

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND PERFORMANCE MANAGEMENT COMMITTEE

11 JUNE 2012

1. **GOVERNANCE STATEMENT 2011/2012**

Joint report of the Chief Fire Officer, Treasurer and Clerk & Monitoring Officer.

RECOMMENDED

THAT the Committee considers and comments on the Governance Statement for 2011/2012.

2. **PURPOSE OF REPORT**

This report is submitted to Members to seek comments and consideration of the Governance Statement for 2011/2012.

3. **BACKGROUND**

- 3.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 3.2 In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs, which includes arrangements for the management of risk.
- 3.3 Every Local Authority has to produce a Governance Statement (see attached Appendix 1) with its Statement of Accounts, which are due to be made available at the end of June 2012.

- 3.4 The Governance Statement is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The Governance Statement is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 3.5 The Statement is signed by the Chairman of the Authority, the Chief Fire Officer, the Treasurer and the Clerk and Monitoring Officer who have a responsibility to ensure that the document is supported by reliable evidence and accurately reflects the Authority's internal control environment. The Governance Statement has operated throughout the year ended 31 March 2012 and up to the date of the approval of the annual report and accounts.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. As part of this it has to produce a Governance Statement.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

VIJ RANDENIYA
CHIEF FIRE
OFFICER

S. KELLAS
TREASURER

N.SHARMA
CLERK & MONITORING
OFFICER

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

- 1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.
- 1.3 This statement explains how the Authority has complied with the code of corporate governance and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a Governance Statement. The Authority has produced its Governance Statement which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government. The Authority's Audit and Performance Management Committee has been considering the Framework and its formal implementation as part of its 2011/2012 work programme.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Authority and its activities through which it accounts and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

- 2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The system of governance has operated throughout the year ended 31 March 2012 and up to the date of the approval of the annual report and accounts. The Authority's Audit and Performance Management Committee has, in accordance with its terms of reference, monitored corporate governance throughout the year.

3. **The Governance Framework**

The key elements of the systems and processes that comprise the Authority's governance arrangements include the following:-

- 3.1 The Authority has produced a Corporate Strategy setting out its objectives and there is regular performance monitoring in which achievement of the Authority's objectives is measured and monitored.
- 3.2 The Authority has established clear channels of communication with the community and stakeholders regarding the production of the Annual Report and consultation on the key priorities of the Service. This also encourages open communication.
- 3.3 The Authority facilitates policy and decision-making via regular Policy Planning Forums and Authority and Executive Committee meetings. An Audit and Performance Management Committee provides independent assurance to the Authority on risk management and internal control and the effectiveness of the arrangements the Authority has for these matters. The constitution of the Committees, including terms of reference for them and the Lead Members is reviewed annually and is available on the Internet.

- 3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistleblowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.
- 3.5 West Midlands Fire and Rescue Authority has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures.
- 3.6 The Authority has corporate risk management arrangements in place which are supported by an approved Risk Management Strategy enabling managers and other senior officers to identify, assess and prioritise risks within their own work areas which impact on the ability of the Authority and its services to meet objectives. To consider the effectiveness of the Authority's risk management arrangements is a specific term of reference for the Executive Committee and risk management is a specific responsibility of both the Chairman and Vice Chairman.
- 3.7 The Authority's Corporate Risk Register identifies the principal risks to the achievement of the Authority's objectives and assesses the nature and extent of those risks (through assessment of impact and likelihood). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically. Further improvements have been made in this area following Internal Audit recommendations.
- 3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.

- 3.9 The Authority's financial system is an ORACLE based general ledger and management information system, which integrates the general ledger function with those of budgetary control and payments. Financial Regulations and Contract Procedure Rules are approved and regularly reviewed by the Authority. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action initiated.
- 3.10 The Authority's performance management and reporting of performance management continues to be improved with a more focused Corporate Strategy, the setting of priorities and is supported by regular performance monitoring. Corporate performance is reported on a quarterly basis and this process provides officers and Members with the opportunity to share knowledge and understanding about key performance issues affecting services.
- 3.11 The Authority has a Standards Committee which promotes high ethical standards amongst Members. This Committee has two independent members, one of whom chairs the Committee. It leads on developing policies and procedures to accompany the revised Code of Conduct for Members and is responsible for local assessment and review of complaints about Members' conduct.

4. **Review of Effectiveness**

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review is informed by the work of the internal auditors and the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment and also by comments made by the external auditors in their annual audit letter and other reports.
- 4.2 Department and section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.
- 4.3 The Authority's political governance arrangements, which are appropriately reviewed by officers, set out the responsibilities of both Members and senior managers. In particular the Authority has identified the following statutory post holders: -

- Chief Fire Officer
- Treasurer
- Clerk and Monitoring Officer

- 4.4 The Authority continues to assess how its overall corporate governance responsibilities are discharged. In particular the Authority has considered the principals of the CIPFA/SOLACE guidance, has developed a local code of corporate governance and is working towards the National Good Governance Standard.
- 4.5 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003 as amended in 2006. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. Internal Audit leads on promoting a counter-fraud culture within the Authority. This includes the publication of a quarterly anti-fraud and corruption newsletter known as The FRAUDitor, the production of a Raising Fraud Awareness guide for managers and running a series of Raising Fraud Awareness Seminars.
- 4.6 The resulting Audit Plan is discussed and agreed with Corporate Board officers and the Audit and Performance Management Committee and shared with the Authority's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.
- 4.7 The Authority's review of the effectiveness of the system of internal control is informed by:
- The work undertaken by Internal Audit during the year;

- The work undertaken by the external auditor reported in their annual audit and inspection letter;
- Other work undertaken by independent inspection bodies.

4.8 From the work undertaken by Internal Audit in 2011/2012 the Internal Audit has given a 'reasonable assurance' that the Authority has adequate and effective governance, risk management and internal control processes. This represents an unqualified opinion and the highest level of assurance available to Audit Services. In giving this opinion it is recognised that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes.

5. **Significant governance arrangements within the Authority**

5.1 West Midlands Fire and Rescue Authority has set out **four key priorities**:

- Communities and Partnerships
- Response
- People
- Value for Money

5.2 These form the basis of the Authority's Corporate Strategy (known as The Plan) 2012-15 which sets out the nine outcomes and eleven strategic objectives for the Service.

5.3 The Audit Commission published the Annual Governance Report for its 2010/2011 audit work which reported an unqualified opinion on the financial statements. It also issued an unqualified value for money conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

5.4 The review of internal control also highlighted the following:

5.4.1 Environment

A review was undertaken to assess the progress being made in improving the culture surrounding environmental policies at stations and to assess the degree of corporate commitment towards environmental strategy. The

recommendation made was that Corporate Board consider if station commanders should be made responsible for monitoring compliance of their station in line with the aims of the environmental strategy and whether future environmental training needed to be made mandatory for station commanders and/or environmental champions.

In order to further demonstrate corporate commitment of the Service to reducing its impact on the environment, it was also recommended that consideration be given to requiring all reports to the Fire Authority to include a paragraph detailing the results from the consideration of any environmental implications.

5.4.2 Fixed Assets Accounting

A review of the accounting systems for Fixed Assets was performed in accordance with the Key Financial Systems programme as agreed with the External Auditors. It was noted that there has been a delay in the finalisation of the Vehicle Replacement Programme due to an on-going review of vehicle requirements.

5.4.3 Governance

The review focused on the Authority's engagement with the public and skills development by officers and members.

The review indicated that there was a need to:

- perform a more regular review of the effectiveness of corporate communications;
- encourage greater participation in the Strategy for Supporting and Developing Members;
- further develop links between member training and skills gaps and improve formal feedback on member training; and
- complete the development of a constitution for the Authority.

5.4.4 Fire Stations - Management of Fuel

A programme of site visits was undertaken at five stations (Aldridge, Bickenhill, Handsworth, Hay Mills and West Bromwich). It was found that operationally, there was a lack of compliance with the requirements of Standing Order 09/01.

The main issues raised were:

- only one of the five locations was recording that water tests were being undertaken each time a dip measure was taken in accordance with section 2.6.
- canned fuel stock checks were not being recorded in the T4 fuel tally book at the change of each watch as required by section 2.13.2.
- there were mixed practices across all of the stations visited with regard to recording end of month calculations in both the T4 fuel tally book and the T2 vehicle journey log as necessitated by section 2.13.1.
- at each of the five stations visited, end of month calculations were being recorded in the T4 fuel tally book but the calculations were not being closed off as required by section 2.13.6.
- there were instances where the same officer was signing both the T4 fuel tally book and T2 vehicle journey log records when fuel was issued. This reduced the division of duties required by section 2.7.2.
- there were instances where fuel quantities entered in both records did not match, i.e. the fuel issued and recorded in the T4 fuel tally book was different to the record made in the T2 vehicle journey log contrary to section 2.7.2
- the roll numbers recorded in both books were often illegible so it could not be determined who had issued and received the fuel. Some entries contained no signature and where an entry contained a signature it was difficult to identify the individual concerned as required by section 2.7.2.

- generally fuel orders were not being recorded in the Station continuity books in accordance with section 2.3.2.
- delivery notes were not retained at all the stations but were sent to Fire Service Headquarters by the station Admin Officer contrary to section 2.5.2.
- the frequency of fuel dips varied at the five stations visited but most were undertaking dips before and after a fuel delivery. However, at one station a delivery was made without any fire service personnel being present, section 2.5.1.
- discrepancies exceeding +/- 150 litres was noted at two stations. There was no record in the fuel tally book confirming that a report had been made to the station Commander as required by section 2.13.5.
- there were no records maintained in the fuel tally books confirming that monthly fuels checks were taken and signed by the Watch Commander as mandated by sections 2.3.4 and 2.13.8.

In addition self-assessment questions, undertaken as part of the Station Self- Assessment Workbook regime, which require a commentary on completion of T2 and T4 log books in accordance with Standing Order 09/01 were not giving an accurate reflection of the level of internal control being exercised in this area.

5.4.5 Bank Account Reconciliations

A review was undertaken on the regular reconciliations undertaken to ensure control over bank accounts held centrally and at fire stations.

No issues of significance were found.

5.4.6 Risk Management

The review focussed upon how risk management and the wider assurance framework were being embedded across the Authority.

The following issues were raised in order to continue to develop this:

- the implementation of an enterprise wide risk management framework, with risk registers being developed below corporate level.
- the inclusion of target dates within risk registers and action plans.
- adopting a systematic and consistent approach to project and partnership risk management.

5.4.7 Payroll/Pensions (KFS)

The review considered the overall controls in place to ensure the efficient maintenance of the Pensions and Payroll functions.

The main issues raised were:

- the recommendation from 2010/11 that a system of annual reviews of ill-health pensioners entitlements should be installed in order to prevent overpayments yet to be implemented.
- password security was not being regularly reviewed and user access to IT systems was not being regularly monitored.

5.4.8 Accounts Payable (KFS)

The review considered the overall controls in place to ensure the accurate and efficient control of the Accounts payable functions. It was noted the need for more robust measures for ordering goods to aid control of the Authority's finances. In addition the implementation of our recommendation from our 2010/11 review, in respect of the purchase of an improved accounting module, was under consideration as part of the "Building upon Success" (BuS) programme.

5.4.9 Budgetary Control

The review considered controls installed to ensure accurate and timely monitoring of budgets and the controls over virements and journal entries. It was concluded that improved monitoring data should be developed to ensure integrity of journal entries.

- 5.5 All of the above issues have been raised with relevant managers and actions are being taken to achieve improvements.

John Edwards
Chairman

Vij Randeniya
Chief Fire Officer

Stuart Kellas
Treasurer

Neeraj Sharma
Clerk and Monitoring Officer