

REPORT OF THE CHIEF FIRE OFFICER

AUDIT COMMISSION ASSESSMENT – USE OF RESOURCES PILOT

1 Purpose of Report

At the Fire Authority meeting on the 8 February 2006 officers were requested to obtain information regarding involvement in the Audit Commission's Use of Resources Assessment pilot and authority was delegated to the Strategy and Resources Committee to decide whether to participate in the pilot. This report provides further information regarding the pilot.

2 Recommendations

Members are recommended to:

- a) Note the contents of this report; and
- b) Agree that the Fire Authority participates in the Use of Resources pilot.

3 Background

Shropshire and Wrekin Fire Authority was categorised as "Good" in the Audit Commission's Comprehensive Performance Assessment of Fire Authorities conducted in 2005.

The recently released National Report outlined how the Audit Commission plans to assess fire and rescue authorities further. The Use of Resources Assessment will form part of that process and will judge how well the Fire Authority manages and uses its financial resources. The Assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Fire Authority's priorities and improve services.



The Use of Resources Assessment framework will be based around that used for councils and will cover the following areas or Key Lines of Enquiry (KLOE):

- a) How good are the organisation's financial accounting and reporting arrangements?
- b) How well does the organisation plan and manage its finances?
- c) How well does the organisation safeguard its financial standing?
- d) How well does the organisation's internal control enable it to manage its significant business risks?
- e) How well does the organisation provide value for money?

The KLOE used by councils are attached as an appendix to this report. It should be noted that a) to d) are unlikely to change significantly. Officers have been advised, however, that changes will be made to the Value for Money KLOE.

Further information on the guidance for councils on The Use of Resources Assessment can be viewed at the Audit Commission website on the link below:

<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=9246BCC2-638B-42b7-A5F5-74E1CD454271&fromREPORTSANDDATA=NATIONAL-REPORT>

4 Participation in the Use of Resources Pilot

Members are asked to consider whether Shropshire and Wrekin Fire Authority should participate in the Use of Resources Assessment pilot. The pilot will take place between May and June 2006 and precise details will be available in early March.

It is envisaged that a Self Assessment would be completed prior to the assessment, which would involve officers' time in compiling portfolio evidence to support the questions contained within the KLOE. This work would commence at the end of March. Self-assessment would involve finance staff as well as the Programme Office and risk management officers.

Although a challenging additional task, it would be most helpful for the Fire Authority to participate in the pilot. It would enable Members and officers to identify areas for improvement ahead of the formal assessments that will be rolled out to Fire Authorities from September 2006. In addition any work carried out as part of the pilot could be used during the formal assessment. For these reasons, in addition to the opportunity to embed good practice, it is recommended that the Fire Authority does participate in the pilot, if invited.

5 Legal Comment

There are no legal implications arising from this report.

6 Financial Implications

There are no direct financial implications arising from this report.



7 Equality and Diversity Implications

There are no equality or diversity implications arising from this report.

8 Appendix

Key Lines of Enquiry

9 Background Papers

Shropshire and Wrekin Fire Authority
Minutes of meeting 8 February 2006

For further information about this report please contact Alan Taylor, Chief Fire Officer, on 01743 260201 or Alison Pritchard, Performance Improvement Officer, on 01743 260227.



The Key Lines of Enquiry (KLOE) and how they will be addressed/answered by the Fire Authority and the Audit Commission

The KLOE or the questions the Audit Commission will use to form their judgement are included within this document. How they need to be presented by the Fire Authority and assessment by the Audit Commission is detailed in the tables below.

The assessment will provide the Fire Authority with a level of achievement that will range between 2 – 4 (4 being the highest) these levels of achievement are separated in this document.

Fire Authority Assessment

Council (Fire Authority) name:	COUNCIL (Fire Authority) ASSESSMENT (optional)		
KLoE – please see following sheets	Currently Met (Y/N)	Explanation/evidence	Ref
Will be listed as on the following sheets	Yes/No	Dialogue or cited evidence	Referenced against the portfolio

Audit Commission Assessment

AUDIT COMMISSION ASSESSMENT					
Links with other areas of the audit/sources of audit evidence	Ref	Further work needed	Ref	Findings & conclusion	Pass/ Fail
To be completed by the Audit Commission					



Financial Reporting

KLOE

1.1 The council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers

Sub Questions

Level 2

1.1.1 The council's accounts were prepared in accordance with statutory requirements, statutory/regulatory timetables, relevant accounting and reporting standards, and the council's agreed accounting policies.

1.1.2 The auditor received auditable accounts, including a complete set of financial statements, disclosures and notes, in accordance with the timetable agreed with the audited body.

1.1.3 The accounts presented for audit were free from material errors and misstatements.

1.1.4 Comprehensive working papers supporting the accounts were provided at the start of the audit to the standard specified by the auditor.

1.1.5 Guidance made available to staff on final accounts closedown procedures, including relevant timetables agreed with the auditor and allocation of tasks to individual members of staff, were adhered to.

1.1.6 The council ensured that appropriate, knowledgeable and skilled staff were available to deal with external auditors' queries, to substantiate assertions, and to explain items of account.

1.1.7 The auditor gave an unqualified opinion.

Level 3

1.1.8 All additional requests from the auditor were responded to promptly in accordance with any agreed deadlines.

1.1.9 The accounts submitted to the Council/committee meeting at which they were approved were accompanied by a clear explanatory paper providing interpretation of the accounts and highlighting key issues for the benefit of members.

1.1.10 The accounts were subject to robust member scrutiny/discussion either at the formal approval meeting or at another appropriate forum prior to approval.



1.1.11 The council is aware of future earlier accounts deadlines that will be required for the WGA process and is proactively developing arrangements and procedures that will enable those future deadlines to be met, including any re-engineering of processes to enable earlier closure.

Level 4

1.1.12 The accounts presented for audit contained only 'trifling' errors and misstatements which did not require reporting to those charged with governance or adjustment.

1.1.13 The quality of the working papers provided was exemplary.



Financial Reporting

KLOE

1.2 The council promotes external accountability

Sub Questions

Level 2

1.2.1 The council publishes its accounts and publicises how local electors can exercise their rights, in accordance with the requirements of the Accounts & Audit Regulations 2003.

1.2.2 The council publishes the annual audit letter in accordance with the requirements of the Accounts & Audit Regulations 2003.

1.2.3 The agenda, reports and minutes for meetings of full council, committees and scrutiny panels are made available to the public (e.g. on the organisation's website) on a timely basis.

Level 3

1.2.4 A process of consultation has been carried out with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report.

1.2.5 The council publishes summary accounts that are intelligible and accessible to members of the public.

1.2.6 The most recent published accounts, in either full or summary format, are available on the council's website.

1.2.7 The most recent published annual audit letter is available on the council's website.

Level 4

1.2.8 The council publishes an annual report or similar document which includes summary accounts and an explanation of key financial information and technical terms designed to be understandable by members of the public.

1.2.9 The annual report is available in a wide variety of formats to meet local user needs (e.g. different languages, large print, speaking version).



Financial Management

KLOE

2.1 The council's medium-term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities

Sub Questions

Level 2

2.1.1 The council has put in place a medium-term (three year) financial strategy which is linked to its key strategic objectives, and takes account of local improvement and national priorities.

2.1.2 The medium-term financial strategy models income and expenditure over a minimum of 3 years and is reviewed and updated at least annually.

2.1.3 A comprehensive and balanced revenue budget has been set, based on realistic projections about pay, inflation, and known service and capital development plans.

2.1.4 The financing of expenditure is transparently explained in budget summaries and reports.

2.1.5 Budgets are revised annually in light of the reasons for and consequences of the previous year's outturn and are linked to the medium-term financial strategy.

2.1.6 An affordable capital programme has been agreed and the current and future funding of this is built into revenue planning.

2.1.7 Budget holders are involved in the budget setting process.

2.1.8 Budgets are subject to review by senior officers and members.

2.1.9 Each capital and revenue budget is assigned to the individual manager best able to use and control it.

2.1.10 The council prepares cash-flow forecasts on a regular basis throughout the year.

2.1.11 The budget reported to members includes a positive assurance statement from the chief finance officer about the robustness of estimates made for the purposes of the budget calculations, in accordance with the requirements of section 25 of the LG Act 2003.

2.1.12 Prudential indicators are applied in assessing the affordability of capital projects.



Level 3

2.1.13 Business planning is integrated with financial planning.

2.1.14 The corporate business plan drives the medium-term financial strategy and internal resource allocation, with changes in allocations determined in accordance with policies and priorities.

2.1.15 The corporate business plan projects forward at least three years and takes account of each of the following:

- stakeholder and partner consultation
- external drivers, including funding variations and requirements to improve efficiency
- capital investment plans and their revenue implications
- risk assessments and financial contingency planning
- sensitivity analysis
- expected developments in services.

2.1.16 The council's medium-term financial strategy is linked to other internal strategies/plans as appropriate, e.g. human resources, IT.

2.1.17 The organisation's medium-term financial strategy is communicated to staff and stakeholders.

2.1.18 Budgets are linked to:

- the medium-term financial strategy and high level budgets for future years within this
- business and activity plans
- risk assessments of material items of revenue and capital income and expenditure, incorporating lessons learned from previous years

2.1.19 The council regularly reviews financial management arrangements to ensure that they remain 'fit for purpose'.

2.1.20 There are project appraisals, business plans and affordability tests for new policy and capital developments.

Level 4

2.1.21 The medium-term financial strategy describes in financial terms joint plans agreed with partners and other stakeholders.

2.1.22 The medium-term financial strategy models balance sheets and cash-flows over a minimum of 3 years.

2.1.24 The council identifies future developments that may impact on its financial management arrangements and proactively manages them.

2.1.25 The council monitors and can demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives.



Financial Management

KLOE

2.2 The organisation manages performance against budgets

Sub Questions

Level 2

2.2.1 Profiled budgets are input to the main accounting system on a timely basis, at an appropriate level of detail.

2.2.2 There is a formal scheme of budget delegation.

2.2.3 There is guidance available to budget holders which includes a description of their responsibilities, an outline of the budget process, and a budget process timetable.

2.2.4 Budgets are approved before the start of the year and monitored regularly throughout the year.

2.2.5 Action plans are developed when a material variance arises or a deficit is forecast.

2.2.6 The appropriate member committee receives budget monitoring information that is accurate, relevant, understandable and consistent with underlying records, and data is as up to date as possible when reported.

2.2.7 Relevant non-financial and financial information, in addition to the budget, is reported to and used by senior officers.

2.2.8 There is a line of professional accountability between those with principal functional responsibility for finance within business groups and the chief finance officer, to ensure compliance with professional standards and objectivity of advice on financial matters.

2.2.9 The budget shows the resources allocated to major spending activities and programmes, with user-friendly summaries, and separate identification of revenue and capital items to ensure focus on use of resources.

2.2.10 The council regularly tests its financial systems to ensure that their processes are secure.

2.2.11 Where any significant departmental overspends have occurred they have been managed with no adverse impact on service delivery.

2.2.12 The financial performance of partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon.



Level 3

2.2.13 The council's financial information systems have flexible reporting tools to enable specialist reports to be designed.

2.2.14 The council produces accurate profiled financial monitoring reports for all budget holders within ten working days of the month end.

2.2.15 There is a regular training programme providing training on financial issues for members and non-finance staff.

2.2.16 Relevant non-financial and financial information, in addition to the budget, is reported to members and acted upon.

2.2.17 The council uses agreed processes to adjust and approve budgets in year if major programmes are varied by more than pre-set tolerances.

2.2.18 The council's budget monitoring is:

- predictive rather than backward looking
- focused on large, high risk or volatile budgets
- related to operational activity indicators that are lead indicators of spend and
- informed by a risk assessment.

2.2.19 Progress in achieving planned savings and efficiency gains is regularly reported to senior management with developed action plans.

2.2.20 No significant departmental overspends/under-spends have occurred.

Level 4

2.2.21 The council ensures through regular testing of its financial systems that the report outputs are timely, accurate, reliable, clear, in a convenient format (hard copy and online, in summary and in detail, as appropriate) and readily understood by their recipients.

2.2.22 There is a 'traffic light' system (or similar) in place to focus the Executive on key variances, and there is evidence that these are acted upon.

2.2.23 The Executive receives fully accrued financial monitoring reports on a quarterly basis including appropriate revenue account and balance sheet items.

2.2.24 The council consults with, advises and trains users so that it develops and provides the financial information systems to meet their needs.

2.2.25 Savings and efficiency gains are profiled over the year and there is monitoring throughout the period by members to ensure their achievement.



Financial Management

KLOE

2.3 The council manages its asset base

Sub Questions

Level 2

2.3.1 The council has an up to date corporate capital strategy linked to its corporate objectives and medium-term financial strategy.

2.3.2 The council has an up to date asset management plan that details existing asset management arrangements and outcomes, and planned action to improve corporate asset use.

2.3.3 The council maintains an up to date asset register.

2.3.4 The council has a designated corporate property function.

2.3.5 The council's arrangements for reporting to members are sufficient to ensure that they fulfil their responsibility in relation to the council's land and buildings portfolio at both a strategic and service level.

2.3.6 The council has an annual programme of planned maintenance based on a rolling programme of property surveys.

2.3.7 The council has assessed the level of backlog maintenance.

2.3.8 The council's capital programme gives priority to potential capital projects based on a formal, objective approval process.

Level 3

2.3.9 A member has been allocated portfolio responsibility for the organisation's fixed assets.

2.3.10 There is a plan in place to reduce the level of backlog maintenance and this has been approved by members.

2.3.11 The council has developed a set of local performance measures in relation to assets that link asset use to corporate objectives.



2.3.12 The council makes investment and disposal decisions based on thorough option appraisal and whole life costing.

Level 4

2.3.13 Performance measures and benchmarking are being used to describe and evaluate how the council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.

2.3.14 The results of performance measurement and benchmarking are communicated to stakeholders where relevant.

2.3.15 The council has developed an approach for the co-ordination of asset management information and its integration with relevant organisational financial information.



Financial Standing

KLOE

3.1 The Council manages its spending within the available resources

Sub Questions

Level 2

3.1.1 The council sets a balanced budget that takes account of cost pressures and the impact on council tax and housing rents.

3.1.2 The council maintains its overall spending within budget.

3.1.3 The council has a policy on the level and nature of reserves and balances it needs that has been approved by members and reflected in the budget and medium-term financial strategy.

3.1.4 The council monitors and maintains its levels of reserves and balances within the range determined by its agreed policy.

3.1.5 The budget reported to members includes a positive assurance statement from the chief finance officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the LG Act 2003.

3.1.6 The council has treasury management strategy that reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.

3.1.7 The council monitors the budget and underlying assumptions throughout the year and takes appropriate action to deal with any deterioration in the financial position, in accordance with the requirements of section 28 of the LG Act 2003.

3.1.8 The council sets and monitors targets for income collection and recovery of arrears, based on age profile of debt.

Level 3

3.1.9 The council consistently maintains its spending within its overall budget and without significant unexpected overspends or under-spends.



3.1.10 The council has identified target levels for reserves and balances that are based on a thorough understanding of its needs and risks, including its treasury management strategy and is meeting these targets.

3.1.11 Monitoring information is available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly.

3.1.9 The council consistently maintains its spending within its overall budget and without significant unexpected overspends or under-spends.

Level 4

3.1.12 Members monitor key financial health indicators and set challenging targets, e.g. income collection, levels of variances from budget, prudential framework indicators, capital programme management.

3.1.13 The council monitors the opportunity costs of maintaining its levels of reserves and balances and compares these to the benefits it accrues.



Internal Control

KLOE

4.1 The council manages its significant business risks

Sub Questions

Level 2

4.1.1 The organisation has adopted a risk management strategy/policy that has been approved by members.

4.1.2 The risk management strategy/policy requires the council to:

- identify corporate and operational risks
- assess the risks for likelihood and impact
- identify mitigating controls
- allocate responsibility for the mitigating controls.

4.1.3 The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigning ownership for each risk.

4.1.4 There is a member committee with specific responsibility included in its terms of reference to consider risk management.

4.1.5 Reports to support strategic policy decisions and project initiation documents include a risk assessment.

Level 3

4.1.6 The risk management process is reviewed and updated at least annually.

4.1.7 The risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks.

4.1.8 All staff have been given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment.

4.1.9 The members with specific responsibility for risk management have received risk management awareness training.

4.1.10 The member committee with responsibility for risk management receives reports at least quarterly and takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council at least annually.



Level 4

4.1.11 A senior officer and member jointly champion and take overall responsibility for embedding risk management throughout the council.

4.1.12 The council can demonstrate that it has embedded risk management in its corporate business processes, including:

- strategic planning
- financial planning
- policy making and review
- performance management

4.1.13 All members have received risk management awareness training.

4.1.14 The council considers positive risks (opportunities) as well as negative risks (threats).



Internal Control

KLOE

4.2 The council has arrangements in place to maintain a sound system of internal control

Sub Questions

Level 2

4.2.1 An appropriate member group has responsibility for review and approval of the SIC and considers it separately from the accounts.

4.2.2 The council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the SIC.

4.2.3 The sources of assurance to support the SIC have been identified and are reviewed by senior officers and members.

4.2.4 There are action plans in place to address any significant internal control issues reported in the SIC.

4.2.5 There is no audit committee but the core functions of an audit committee have been identified and are being undertaken by a member group.

4.2.6 The council has an internal audit function that operates in accordance with the CIPFA code of practice for internal audit in local government.

4.2.7 There are procedure notes/manuals in place for those systems identified by the council as being business-critical.

4.2.8 There are standing orders, standing financial instructions and a scheme of delegation in place.

4.2.9 The council has arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

4.2.10 All reports to members have been formally considered for legal issues before presentation.

4.2.11 There are partnership agreements in place for all the council's significant partnership arrangements.



Level 3

4.2.12 The council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances.

4.2.13 The assurance framework provides members with information to support the SIC.

4.2.14 There is a specific member group (such as an audit sub-committee or audit panel) which has audit and governance issues as the principal responsibility in its terms of reference.

4.2.15 The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment.

4.2.16 The procedure notes/manuals for those systems identified by the council as being business-critical are reviewed and updated at least annually.

4.2.17 The standing orders, standing financial instructions and scheme of delegation are reviewed at least annually.

4.2.18 Compliance with standing orders, standing financial Instructions and the scheme of delegation is monitored by management, and any breaches identified and appropriate action taken.

Level 4

4.2.19 The assurance framework is fully embedded in the council's business processes.

4.2.20 The council can demonstrate corporate involvement in/ownership of the process for preparing the SIC.

4.2.21 There is an audit committee which is constituted as a full committee of the council and is independent of both the Executive and Scrutiny functions.

4.2.22 The council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime.

4.2.23 Audit committee members are provided with specific training relevant to their responsibilities.

4.2.24 The audit committee has terms of reference which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the council.



4.2.25 The standing orders, standing financial instructions and scheme of delegation make specific reference to partnerships.

4.2.26 Partnership agreements are subject to regular review and updating.



Internal Control

KLOE

4.3 The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business

Sub Questions

Level 2

4.3.1 The council has formally adopted a code of conduct for members that includes the mandatory provisions of the statutory Model Code of Conduct.

4.3.2 All elected and co-opted members have signed up to the code of conduct.

4.3.3 The council has adopted a code of conduct for staff.

4.3.4 The council has put in place arrangements for monitoring compliance with standards of conduct across the organisation including:

- register of interests
- register of gifts and hospitality
- complaints procedure

4.3.5 The standards committee's membership and functions are in accordance with the requirements of the Local Government Act 2000.

4.3.6 There is a counter fraud and corruption policy applying to all aspects of the council's business which has been communicated throughout the council.

4.3.7 The council has arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct, and of fraud and corruption.

4.3.8 There is a whistleblowing policy which has been communicated to staff and those parties contracting with the council.

4.3.9 The council has provided the required data for NFI, has notified data subjects of this use of data, and has established a process to follow-up NFI data matches.



Level 3

4.3.10 The council is proactive in its role to raise the standards of ethical behaviour amongst members and staff, including the provision of ethics training.

4.3.11 The council has undertaken an assessment of standards of conduct, including how effectively members are complying with the code of conduct, the number and types of complaints received, and takes action as appropriate.

4.3.12 Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests. There is evidence that members and staff are making appropriate disclosures in the registers and that they are regularly reviewed.

4.3.13 A strong counter fraud culture is supported and promoted by members and senior officers.

4.3.14 The council undertakes proactive counter fraud and corruption work which is determined by a formal risk assessment.

4.3.15 The council can demonstrate that counter fraud and corruption work is adequately resourced.

4.3.16 Investigations into allegations of fraud and corruption are conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff.

4.3.17 The council ensures that financial redress is sought in appropriate cases of proven fraud/corruption, in accordance with legal advice and the results of a cost/benefit analysis.

4.3.18 The whistleblowing policy is publicised within the council and demonstrates the council's commitment to providing support to whistleblowers.

4.3.19 The council has effectively identified the key NFI data matches for review from all levels of reports (high, medium and low).

4.3.20 The council works with other bodies such as DWP when following-up data matches from NFI. Risks are followed-up promptly to prevent prolonged exposure.



Level 4

4.3.21 The council can demonstrate that its members, officers and agents exhibit high standards of personal conduct.

4.3.22 The council can demonstrate a strong counter fraud culture across all departments. Staff have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption.

4.3.23 The risk of fraud and corruption is specifically considered in the council's overall risk management process.

4.3.24 Successful cases of proven fraud/corruption are routinely publicised to all staff.

4.3.25 The council has a track record for effective action in response to whistleblowing disclosures. There are periodic reviews of the effectiveness of the whistleblowing arrangements, and there are effective arrangements for receiving and acting upon disclosures from members of the public.

4.3.26 The council can demonstrate that effective action has been taken to maximise the potential available through NFI.

4.3.27 Weaknesses revealed by instances of proven fraud and corruption, including NFI data matches, are reviewed to ensure that appropriate action is taken to strengthen internal control arrangements.

