

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

7 JUNE 2010

1. **GOVERNANCE STATEMENT 2009/2010**

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

RECOMMENDED

THAT the Audit Committee considers and comments on the Governance Statement for 2009/2010.

2. **PURPOSE OF REPORT**

This report is submitted to Members to seek comments and consideration of the Governance Statement for 2009/2010.

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 and which includes arrangements for the management of risk.
- 3.3 Every Local Authority has to produce Governance Statement (see attached Appendix 1) with its Statement of Accounts, which are due to be made available at the end of June 2010.

- 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 Clerk, the Treasurer and the 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 2010 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. PHELPS
CLERK

S. KELLAS
TREASURER

N.SHARMA
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 Committee has been considering the Framework and its formal implementation as part of its 2009/2010 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 2010 and up to the date of the approval of the annual report and accounts. The Authority's Audit 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, consultation on the key priorities and the development of its Internet site. 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 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 three 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
- Monitoring Officer

- 4.4 The Authority continues to assess how its overall corporate governance responsibilities are discharged. In particular the Authority has adopted 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 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 2009/10 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) 2009-12 which sets out the ten outcomes and fifteen strategic objectives for the Service.

5.3 The Comprehensive Area Assessment (CAA) undertaken in 2009 identified that overall the Authority was performing well and was scored a '3' (out of 4) in its Organisational Assessment. The Audit Commission stated that the Authority demonstrates the principles and values of good governance, manages its performance well and continues to provide good value for money. It was noted that the Authority has a track record of operating within budget while maintaining good service performance and the medium term financial plan indicates financial stability. The Authority has a clear vision and translates its vision into ambitions and clear strategic priorities that drive the business but must continue to integrate financial and performance management.

5.4 The review of internal control also highlighted the following:

5.4.1 Environmental Audit

The main issues raised were:

- The legislation register should be personalised and then kept updated;
- Environmental actions should be prioritised and a timetable set;
- Plans should continue to be put into place to introduce monitoring against targets;
- Consideration should be given to how usage of unmetered water can be reduced, and how the reduction can be evidenced.

5.4.2 Payroll - General

The main issues raised were:

- Revenue payment vouchers were not always being signed by the officer completing the form or authorised by the Pensions and Payroll Manager.
- Notification forms were not always signed by both a member of HR and manually by Payroll.
- As there have been changes to Payroll personnel due to retirements etc., including the Pensions and Payroll Manager, there should be a check of who has access to payroll data and at what level.
- Checks should be carried out when material differences in BACS amounts occurs between months, to ensure that any differences are legitimate.

5.4.3 Payroll - Pensions

The main issues raised were:

- A certificate has to be completed by retired employees to confirm entitlement to continued payment. A check should be made of the signature on the certificate to records held, and the form then signed by the member of the pensions section carrying out the check.

- Where there is Power of Attorney (POA) for the retired employee, the certificate should be signed both by the person with POA and an attesting person. A new section should be added to the form so that the POA can record the address where the retired person is currently residing.
- Also, to complete the audit trail, all notification forms sent by Human Resources should be signed by a Payroll officer to verify that the form has been seen and processed.

5.4.4 Management of Fuel – follow up of 2008/9 recommendations

The main issues raised were:

- An update of the relevant Standing Order to ensure that the correct re-order levels and amounts are stated, and
- Station staff being aware of Standing Order requirements regarding fuel dips.

5.4.5 Petty Cash Investigation

To strengthen controls over petty cash and financial records, the key issues arising were:

- The retention of imprest records for a minimum of three years, as a number of recent records were missing,
- Cash withdrawn from the stations bank accounts should be paid fully and promptly into the petty cash imprest at the station, as this was found not to be the case on numerous occasions,
- All petty cash documentation should be stored and filed properly,
- The imprest should be reimbursed in accordance with the relevant Standing Order to ensure that there are sufficient funds available,
- Checking of reimbursement claims and vouchers by an appropriate officer before submission, including verification of supporting evidence,
- Correct certification of petty cash vouchers,
- Suitability of payment of types of expense from petty cash.

5.4.6 Risk Management

The main issues raised were:

- Provision of risk management training for all members,
- Identification of a member to 'champion' risk management,
- Presentation of the Corporate Risk Register to the Audit Committee on a more regular basis, so that it becomes further embedded in the work of the Committee.

5.4.7 Workforce Planning

A recommendation was made that the Workforce Planning Policy is finalised and circulated to ensure full engagement in the process

5.4.8 Procurement

The main issues raised were:

- Benchmarking should be carried out against other bodies of a similar size and nature in order to demonstrate that the procurement system is performing adequately.
- Legal advice should be sought to determine whether the EU Procurements directives for sourcing of the vehicle component parts should be followed, due to the annual spend involved appearing to be above the threshold.
- Authority expenditure is not monitored to ensure that the centrally procured contracts are being utilised, as required under the Authority's Standing Orders. Additionally, if the expenditure is monitored, it would allow the Authority's purchasing section to arrange contracts that would potentially offer better value for money than if a service is procured in isolation.

5.4.9 Fixed Asset Accounting

Recommendations which merit attention were made regarding calculation of some of the depreciation charges and retention of associated records, presentation of information in the general ledger and within the fixed asset registers.

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

Chairman	Susan Phelps Clerk	Stuart Kellas Treasurer
Neeraj Sharma Monitoring Officer	Vij Randeniya Chief Fire Officer	