

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

27 JUNE 2011

1. GOVERNANCE STATEMENT 2010/2011

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

RECOMMENDED

THAT the Authority considers and comments on the Governance Statement for 2010/2011.

2. PURPOSE OF REPORT

This report is submitted to Members to seek comments and consideration of the Governance Statement for 2010/2011.

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 2011.

- 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 2011 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 2010/2011 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 2011 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 2010/2011 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) 2011-15 which sets out the nine outcomes and thirteen strategic objectives for the Service.
- 5.3 The Audit Commission published the Annual Governance Report for its 2009/2010 audit work which reported that it planned to issue 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 Goods Receipting System

A review was carried out on the procedures followed for the receipting of ordered goods, prior to the payment of invoices. The main issues raised were:

- Maintenance of a suitable audit trail and reporting facilities.
- Restriction of future date entries.
- Filing and retention of Delivery Notes.
- Implementation of an approved procedure for payment of outstanding invoices where it has not been possible to obtain satisfactory confirmation of delivery within a reasonable timescale.
- Provision within the system for applying corrections to data entered incorrectly.
- Endeavouring to make sure that suppliers clearly print order numbers on delivery notes.

5.4.2 Accounts Receivable

An audit of accounts Receivable was undertaken. Debtor's invoices are raised by the WMFS Revenues Team, Sandwell MBC (SMBC) Finance receive and allocate payments, and reconciliations are undertaken by the WMFS Finance Section. Outstanding Debt is pursued and monitored by SMBC Debt Recovery Team in accordance with an agreed Service Level Agreement (SLA).

Accounts Receivable is a key financial system, the control matrices (nature and type of tests, sample sizes, etc.) used in the review include the requirements of the External Auditors, in order that they can place reliance on the work and thereby reduce their own year-end testing accordingly.

The main issues raised were:

- A recommendation that notes of actions taken on debtor's accounts are updated on the relevant computer screen, in all cases.
- Clearance of two longstanding receipt entries included in the reconciliation of Accounts Receivable to the General Ledger.

5.4.3 Absence Management

Responsibility for Absence Management rests with line management and procedures covering Absence Monitoring are included in Standing Order 5/1. Overall monitoring of Absence Management for the whole of WMFS is performed by the Human Resources Department.

The review resulted in a key recommendation, that proposed plans of action should be implemented and monitored to try to reduce the number of days that staff are absent from work. Plans include:

- Attendance management briefing sessions.
- Monthly management reports.
- System produced automated flags to management so that they are immediately made aware of when their staff reach levels of absence that require action to be taken.

5.4.4 Partnerships

At the time of the audit, WMFS had approximately 20 partnerships in place with organisations. The partnerships are a mix of corporate and local level agreements and are overseen by the Community and Fire Safety Section. The following recommendations were made:

- All partnership agreements should have, at least, formal terms of reference.
- WMFS should share its anti-fraud policy and processes with partnering organisations.
- The partnership toolkit should be updated to include the risk impact assessment, in accordance with Standing Orders.

5.4.5 Fire Stations – Management of Cash

Each fire station has a cash imprest which is used to purchase items of a minor and urgent nature. Imprests are of varying amounts, with £500 being the highest. Funds are managed by a Station Assistant at each location, who is responsible for keeping track of money available and submitting reimbursement claims to the Finance Section. Following reimbursement to the station's bank account, cash is then withdrawn by the Station Assistant to replenish the imprest.

A sample of five stations were visited, key recommendations arising from these visits were:

- The relevant Standing Order should be amended to state that financial documents should be retained for six years, in line with other Standing Orders.
- Most of the petty cash payments were for payment of standby duties. To comply with HM Revenues and Customs requirements, and to reduce the risk of running short of funds to manage the day to day functions of the station, WMFS should introduce the payment of standby duties via the payroll function.
- Finance training should be compulsory for all new Station Assistants before they commence their role in management of cash imprests at stations.

5.4.6 General and Pensions Payroll

A review was completed of the General and Pensions payroll functions. Payroll is a key financial system and the control matrices (nature and type of tests, sample sizes, etc.) used in the review include the requirements of the External Auditors, in order that they can place reliance on the work and thereby reduce their own year-end testing accordingly.

Recommendations were made and agreed with management, including that as there was no process in place, a review system should be introduced for personnel who have retired on ill health benefits, to ensure that overpayments are not made.

5.4.7 Treasury Management

The Authority's Treasury Management service is provided by Sandwell MBC. Internal controls over the arrangements with the local authority were reviewed and recommendations made including the amending of the Terms of Reference of the Audit and Performance Management Committee to include scrutiny and review of Treasury Management arrangements.

5.4.8 Accounts Payable

Accounts Payable is a key financial system and the control matrices (nature and type of tests, sample sizes, etc.) used in the review include the requirements of the External Auditors, in order that they can place reliance on the work and thereby reduce their own year-end testing accordingly.

The main issues raised were:

- Specific verification checks should be carried out where requests to change supplier bank accounts are received, as a number of public sector organisations have been affected by attempted fraud, which centred around fraudsters submitting requests to change bank details for payments.
- To enable effective monitoring of order commitments, consideration should be given to adding the i-Procurement module onto the current Sandwell Business System (SBS) systems in use.

5.4.9 Procurement

The review looked at the receipting and evaluation of tenders received by the Authority to ensure that it complied with its own Standing Orders and the award criteria within the issued tenders. The main issues raised were:

- Standing Orders require officers to undertake risk assessments on individual contracts that either exceed the EU Procurement Threshold or where the failure of the Contract will have a significant impact on the core operations of the Authority. Unfortunately for the supply and fitting of tyres contract this requirement had not been

followed.

- In one instance a consultant, acting on the Fire Authority's behalf, failed to get a contract signed between the Fire Authority and the contractor, in contravention of the Authority's Standing Orders.
- There were no formal procedures requiring all returned Pre-Qualification Questionnaires to be recorded. Without this the Authority was unable to inform unsuccessful companies easily if they fail to meet the relevant evaluation criteria.

5.4.10 Risk Management

We found that good progress is being made in the embedment of risk management, and in the year ahead the Authority is to focus upon the development of an Assurance Map. Such a document would be useful for the committee in helping ensure Members that key risks to the Authority's objectives are being appropriately mitigated.

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

Chairman

Vij Randeniya
Chief Fire Officer

Stuart Kellas
Treasurer

Neeraj Sharma
Clerk and Monitoring Officer