the Charter**

The purpose of this Charter is to set out the nature, objectives, outcomes and responsibility of the Internal Audit function.

## **3. Definition of Internal Audit**

The PSIAS definition of Internal Audit is:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

This definition goes beyond basic compliance by, where appropriate, evaluating and improving the effectiveness of risk, control and governance arrangements.

## **4. Accountability and Reporting Lines**

Internal Audit will report to the Audit Committee

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit ( achievement of the annual audit plan, issuing reports on time, completing work within time allocated, client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Authority's internal audit work programme, including an opinion on the assurance arrangements, and on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of resources, and any impact this may have on the ability to assess the control environment.
- As necessary on any matter impacting on the overall integrity of the Authority's control environment, where any significant risk or threat to the organisation identified through audit assurance work has not been adequately addressed by management, or on any operational matter that seriously impacts on the delivery or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Directors. All Directors and the Chief Executive receive the full Authority wide summary of activity.

Operationally Internal Audit report to the Chief Finance & Procurement Officer but has the right to communicate directly with the Chief Fire Officer / Chief Executive as necessary, for example in relation to audit work on activities for which the Chief Finance & Procurement is responsible and ultimately with the Chair of the Audit Committee as necessary.

## **5. Scope of Internal Audit**

Internal Audit's remit extends to the adequacy and effectiveness of the entire control environment of the Authority as encompassed in the Audit Strategy as approved by the Audit Committee. It involves the examination of all business processes to evaluate the adequacy, effectiveness and efficiency of control, governance and risk management arrangements. It will assess the quality of performance in carrying out assigned responsibilities to achieve the Authority's objectives.

## **6. Responsibilities and Objectives of Internal Audit**

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including; ethics, information management and technology.
- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.
- To review, appraise and report on the suitability and reliability of financial and other management data and information.

- To assess the adequacy and effectiveness of the Authority's procurement, contract and partnership arrangements.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection and investigation services in accordance with the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy.
- To reach conclusions about the effectiveness of the Authority's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement.
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.
- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within directorates.
- To support effective procurement.
- To support activities of the Audit Committee to discharge its responsibilities.
- To support the Chief Finance & Procurement Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations.
- To plan, manage and operate the internal audit function in an efficient and effective manner.

## **7. Organisational Independence of Internal Audit**

An effective Internal Audit function must be independent, objective and unbiased. To ensure this, Internal Audit will operate within a framework that allows:-

Unrestricted access to all of the Authority's

- + employees
  - + premises and assets
  - + records, information and data (in all forms)
  - + contractors and partners
- and to the Authority's External Audit provider.

As the Head of Audit & Risk, Kirklees Council has direct operational responsibility for the Insurance function and input into certain procurement functions that form part of the overall Financial Services SLA with Kirklees Council, one of the Audit Managers will assume the lead for internal audit for the Authority and report directly to the Chief Finance & Procurement Officer. This arrangement helps maintain independence and avoid any conflicts of interest. With the exception of these activities, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in processing functions or business activities.

As an outside provider, Internal Audit at Kirklees has the advantage of total segregation from line operations, so has no responsibility for developing or implementing procedures or systems and does not prepare records or engages in processing functions or business activities. If staff move from the Authority to Internal Audit they will not be involved in the audit of any system or process for which they had previous operational responsibility for a period of two years

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

## **8. Ethical Standards**

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence and responsibility. They must at all times observe the law and respect and contribute to the legitimate and ethical objectives of the Authority.

Objectivity:

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by:

taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment;

declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity.

accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties.

disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review;

not using information obtained during the course of duties for personal gain and;

complying with the Bribery Act 2010

Confidentiality:

Internal Auditors must;

act prudently when using information acquired in the course of their duties and protecting that information and;

not use information (derived or obtained through their official role) for any personal gain.

Integrity:

In the conduct of audit work, Internal Audit staff will:

comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility

Competency:

Internal Auditors are expected to be competent in their role by:

possessing the knowledge, skills and technical proficiency relevant to the performance of their duties;

being skilled in dealing with people and communicating audit, risk management and related issues effectively;

maintaining their technical competence through a programme of continuous professional development;

exercising due professional care in performing their duties and;

complying with all requirements of the PSIAS & Code of Ethics.

## **9. Relationships**

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic meetings and contact between internal and external audit are held to discuss matters of mutual interest. External Audit has full and free access to all internal audit plans, working papers and reports.

Where appropriate the Internal Audit function will obtain assurance from other internal and external review agencies that offer opinions or appropriate analysis of the Authority's functions, or can otherwise contribute to the understanding of the overall risk profile and assurance environment.

The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

## **10. Arrangements for Anti-Fraud, Anti-Corruption & Anti-Bribery Work**

The Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy and other supporting fraud related policies set out the Authority's approach. The Policy requires the Chief Finance & Procurement Officer to be notified

of all suspected or detected fraud, corruption, impropriety or other irregularity, in order to inform the annual internal audit opinion and the risk-based plan.

Internal Audit's role in respect of fraud-related work is as follows:

to advise the Chief Finance & Procurement Officer about the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy, and provide guidance for managers and Members;

to co-ordinate the Authority's response to the biennial mandatory National Fraud Initiative (NFI) exercise;

to contribute to the corporate counter fraud arrangements, and;

to assume a lead role in the investigation of certain alleged irregularities. In some cases whistleblowing or outcomes from routine work will lead to an initial investigation, outcomes of which will be discussed with management, and a way forward agreed involving an Internal Audit lead investigation. In other instances irregularities are investigated by management with support from Internal Audit.

## **11. Authority of Internal Audit**

The scope of Internal Audit allows for unrestricted coverage of all the Authority's activities and unrestricted access to all functions, records, data, personnel, premises and assets of the Authority.

Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Recipients of audit reports must respond within prescribed timeframes (draft reports within 2 weeks and final reports within 6 weeks).

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. All internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

## **12. Appropriate Resourcing of Internal Audit**

At least annually, Internal Audit will submit to the Audit Committee an Internal Audit plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Audit to advise the Audit Committee if the amount of resources available compromises the ability to offer appropriate levels of assurance.

The internal audit plan is based on a risk based assessment. As the internal auditor of Kirklees Council which provides the Authority's key financial systems, the audit plan is able to reflect a level of knowledge and assurance from all audit work on these areas to maximise coverage efficiency. The current Audit Strategy is to ensure that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business risks and controls.

Any material variations from the approved Internal Audit plan are reported to the Audit Committee.

### **13. Assurances Provided to Outside Parties**

Internal Audit also undertakes work for Kirklees Council and Kirklees Neighbourhood Housing Ltd, the Council's housing provider, a wholly owned subsidiary of the Council. It also provides assurance work for Kirklees Active Leisure (a charitable trust that is Kirklees Council's leisure centre operator partner). Internal Audit provide assurances (where requested) about the bona fide of transactions and claims as required by government departments. Internal audit would if requested provide assurance to other partner public sector bodies as appropriate.

### **14. Assurances Obtained from Outside Parties**

Internal Audit will obtain assurances from third parties where this is an appropriate form of assurance related to activity carried out on behalf of the Authority.

### **15. Assessment of Internal Audit**

In addition to maintaining its own quality assurance process, performance against which will be reported quarterly to the Audit Committee, annually the Head of Internal Audit will conduct a self-assessment of ongoing compliance with the PSIAS which will be validated by the Chief Finance & Procurement Officer and reported to the Audit Committee.

At least every five years the Authority will conduct an external assessment of its internal audit compliance with PSIAS, the outcome of which will be reported to the Audit Committee, together with an Action Plan as necessary to address any issues arising. .

### **16. Review**

This Charter will be reviewed at least annually by the Audit Committee to ensure it remains relevant to the corporate objectives

## **Annexe 1     Definitions alignment to the Public Sector Internal Audit Standards**

For the purposes of Internal Audit activity, the term;

'board' refers to the Audit Committee.

'senior management' refers to the Directors, namely the Chief Fire Officer / Chief Executive, Deputy Chief, Assistant Chief, Chief Finance & Procurement Officer, Chief Legal & Governance Officer and the Chief Employment Services Officer.

The PSIAS refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by an Audit Manager at Kirklees Council.

## Appendix B – Summary of Audit Coverage 2019/20

Audit	Report Status	Assurance Opinion
<b>Financial Systems &amp; Risks</b> <ul style="list-style-type: none"> <li>• Bank Reconciliation</li> <li>• IR35 Off Payroll Transactions</li> </ul>	Final	Substantial
	Final	Substantial
<b>Other Systems &amp; Risks</b> <ul style="list-style-type: none"> <li>• Hydrant Maintenance</li> </ul>	Final	Substantial
<b>Corporate Governance</b> <ul style="list-style-type: none"> <li>• Local Code</li> </ul>	Draft	Substantial
<b>Business Risk Management</b> <ul style="list-style-type: none"> <li>• Absence Management</li> <li>• Vehicle Accident</li> <li>• Counter Fraud &amp; Corruption</li> <li>• Flooding</li> </ul>	Final	Substantial
	Final	Substantial
	Final	Substantial
	Final	Adequate
<b>Follow up Audits</b> <ul style="list-style-type: none"> <li>• Additional Responsibility Allowances</li> <li>• Commercial Premises Database</li> <li>• Maintenance of Operational Competence &amp; Other Mandatory Training</li> </ul>	Final	Adequate
	Final	Adequate
	Final	Limited
<b>Planned audits in progress</b> <ul style="list-style-type: none"> <li>• Facilities Management</li> </ul>	WIP	
<b>Planned audits postponed</b> <ul style="list-style-type: none"> <li>• Pensions Administration</li> <li>• IT Device Management</li> <li>• IT Software Licensing</li> </ul>		

<ul style="list-style-type: none"><li>• Communications Policy</li><li>• Loss of Critical ICT</li></ul>		
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## **Appendix C – Draft Internal Audit Plan 2020/21**

### **Audit Area**

#### **Internal Control Systems**

- Stores (deferred from 2019/20 at management request)
- VAT
- Income Management – Payment Methods, Collection & Recovery
- Landline and Mobile Phone Contracts – payment plans, usage monitoring, blocks
- Disbursement Account / Purchase Cards
- Interim Method of Competency Training Recording and Reporting System
- National Fraud Initiative 2020/21 (data matching exercise with submission of payroll and creditor payments databases)

#### **Risk Management Strategy / Risks & Controls**

(RMSG consulted at March meeting)

- (Risk 6, score 15) - Retained Duty System
- (Risk 15, score 12) - Third Party health & safety compliance
- (Risk 17, score 12) - Asbestos in Authority Premises
- (Risk 19, score 12) – Severe Weather (non-flooding)
- (Risk 23, score 12) - Unwanted Fire Signal Policy
- (Risk 24, score 12) – Staff Attack / Abuse
- (Risk 26, score 12) - Contract Procedure Rule Compliance
- (Risk 45, score 6) - Faulty Personal Protective Equipment

Ongoing support to the Risk Management Strategy Group.

#### **Governance**

- Data Protection Act Compliance (deferred from 2019/20 at management request)

#### **Contingency**

- ESMCP – Assurance to Project Board
- Follow up audits as required
- Support to officer “ethical training”

**Total Days per SLA**

**160**



OFFICIAL

# Annual Governance Statement 2019 - 20

## Audit Committee

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Date: 24 April 2020

Agenda Item:

8

Submitted By: Chief Finance and Procurement Officer

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<b>Purpose</b>	To present the Annual Governance Statement 2019 - 20
<b>Recommendations</b>	That Members approve the Annual Governance Statement 2019 - 20
<b>Summary</b>	This report presents the Annual Governance Statement of the Authority for approval and inclusion in the 2019/20 Statement of Accounts.

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Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: None

Annexes: Annual Governance Statement 2019 - 20

## 1 Introduction

- 1.1 The Authority is required to include its Annual Governance Statement within its Statement of Accounts.
- 1.2 The purpose of the Annual Governance Statement is to set out the formal procedures for governance within the Authority, and to report upon their effectiveness and to identify any significant issues. Although it forms part of the statement of accounts document it relates to the overall governance of the Authority rather than just the financial systems. The statement is prepared by the Chief Executive and his Management Board and is signed by the Chief Executive, the Chair of the Authority and the Chief Finance & Procurement Officer.
- 1.3 The Annual Governance Statement remains a live document which can be changed prior to final approval as part of the Statement of Accounts.

## 2 Information

- 2.1 The statement is split into five sections which explain how the system of governance works and what procedures and policies are in place to ensure that the systems remain effective. Detailed below is a brief explanation of each of the sections.

**i) Scope of responsibility and Code of Corporate Governance**

Provides a definition of corporate governance which is the requirement the Authority has to conduct its business lawfully and in accordance with proper standards linked to the Nolan principles of Standards in Public Life.

**ii) The Purpose of the Governance Framework** – provides a brief explanation of the purpose of the Governance Framework along with an assurance that the framework has been in place for the whole of the financial year 2019/20.

**iii) The Governance Framework** – provides a detailed explanation of the core elements that make up the governance framework within West Yorkshire Fire & Rescue Authority and how they contribute to it achieving its ambition of ‘Making West Yorkshire Safer’.

**iv) Review of Effectiveness** - The Authority has a responsibility to review the effectiveness of the systems of governance annually. Included within this section is a self-assessment of the effectiveness of the governance structure and the means by which it is measured. It concludes with an assurance from the Management Board that it considers the current systems to be effective.

**v) Significant Governance Issues**

The final section identifies the key areas of challenge to the systems of governance that the review of the governance has identified. Not surprisingly these include the current Covid-19 pandemic which has meant the authority has had to amend current ways of working. The significant governance issues identified are;

1. Covid-19
2. HMICFRS Inspection
3. Embedding of lean working
4. Organisation planning cycle
5. Risk Management review

In addition, the following governance issues remain from 2019/20

6. Central Government Funding uncertainty
7. Implications Matzak Court of Justice Ruling
8. Policing and Crime Act 2017

The process of self-assessment provides the Authority with the evidence to support Managements' conclusion that it is continuing to provide a high quality service with the resources available.

## **2.2 Statement of Assurance**

The Authority is required to produce an annual Statement of Assurance as part of the Fire and Rescue National Framework for England. The purpose of the statement is to provide independent assurance to communities and the Government that the service is being delivered efficiently and effectively. Whilst the Fire and Rescue National Framework sets out the Government's priorities and objectives for fire and rescue authorities in England, it does not prescribe operational matters as these are determined locally by fire and rescue authorities.

This Statement of Assurance provides assurance that WYFRA is providing an efficient, effective and value for money service to the community of West Yorkshire in its financial, governance and operational matters. The Statement of Assurance is approved annually by the Fire Authority and is referenced in the Annual Governance Statement.

## **3 Financial Implications**

- 3.1 There are no financial implications associated with this report

## **4 Legal Implications**

- 4.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/

## **5 Human Resource and Diversity Implications**

- 5.1 There are no human resources and diversity implications associated with this report

## **6 Health, safety and wellbeing implications**

- 6.1 There are no health and safety implication associated with this report.

## **7 Environmental Implications**

- 7.1 There are no environmental implications associated with this report

## **8 Your Fire and Rescue Service Priorities**

- 8.1 This report underpins all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

## **9 Conclusions**

- 9.1 Overall, the Authority and its Management Board conclude that the systems and procedures provide effective systems of management control enabling the Authority to provide an efficient, effective and economic service to the public of West Yorkshire.

# **ANNUAL GOVERNANCE STATEMENT**

## **SCOPE OF RESPONSIBILITY AND CODE OF CORPORATE GOVERNANCE**

Corporate governance is a phrase used to describe the systems and procedures that are in place to ensure that business is conducted in accordance with the law and proper standards, and that public money is properly accounted for and used economically, efficiently and effectively.

The Authority has a duty to achieve best value in the way it functions and to ensure that arrangements are in place to secure continuous improvement in all areas of service provision.

The Authority has set out its arrangements for the governance of its affairs in its Constitution (a copy of this can be found at [www.westyorkshire.gov.uk](http://www.westyorkshire.gov.uk)) which includes the Authority's Code of Corporate Governance which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government (2016).

These core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social and environmental benefits
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing West Yorkshire Fire and Rescue capacity, including the capability of its leadership and the individuals within it
6. Managing risks and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

In publishing this statement, the Authority fulfils the requirement under regulation 4(2) of the Accounts and Audit Regulations 2015, and accompanies the 2019/20 Statement of Accounts.

It is a requirement to produce this statement under regulation 6(1) b of the Accounts and Audit (England) Regulations and that it is approved by Audit Committee in advance of them agreeing the Statement of Accounts.

By applying the principles within the Authority's own Code of Corporate Governance and applying the Nolan Principles of Standards in Public Life, the Authority commits to deliver its services with integrity, accountability, transparency, effectiveness, and inclusivity.

## **THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises systems and processes, and cultures and values, by which the Authority is directed and controlled. 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.

The Authority acknowledges that it can never eliminate risk entirely from its operations and this statement explains the systems used to manage this risk to a reasonable level, a key element of which is the system of internal control.

The governance framework has been in place at West Yorkshire Fire and Rescue Authority for the year ending 31 March 2020 and will remain in place up to the date of the approval of the statement of accounts.

## THE GOVERNANCE FRAMEWORK

Summarised below are some of the key elements of the governance framework:

### Strategic Objectives and the Service Planning Process

The Authority's Ambition and Priorities are set out in Your Service 2020-2021. This document is the Authority's Integrated Risk Management Plan (IRMP) and is supported by the Workforce Plan and the Medium Term Financial Plan, all of which are reviewed and approved annually by the Authority. These plans are published on the website at [www.westyorksfire.gov.uk](http://www.westyorksfire.gov.uk). The Authority's Ambition and Priorities are;

Ambition: 'Making West Yorkshire Safer'

Priorities:

- We will reduce the risks to the communities of West Yorkshire
- We will continue to develop ways of working which improve the safety and effectiveness of our fire fighters
- We will work efficiently to provide value for money and make the best use of reserves to provide an effective service
- We will be innovative and work smarter throughout the service
- We will invest in information and communication technology, digital and data, to deliver our service in smarter ways
- We will support, develop and enable our people to be at their best
- We will use the Her Majesty's Inspectorate of Constabulary, Fire and Rescue Service (HMICFRS) assessment of "Good" in all areas as a foundation to implement our improvement action plan with the aim of delivering an outstanding service.
- We will promote environmentally friendly ways of working, reduce waste and raise awareness amongst staff to both fight climate change and respond more effectively to incidents driven by extreme weather events
- We will actively look for opportunities to implement learning from the Grenfell inquiry to improve how we respond to high rise emergencies and other foreseeable risks
- We will continue working towards delivering a more inclusive work force, which reflects and serves the needs of the diverse communities of West Yorkshire.

These objectives form part of area plans, departmental plans and station plans. There is an on-going system of monitoring and reporting achievement of the service Authority against its corporate aims with regular reports on progress monitored by senior management and the Authority through its committee structure. Copies of the plan are distributed to all fire stations and departments of the Authority.

### The Internal Control Environment

Internal Control describes the systems and processes that ensure the Authority is able to achieve its objectives with integrity and in compliance with laws, regulations and its own policies. They define the decision making processes and the controls that are in place to

monitor these processes. The fundamentals include making sure that decisions are taken at the correct level and that there are clear separations of duty within the decision making processes.

It covers the reliability of financial reporting and performance management against the achievement of the Authority's strategic goals.

The Authority's systems of internal control conform to the standards of financial governance set out in CIPFA statement of the role of the Chief Financial Officer in Local Government.

### The Constitution

The Authority has a written constitution which is reviewed annually by the Chief Legal and Governance Officer following review by the Management Board and is formally approved by the Authority at its Annual General Meeting. It is published on the website at ([www.westyorksfire.gov.uk](http://www.westyorksfire.gov.uk)) and is included within the body of evidence which supports this statement. This document forms the basis of the Governance Framework and sets out the way the Authority is governed and is made up of the following documents;

- Authority committee standing orders and procedures
- The roles and responsibilities of the executive officers
- Access to information rules
- Contract standing orders
- Financial procedure rules
- Anti-fraud and corruption strategy
- Code of corporate governance
- Members' code of conduct
- Officers' code of conduct
- Member v officer relations protocol
- Officers' employment rules
- Protocol regarding the use of Authority resources by Members
- Members' allowances
- Management structures
- Officer delegation scheme
- Complaints procedure
- Whistle blowing policy

### The Committee Structure

The constitution sets out the Framework under which the Authority is governed. It sets out in detail the composition of the Authority, the role and functions of the elected members, the roles and responsibilities of designated office holders and the roles, functions and terms of reference of the Authority and its Committees.

The Authority has four standing committees each of which, along with the Authority, meet 4 times per year and an executive committee which deals with urgent business.

#### Human Resources Committee (11 Members)

This committee deals with all issues relating to the employment of staff including conditions of service, industrial relations, equal opportunities and training.

#### Finance and Resources Committee (11 Members)

This committee is responsible for all issues relating to the Assets of the Authority. This includes Finance (including recommendation to the Authority in relation to the revenue budget, capital planning and precepts), Insurance, Treasury Management, buildings, land and property, and ICT. This committee receives regular reports on the financial performance of the Authority along with detailed updates on treasury management activity.

#### Audit Committee (6 Members)

This committee is established in accordance with CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. In addition to all matters relating to both internal and external audit, the committee is responsible for performance review and risk management and business continuity.

#### Community Safety Committee (11 Members)

This committee is responsible for the oversight of all aspects of service delivery, which includes the key areas of emergency response, fire protection and fire prevention. This covers responsibility for Integrated Risk Management Planning, national resilience support arrangements and shared services.

#### Executive Committee

The Executive Committee consists of 6 members which deals with any urgent matters.

The terms of reference of all the Authority's committees are available on the Authority's website. All meetings are open to the general public and wherever possible items are considered within the public sessions of the meetings. Copies of reports and minutes of all meetings are published on the Authority's website.

#### Management Structure

The Corporate Management Board is made up of the following Executive Officers who meet monthly:

- Chief Executive/Chief Fire Officer
- Deputy Chief Fire Officer / Director of Service Delivery
- Director of Service Support
- Chief Legal and Governance Officer
- Chief Finance and Procurement Officer
- Chief Employment Services Officer

The Corporate Management Board is supported by a Management Team which, in addition to the Board members, includes senior officers from both the operational and non-operational sides of the organisation.

There is a close interaction between management and elected members based around a formal briefing process prior to each committee. Management also provide training and briefings for the elected members prior to their consideration of key issues such as the Medium Term Financial Plan and the Integrated Risk Management Plan. Elected members newly appointed to the Fire Authority are provided with an induction on finance and governance and their roles and responsibilities.

There are a number of working groups which meet on a quarterly basis which include representatives from departments across the service, these groups are: Environmental Working, Establishment Planning, Information Governance, Capital Management, Risk Management and Diversity and Inclusion.

#### Established Policies, Procedures and Regulations

The Authority established compliance with established policies, procedures, laws and regulations. Information regarding policies and procedures is held on the intranet and these are reviewed on a periodic basis. A staff survey is carried out once a year and an action plan is put in place to address any issues that are identified. The authority publishes on the web site, the Pay Policy Statement, Gender Pay Gap Results, procurement processes, contracts register and transparency information in relation to expenditure over £500 and procurement cards.

Customer surveys are routinely carried out after attendance at incidents and school visits. Every year the authority has an external assessment of its customer service standard, in 2019/20 the authority attained full compliance against all 57 standards of which 20 achieved compliance plus.

#### Tri-service Collaboration Board.

The Tri-Service Collaboration Board (TSCB) was established in 2017 and is supported by leading representatives of each blue-light service. The Board consists of the key political leaders of the organisation's including the Chair of the Fire Authority, Yorkshire Ambulance Service and the Police and Crime Commissioner supported by members of senior management. The aim and purpose of the TSCB is to act as an enabling forum to bring about closer working arrangements across all three emergency services in West Yorkshire. This formal agreement regulates the relationship between the three parties and provides opportunities for increased efficiency, effectiveness and improved service delivery.

#### REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance arrangements. The review process is on-going and is informed by the work of the Management Board, the Chief Finance and Procurement Officer, Internal Audit, External Audit and other external assessors. The results of the reviews are reported to the Authority through the committee structure.

### A self-assessment of our effectiveness:

In maintaining and reviewing the effectiveness of the authority's governance arrangements the following have been considered

#### - Integrated Risk Management Planning (IRMP)

The Authority is systematically reviewing the service it provides throughout the county through the IRMP process. This process aims to improve community safety and wellbeing and reduce the risk of fires and other emergencies. The Authority maintains an integrated risk management model which bands the county into groups from very low to very high based on underlying risk. This information allows the Authority to proportionately allocate resources and evaluate service delivery performance against the level of risk. This is a revised methodology which builds on the risk management process which has transformed service delivery over the last 9 years.

Through this process, the Authority is able to continue to achieve its aim of making West Yorkshire safer.

Before the IRMP is approved by the Authority a process of public consultation on each proposal is carried out within the communities of West Yorkshire. This includes community meetings, drop in sessions and information on the website.

#### - Effective Performance Management

It is important that the Authority is able to measure its performance against its aims and objectives. The Authority has a well-established performance management structure which is focused on outcomes. The system is embedded throughout the organisation from individual Fire Station level through District Command to Authority wide achievement.

Each year the Community Safety Committee approves a set of district priority plans which set service delivery priorities for the coming year. Districts are also set a series of performance indicator targets for a variety of incident types that we attend. The methodology for setting the service delivery performance targets was approved by the Fire and Rescue Authority 1 December 2019. In 2020 local Station Action Plans were also produced and this allows local activity to be planned to support the priorities set within the district plans. The Performance Management framework is planned for a review in 2020/21 to ensure that our data and intelligence can allow us to target the Authority's resources towards reducing risk across where the risk exist the five districts.

Performance against the district priorities is monitored within each district and reports are produced for consideration at the Safer Communities Programme Board before being presented to the Community Safety Committee which meets on a quarterly basis. Members of the Community Safety Committee are also encouraged to meet with their respective District Commander to discuss priorities, objectives within the local district priorities plan and performance targets.

This system of monitoring has proved successful in measuring performance and provides the vital evidence needed to support the Integrated Risk Management Plan.

#### - Effective Financial Planning and Management

The Government's austerity measures have seen the Fire Authority lose £26m in government grant from the start of the spending review in 2011/12 to the end of 2019/20. The Authority has from the start taken a strategic approach to this grant loss matching changes to service delivery through the Integrated Risk Management Plan to the reducing resources. This

planning coupled with significant capital investment has seen the construction of 7 new fire stations to replace 11 old fire stations delivering over £31m in ongoing revenue savings.

The Chief Finance and Procurement Officer presents to the Finance and Resources Committee every quarter an update on the financial position of the Authority covering both revenue and capital expenditure. Training on finance is also provided to new members in June and prior to the approval of the annual budget in February.

The finance team have developed a comprehensive expenditure monitoring system delivering financial information and forecasts from individual cost centre level through the organisation to senior management and the Fire Authority. A red, amber, green (RAG) rating system has been introduced both for revenue and capital budget monitoring whereby budget holders have to provide written explanation to the Chief Finance and Procurement Officer if they are projected to be 5% over or under budget at the end of the financial year.

The authority maintains a strong record of financial management which is evidenced by its track record of maintaining expenditure within the approved budget.

#### - Organisational Planning

In previous years the Authority has produced an annual action plan to lay out the years change activities which was updated periodically to report progress. A review of organisation planning was undertaken in 2018/19 which led to changes to the annual planning cycle. The new cycle provides an indication of when activities should ideally happen as well as key milestone points.

The approved change activities that fall out of the planning process become programmes or projects of varying scale, some of which are managed formally under the WYFRS Project Portfolio Management (PPM) Framework, with lower change often being managed within departments and/or districts. Those managed through the framework are subject to scrutiny at the Change Management Board where reports are presented on progress, This Programme of Change report is then summarised and reported for consideration to members at Full Authority Committee.

#### - Effective Arrangements for Accountability

The Authority can demonstrate robust systems of accountability both to elected members and the general public. The district command structure, which mirrors the 5 local authorities' / district boundaries in West Yorkshire, provide for close interaction with the local district councils on service delivery and joint working.

The Authority presents its budget proposals to the district councils and provides representatives of the business community with the opportunity to comment on the budget proposals.

The Authority has a Service Improvement and Assurance Team (SIAT). The SIAT applies the Service Assurance Framework to provide high level assurance to Management Board and the Fire Authority through implementation of the service assurance process. Each team and department making up West Yorkshire Fire & Rescue Service (WYFRS) are required to complete a self-assessment which involves answering and providing evidence to a range of questions that include performance indicators, policy compliance, financial controls, elements contributing to operational effectiveness, internal and external audit review. This is then independently reviewed by the SIAT and reported to management to enable them to make an

informed judgement regarding the overall performance of WYFRS. This judgement is then summarised in the Annual Statement of Assurance which is published on the WYFRS website in accordance with the requirements of the National Fire and Rescue Framework.

#### - Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS)

In 2017 Her Majesty's Inspectorate of Constabulary extended its remit to include inspections of England's Fire and Rescue Services. The aim of HMICFRS is to monitor and report on the efficiency and effectiveness of FRSs with the aim of encouraging improvement. HMICFRS assesses services in 11 key areas and grades them from inadequate, requires improvement, good and up to outstanding. HMICFRS undertook its first inspection of WYFRS in 2019. The inspection was focussed on efficiency, effectiveness and how well it looks after its people. The result of the WYFRS inspection was released in December 2019 and reported that the service was performing at a good standard in each of the 11 key areas. An action plan has been implemented with the aim of improving on this grading to deliver an outstanding service.

#### - Internal Audit

The Authority procures its internal audit service from Kirklees Council which complies with Public Sector Internal Audit Standards. This not only provides better value for money but also gives the Authority access to specialist auditors and gives an added element of independence.

The work of internal audit extends well beyond the normal probity audits and includes examination of the key financial systems as well as verification work on the Authority's business continuity plan.

The internal audit plan is approved initially by Management Board and then at Audit Committee in April. All internal audit reports include an assessment of the internal controls and a prioritised action plan to address any areas needing improvement. If an internal audit receives a limited assurance a follow up audit is carried out within the next twelve months to ensure that actions have been implemented. The Internal Audit Annual Report is presented to Audit Committee which gives an overview on the effectiveness of internal audit and provides an opinion on the management of the internal control environment during the last financial year.

In addition, during 2019/20 the Internal Audit section provided an independent review role within the new command and control project implementation and overview to the Emergency Services Mobile Communications Project.

In addition, the SIAT monitors and reviews the actions from internal audit reports in liaison with the departmental manager to ensure that recommendations are implemented.

#### - Information Management Framework

Information governance is a framework to bring together all of the requirements, standards and best practice that apply to the handling of information.

The Authority is required to comply with legislation including the Data Protection Act 2018 and the General Data Protection Regulations which regulate information data processing, storage, and, access rights. The Authority has appointed a Management Board Member (the Chief Legal and Governance Officer) as the statutory Data Protection Officer who in conjunction with other officers and working groups oversees the development of best practice policies and procedures aimed at ensuring compliance with the legislative requirements.

The information governance group which is chaired by the authority's Senior Technical Services Manager and supported by the Corporate Information Management Group meets

quarterly and is attended by senior managers within the organisation. This group is responsible for setting and reviewing policies, standards, procedures, best practices, controls, risk management and ensure compliance with them.

### Statement of Assurance

The Authority is required to produce an annual Statement of Assurance as part of the Fire and Rescue National Framework for England. The purpose of the statement is to provide independent assurance to communities and the Government that the service is being delivered efficiently and effectively. Whilst the Fire and Rescue National Framework sets out the Government's priorities and objectives for fire and rescue authorities in England, it does not prescribe operational matters as these are determined locally by fire and rescue authorities.

This Statement of Assurance provides assurance that WYFRA is providing an efficient, effective and value for money service to the community of West Yorkshire in its financial, governance and operational matters. The Statement of Assurance is published on the Authority's website which includes links to the key documents.

### Conclusion

Overall, the Authority and its Management Board conclude that the systems and procedures provide effective systems of management control enabling the Authority to provide and efficient, effective and economic service to the public of West Yorkshire.

#### - External Review

Following the Public Sector Audit Appointments tender process, Deloitte LLP have become the Authority's external auditors from 1<sup>st</sup> April 2018.

Deloitte LLP will provide an external review of systems and procedures as part of their role as the appointed external auditors to the Authority which will include;

- The audit of the financial statements 2019/20
- Reach a conclusion on the economy, efficiency and effectiveness in the use of resources, the value for money (VFM) conclusion
- Review the Whole of Government Accounts return

#### - Compliance

The systems and reviews detailed in the annual governance statement demonstrate that the Authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). They also demonstrate the systems that are in place to enable the Monitoring Officer and Chief Finance and Procurement Officer to discharge their functions in relation to the governance of the Authority.

### SIGNIFICANT GOVERNANCE ISSUES

The CIPFA guidance suggests that the following criteria should be applied when judging what may constitute a significant control issue:

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts

- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer

### Review of Governance Issues Identified in previous Annual Governance Statement

There still remains uncertainty regarding central government funding, three scenarios were presented to the Fire Authority which were a 0%, 5% and 10% cut to funding from April 2021. A full comprehensive spending review will commence in Summer 2020 which will result in a multi-year funding deal from 2021 onwards.

A recent judgement relating to the working hours and related payments of a Belgium on call firefighter (Matzak) could have implications for the fire authority. The ruling has the potential to impact adversely on current arrangements for the effective provision and affordable cost of on call services. The Authority along with every other fire and rescue service is working with the Local Government Association in seeking advice from Leading Council and reviewing potential options for changing current arrangements to mitigate against the impact of the ruling. However, due to the current uncertainty it is considered appropriate to flag up the risk of potential extra costs which have yet to be fully identified. This remains a significant risk to the Authority.

The Police and Crime Act 2017 imposes a statutory requirement on emergency services to collaborate to improve public safety and deliver better efficiency. The emergency services in West Yorkshire have established a joint body to review areas of collaboration this is yet to deliver any significant change. This process is dependent on the services agreeing joint priorities and delivering change with willing partners and thus continues to remain a significant governance issue.

The procurement review which commenced in January 2019 has been completed. This review has resulted in revised contract procedures rules and changes to the constitution. This is currently being embedded and will be monitored during 2020/21.

### Significant Governance Issues 2020/21

Whilst no significant weaknesses have been identified as per the CIPFA guidance list, the following have been identified as potential issues for the forthcoming year:

- **Covid-19 Pandemic**  
The service will be required to flex and accommodate to ensure that legislative changes which arise as a consequence of Covid-19 pandemic are swiftly dealt with in order that the service can continue to deliver its core function and any other new responsibilities which may arise. For example, the Authority may be required to relax some of the procurement rules in respect of the purchase of urgent items of equipment. So that human contact is kept to a minimum, it has been agreed that committee meetings will be conducted via telephone rather than face to face and only reports that require a committee decision will be presented to members. This temporary method of working is a deviance from our approved constitution.
- **HMICFRS Inspection**  
The Authority will have its second HMICFRS inspection in Autumn 2020, only a year than the first inspection in which the Authority was awarded good across all areas. The

HMICFRS has placed the Authority in an earlier tranche than was planned. This short timescale will mean that the action plan that has been put in place to address weaknesses may not be long enough to fully implement.

- **Embedding of Lean Working**

The Authority has undertaken a lean working review during 2019 of the property reactive repairs process, internal stock ordering and payment of expenses. These reviews have resulted in a change in the current ways of working and as such will need to be embedded and monitored.

- **Organisational Planning Cycle**

The organisational planning cycle has introduced a new format in the way the authority plans and manages its projects. This is currently operating to a required standard but it is recognised that there are further improvements that can be made to project management within the organisation.

- **Risk Management**

The Authority will be developing and implementing a new system to record the competence of operational staff during 2020/21 following the limited assurance opinion given from an internal audit on the maintenance of operational training records during 2019/20 which deemed that the current recording system was inadequate and not fit for purpose. As undertaking and the recording of training is a key management control action for many of the high scoring risks on the Corporate Risk Management matrix, the method of recording risks has been reviewed and will be embedded in 2020/21.

## Summary

The Fire Authority continues to operate in a difficult environment and we accept that the above issues present the Authority and its Management Board with a major challenge. However, previous performance demonstrates the ability of the Authority and its management to manage in challenging times. We are therefore confident that we have the ability to continue to deliver a high-quality service whilst driving through major changes to the organisation, and that the systems are in place to further enhance our governance arrangements.

John Roberts

Chief Fire Officer / Chief Executive

Alison Wood

Chief Finance and Procurement Officer

Cllr O'Donovan

Chair West Yorkshire Fire & Rescue Authority



OFFICIAL

# Draft Internal Audit Plan 2020 -21

## Audit Committee

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Date: 24 April 2020

Agenda Item:

9

Submitted By: Chief Finance and Procurement Officer

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<b>Purpose</b>	To present the details of the Internal Audit Plan 2020/21
<b>Recommendations</b>	That Members note the content of the report and approve the internal audit plan for 2020/21
<b>Summary</b>	This report provides an outline of the proposed programme of audit work for 2020/21.

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Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection:

Annexes: Internal Audit Plan 2020 - 21

## **1 Introduction**

- 1.1 The Chief Finance and Procurement Officer has a statutory duty to provide a continuous and effective internal audit for the Authority. Internal Audit is provided as one of a number of financial services provided under a Service Level Agreement with Kirklees Council which determines that 160 days of audit time is allocated to the Authority each financial year.

## **2 Information**

- 2.1 Internal audit work is undertaken to provide an independent annual opinion to the Authority on its risk management matrix and internal control environment, which then plays a significant role in informing the Annual Governance Statement, signed by the Chief Executive, Chair of the Authority and the Chief Finance and Procurement Officer, that forms part of the Statement of Accounts.
- 2.2 The audit planning process is based upon an extrapolation from a five-year strategic plan, during which all activities are reviewed at varying frequencies based upon the level of risk attached to each system, activity or location.

A number of other factors are then taken into account, consideration is placed upon the Authority's Risk Matrix and management processes and the requirements of the external auditor, who places some reliance on the work of internal audit to inform their opinion on the Statement of Accounts accordingly.

Finally, the views and the concerns of the Chief Finance and Procurement Officer and Directors are incorporated to produce the Internal Audit Plan for 2020/21.

- 2.3 The Annual Plan for 2020/21 includes reviews of the Authority's internal control systems, four risks from the Risk Management matrix and a contingency provision for any special investigations that may be required.

In addition, we will continue to develop the approach to organisational and business controls encompassed in the revised Audit Strategy to focus on areas of highest risk and thus to contribute to the level of assurance required by the Chief Fire Officer / Chief Executive, Chair of the Authority and Chief Finance & Procurement Officer in order to sign off the Annual Governance Statement.

- 2.4 The current Covid19 pandemic has impacted upon the culmination of the delivery of the 2019/20 Audit Plan resulting in several pieces of planned work have either been curtailed indefinitely or not commenced at all. Once work returns to normal, management board in conjunction with internal audit will decide which audits will take priority during 2020/21 and revise the internal audit plan 2020/21 accordingly. This will be reported to Audit Committee.

### **3 Financial Implications**

- 3.1 The internal audit service is provided by Kirklees Council through a Service Level Agreement at a cost of £47,430 in 2020/21 which is provision for 160 days of audit work.

### **4 Legal Implications**

The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting.

### **5 Human Resource and Diversity Implications**

There are no human resources and diversity implications associated with this report

### **6 Health, safety and wellbeing implications**

There are no health and safety implications associated with this report.

### **7 Environmental Implications**

There are no environmental implications associated with this report.

### **8 Your Fire and Rescue Service Priorities**

This report links to all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

### **9 Conclusions**

This report requires members to approve the Internal Audit Plan for 2020/21, the progress of which will be reported to members on a quarterly basis to audit committee.



**West Yorkshire**  
**Fire & Rescue Authority**

**Internal Audit Draft Plan**

**2020/21**

## **AUDIT COMMITTEE 24 APRIL 2020**

### **DRAFT AUDIT PLAN 2020/21**

#### **Background**

The Chief Finance & Procurement Officer has a statutory duty to provide a continuous and effective internal audit. Internal Audit is provided as one of a number of financial services under a SLA with Kirklees Council. In total 160 days of audit time is provided to the Authority each financial year.

Kirklees Internal Audit is delivered in accordance with the Public Sector Internal Audit Standards which require Internal Audit to provide an independent annual assurance opinion to the Management Board and the Audit Committee on the systems and environment for

- internal control,
- governance and
- risk management

This opinion then plays a significant role in informing the Annual Governance Statement, signed by the Chief Fire Officer / Chief Executive and the Chair of the Authority, which forms part of the Annual Accounts.

The audit planning process is risk based using an extrapolation from a strategic plan, which includes all activities undertaken by the Authority and these are reviewed at varying frequencies based upon the level of risk attached to each system, activity or location. A number of other factors are then taken into account. Consideration is placed upon the Authority's Risk Matrix and management processes and the requirements of the external auditor, who may place some reliance on internal audit work to inform their opinion on the Annual Accounts accordingly. Finally, the views and concerns of the Chief Finance & Procurement Officer and Directors are incorporated to produce an annual plan.

The Audit Strategy approved by Committee, determined that on average roughly 50% of audit time will be spent reviewing business risks and controls as identified in the Corporate Matrix, the remaining days being allocated between specific areas of activity and a contingency provision. The Draft Annual Plan for 2020/21 includes 16 audits.

The Risk Management Strategy Group has been consulted about the priority of reviewing the remaining risks not covered so far and this is reflected in the proposal overleaf. Coverage of these will result in over 70% of the Authority's business risks being subject to ongoing audit review, with the remainder considered unsuitable for audit review (e.g. operationally complex, or low risk - with a risk factor score less than 6).

The suggested areas of activity for next year are shown overleaf, as well as those falling due which have been discounted. A scope and terms of reference, if required, will be agreed with the auditee prior to commencement of each audit.

# **WEST YORKSHIRE FIRE & RESCUE AUTHORITY**

## **INTERNAL AUDIT DRAFT PLAN 2020/21**

### **Audit Area**

#### **Internal Control Systems**

- Stores (deferred from 2019/20 at management request)
- VAT
- Income Management – Payment Methods, Collection & Recovery
- Landline and Mobile Phone Contracts – payment plans, usage monitoring, blocks
- Disbursement Account / Purchase Cards
- Interim MoC Training Recording and Reporting System
- National Fraud Initiative 2020/21 (data matching exercise with submission of payroll and creditor payments databases)

#### **Risk Management Strategy / Risks & Controls**

(RMSG consulted at March meeting)

- (Risk 6, score 15) - Retained Duty System
- (Risk 15, score 12) - Third Party health & safety compliance
- (Risk 17, score 12) - Asbestos in Authority Premises
- (Risk 19, score 12) – Severe Weather (non-flooding)
- (Risk 23, score 12) - Unwanted Fire Signal Policy
- (Risk 24, score 12) – Staff Attack / Abuse
- (Risk 26, score 12) - Contract Procedure Rule Compliance
- (Risk 45, score 6) - Faulty Personal Protective Equipment

Ongoing support to the Risk Management Strategy Group.

#### **Governance**

- Data Protection Act Compliance (deferred from 2019/20 at management request)

#### **Contingency**

- ESMCP – Assurance to Project Board
- Follow up audits as required
- Other support and assistance as required

**Total Days per SLA**

**160**