

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

15TH JUNE 2015

1. **GOVERNANCE STATEMENT 2014/2015**

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

RECOMMENDED

THAT the Committee considers and comments on the Governance Statement for 2014/2015.

2. **PURPOSE OF REPORT**

This report is submitted to Members to seek comments and consideration of the Governance Statement for 2014/2015.

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 2015.

- 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 and the Chief Fire 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 31st March 2015 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.

The contact name for this report is Mike Griffiths, Treasurer, 0121 380 6919.

PHIL LOACH	MIKE GRIFFITHS	MELANIE DUDLEY
CHIEF FIRE OFFICER	TREASURER	MONITORING OFFICER

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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, 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 The Authority has complied with the code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government. This statement explains how the Authority has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4 (3) which require the Authority to prepare an Annual Governance Statement.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it account to 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. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place for the year ended 31st March 2015 and up to the date of the approval of the annual report and statement of accounts.

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 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 whistle blowing 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.
- 3.5 West Midlands Fire and Rescue Authority will continue to enhance and strengthen its internal control environment through the review of current 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 Audit 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 likelihood and impact). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.
- 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

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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.
- 3.12 The Fire and Rescue National Framework for England sets out a requirement for Fire and Rescue Authorities to publish 'Statements of Assurance'. Specifically, Fire and Rescue Authorities must provide assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in this Framework. The Authority has approved the Statement of Assurance which is available on the Service's website.

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 of effectiveness is informed by the work of the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment, the internal audit annual report and 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.

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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
- Monitoring Officer

In addition to the statutory posts, the post of Clerk to the Authority has been maintained.

4.4 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.

4.5 The resulting Audit Plan is discussed and agreed with officers of the Strategic Enabling Team and the Audit Committee and shared with the Authority's external auditor. 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.

4.6 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;
- Other work undertaken by independent inspection bodies.

4.7 From the work undertaken by Internal Audit in 2014/2015 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.

4.8 The Authority is able to confirm that its financial management arrangements

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conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- 4.9 We have been advised on the implications of the result of the review of effectiveness of the governance framework by the sources noted above and that the arrangements continue to be regarded as fit for purpose in accordance with the Authority's governance framework. The areas to be specifically addressed are outlined in 5.5.

5. Significant governance arrangements within the Authority

- 5.1 West Midlands Fire and Rescue Authority have 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) 2015-2018 which sets out the nine outcomes and six strategic objectives along with value for money for the Service.

- 5.3 Grant Thornton, the Authority's External Auditors, published the Audit Findings Report for its 2013/2014 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 Based on audit work undertaken during the year an Annual Internal Audit Report was presented to the Audit Committee on 15th June 2015, Audit work which was completed in 2014/2015 included:-

- Pensions Certification
- Fire Stations Management of Fuel
- Budgetary Control
- Accounts Receivable
- Accounts Payable
- Payroll/Pensions
- Fixed Asset Accounting
- Governance
- Environmental Protection Targets
- Risk Management

- 5.5 As a result of these audits, the review of internal controls highlighted a number of issues the most significant being in respect of:

Fire Stations – Management of Fuel

The procedures for the management of fuel are contained within Standing Order 9/1. A review of adherence to these procedures was undertaken. A number of significant issues included:-

- The fuel gauge at a station was insufficiently calibrated to give an accurate reading, preventing the effective monitoring of stock.
- There were non-compliances with procedures which meant that:
 - The identification of discrepancies between physical and book stock levels was not always possible.
 - Fuel was being ordered when the stock was below the specified re-order level.
 - Water tests were not being consistently undertaken and, therefore, there was a risk of contaminated fuel not being identified.
 - Fuel issues were not always being recorded correctly and therefore, undermining the transparency of the issue process.

Environmental Protection Targets

The review assessed the progress made towards implementing an Environmental Management System and strategies put in place to further advance the Authority's environmental initiatives. The review identified the following issues of significance:

- There were inaccuracies in the methodology of reporting actual against target usage of gas and electricity. This was because the target usage had been calculated as an average for the year and had not been adjusted to take account of seasonal variations. As such, the usage figures reported for the first two quarters were significantly better than the target, giving a false assurance on performance. When adjustments were made to take account of seasonal variations, it was identified that some stations reported as having achieved target usage reductions, no longer did.
- Performance against targets was reported quarterly and was based on the cumulative usage. It was found that the spreadsheet used to calculate the usage figures contained errors. As such, the cumulative performance figures reported for quarters one and two, were in fact the figures for quarter two only. When the spreadsheet was adjusted to calculate the cumulative performance, it was found that they had been overstated in the report, again giving a false assurance on actual performance.

- 5.6 All issues highlighted in the Annual Internal Audit Report have been raised with relevant managers and actions have been taken to achieve improvements.
- 5.7 In February 2015, the Minister for Local Government confirmed the Authority's grant settlement for 2015/16. The grant reduction of £6.2m in 2015/1016 has been managed by reviews to services and an increase in Council Tax. At this stage there is no certainty what level of grant reductions will apply to this Authority after 2015/16. However, what is clear from the Chancellor's December 2014 Autumn Statement is that reductions in public expenditure will continue.
- 5.8 With the trend of cuts to government grant continuing into future years, the Authority faces considerable financial pressures which could result in difficulties to deliver an efficient and effective service, which in turn would increase the risk to the communities of the West Midlands. A key aim for the Authority is to therefore deliver a more efficient and effective service to the community whilst ensuring the stability of the Authority's financial position remains.

6. Certification

- 6.1 To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

John Edwards
Chairman

Phil Loach
Chief Fire Officer