

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



MEETING

Policy & Strategy Committee

AGENDA ITEM

4

MEETING DATE

21 June 2017

REPORT NUMBER

EFA/069/17

SUBJECT

2016/17 Accounts & Governance Statement

REPORT BY

The Acting Chief Fire Officer and The Finance Director & Treasurer

PRESENTED BY

The Finance Director & Treasurer, Mike Clayton

SUMMARY

Under the Accounts and Audit Regulations, Members of the Fire Authority must approve an Annual Governance Statement and this statement may be included in the statement of accounts and published by 30 June. In addition the Authority must publish unaudited accounts by 30 June. This paper provides a review of the key governance arrangements and a summary of the key issues from the accounts for 2016/17.

The accounts were published on 31 May and are attached to this paper.

RECOMMENDATIONS

Members of the Policy & Strategy Committee are asked to:

1. Review and agree the Annual Governance Statement;
2. Agree the Review of Accounting Policies;
3. Agree the use of estimates in the accounts;
4. Note that the Finance Director & Treasurer has signed and published the unaudited Accounts for 2016/17; and
5. Authorise the Chairman and Acting Chief Fire Officer to sign the Annual Governance Statement.

BACKGROUND

The requirements for the approval of the Authority's accounts are set down in The Accounts and Audit (England) Regulations 2011 (SI 2011 No 817). In summary the following actions are now required for the approval of the Audited accounts:

Ref	Requirement	Action
4(2)	Annual review of the effectiveness of the system of internal control	Review by Audit, Governance & Review Committee in April 2017
4(3)	Annual governance statement	Policy & Strategy Committee – June 2017
6(3)	Review effectiveness of internal audit	Review by Audit, Governance & Review Committee in April 2017
7	Publish remuneration of senior employees	Included in Accounts
8(2)	Financial Officer to sign accounts by 30 June	Signed and published by 31 May 2017
8(3)	Approval and Publishing of Audited Accounts by 30 September	Approval planned for P&S Committee on 26 July 2017

The regulations also provide for the public inspection of the accounts (20 working days), for written objections to the accounts and for the publication of the annual audit letter.

The timetable adopted for the 2016/17 accounts will be the new statutory timetable for 2017/18 onwards.

OUTTURN POSITION FOR 2016/17

The table below summarises the draft outturn position for the year:

	Latest Approved Budget £000	Actual Expenditure £000	Variance overspend/ underspend) £000
2016/17			
Net Revenue Expenditure			
Firefighters	30,963	30,560	(403)
Firefighters - Retained Duty System	5,349	5,612	263
Control staff	1,365	1,272	(93)
Support staff	12,381	12,474	93
Total Employment Costs	50,058	49,918	(140)
Support costs	5,005	4,590	(415)
Premises & Equipment	10,529	9,394	(1,135)
Other costs & services	3,736	4,070	334
Ill health pension costs	2,097	2,201	104
Statutory provision for Capital Financing	5,944	3,623	(2,321)
Financing items	1,641	1,506	(135)
Contribution to/(from) Reserves	(3,812)	-	3,812
Total Other Costs	25,140	25,384	244
Total Gross Expenditure	75,198	75,302	104
Operational Income	(3,894)	(3,993)	(99)
Total net expenditure outturn	71,304	71,309	5

The final position reported in the accounts reflects the use of some £1.6m of past capital receipts (usable reserves) in place of part of the statutory provision for capital financing. This

was in accordance with decisions of the Authority to use reserves to fund additional expenditure (largely on early exit options) in 2016/17.

ANNUAL GOVERNANCE STATEMENT

The Annual Governance statement was reviewed by the Audit, Governance & Review Committee in April 2017.

In addition the Audit Committee reviewed the effectiveness of the arrangements for Internal Audit. The table below shows the internal audit results for the last five years:

	Limited Assurance or No Assurance	Reasonable Assurance	Substantial Assurance
2011/12	0	4	2
2012/13	1	5	2
2013/14	2	4	3
2014/15	2	4	3
2015/16	2	4	2
2016/17	4	4	2

In 2016/17 there was one area with no assurance and three areas with partial assurance. Two of these reports related to the HR function where there was a significant turnover of staff in the year, one to risk management and one to business continuity.

The Governance statement is attached as Appendix 1. It includes the actions being undertaken in 2017/18 to address areas where weaknesses in controls were identified through internal audit.

2016/17 ACCOUNTS – ACCOUNTING POLICIES AND ESTIMATES

As part of the approval process for the Accounts the Committee has to consider and agree two key aspects. Firstly, any changes to the Accounting Policies adopted by the Authority and secondly the use of estimates within the accounts.

The Accounting Policies are set out within the accounts. These policies set down the key factors adopted where there is flexibility in the accounting standards. An example would be the life adopted for capital assets purchased by the Authority. There has been no amendment to an accounting policy in 2016/17.

The second area for Member consideration is for the use of estimated figures within the accounts. There has been no change to the approach adopted in previous years. The use of estimates is set down in Note 6 which states:

“The statement of accounts includes accounting estimates concerning the carrying amounts of assets and liabilities and the amount of the periodic consumption of an asset. The estimates include the method of depreciation chosen for fixed assets which impacts on both the carrying value of the asset and the charge in the income and expenditure account for the consumption of the asset in the year. There have been no changes to the accounting estimates in the year..”

RISK ANALYSIS

The Governance Statement has been reviewed by the Audit, Governance & Review Committee which also receives all reports from the Internal Auditor and all reports from the

External Auditor. The Committee also receive reports monitoring the completion of actions in response to audit recommendations.

The reporting of the final outturn position to this committee completes the review process for budgetary control ensuring that Members are aware of the main variations to budget, the reasons for the variations and that Members have the opportunity to challenge Officers in respect of the achievement of the budget. In addition, the budget review reports are also submitted to the Audit, Governance and Review Committee.

LEGAL IMPLICATIONS

The Finance Director & Treasurer is required to certify the accounts by 30 June and the Authority must approve and publish accounts by 30 September, after completion of the review by our auditors.

FINANCIAL IMPLICATIONS

There are no financial implications from approval of the Authority's accounts.

USE OF RESOURCES

There are no use of resources implications from approval of the Authority's accounts.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents	
Appendix 1 - Governance Statement	
Appendix 2 - 2016/17 Statement of Accounts	
Proper Officer:	Finance Director & Treasurer
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DRAFT GOVERNANCE STATEMENT

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards of conduct, probity and professional competence, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty 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.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Authority has approved and adopted a code of corporate governance, which is consistent with the framework of good governance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives. This statement explains how the Authority has complied with the code and also meets requirements of the Accounts and Audit Regulations in relation to the publication of an Annual Governance Statement.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, for the control and management of all activities and how much it accounts to, engages with and leads 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, cost-effective services.

The system of internal control is a significant part of that 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 on-going 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.

The governance framework has been in place at the Authority for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

The Governance Framework

The Governance Framework is comprised of 6 core principles that are detailed below:

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of Members and officers to be effective; and

6. Engaging with local people and other stakeholders to ensure robust public accountability.

Review of Effectiveness

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 strategic managers within the Authority who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Audit, Governance and Review Committee has been given responsibility for:

7. overseeing the implementation and monitoring the operation of the code;
8. reviewing the operation of the code in practice; and
9. reporting on compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, the Fire Authority's Internal Auditor has responsibility to review and report to the Authority's Audit, Governance and Review Committee annually, to provide assurance on the adequacy and effectiveness of the Authority's arrangements for governance, risk management and control. The opinion from the Internal Auditor states "The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective." The provision of Internal Audit Services is through a contract with RSM UK Group LLP. The Authority is able to take substantial assurance from the budgetary and the key financial controls.

The Audit, Governance and Review Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place. In addition, in 2016/17, there was an independent report from Sir Ken Knight assessing the progress made following the review of the Authority's culture by Irene Lucas in 2015. In addition the members of the Expert Advisory Panel appointed by the Authority in 2015 were used to support the Authority during 2016/17.

The Authority's financial management arrangements conform to the governance requirements contained in the CIPFA statement on "The Role of the Chief Financial Officer in Local Government". Internal Audit reports on the key area of financial controls confirm that they provide substantial assurance to the Authority.

Significant Governance Issues

In September 2015 Members received a report from Irene Lucas that included ten recommendations related to the governance of the Authority. In October 2015 the Authority accepted the recommendations and agreed the appointment of an Advisory Panel, chaired by Steve McGuirk a former Chief Fire Officer, to support Members and Officers in the implementation of actions to address the recommendations made. The Advisory Panel met with lead Members and Officers during the year and provided additional specialist support around a number of key areas including a management review, discipline and grievance matters, employee relations and staff engagement. In addition, external support through the Society of Local Authority Chief Executives has been used to help strengthen the role of Members in the governance of the Authority.

In September 2016 the Authority received a report from Sir Ken Knight reviewing the progress made in the first year after the Lucas report. In his report, Sir Ken stated *“I am satisfied that Essex Fire Authority (the Authority) and Essex County Fire and Rescue Service (the Service) have taken, and are continuing to take, appropriate early actions to deliver against the Lucas Review recommendations. Appropriate consideration has been given to the fundamental issues and the Authority is on track to deliver against the recommendations in a timely manner.”*

A number of areas were identified in the 2015/16 governance statement for further development. The most significant areas and the actions undertaken are summarised below:

Area	Actions
Completion of the action plan to address the recommendations in the Lucas report	The Authority commissioned Sir Ken Knight to conduct an interim review of progress and the results of this review were reported to the Authority in September 2016. In March 2017 the Service Leadership Team published a self-assessment of progress against the Lucas recommendations and in April 2017 the Expert Advisory Panel reported on progress. A final review by Sir Ken Knight is planned for the Summer of 2017.
The continued development of assurance around risk management	The Authority's risk register was reviewed by the Policy & Strategy Committee in November 2016 and by the Audit, Governance and Review Committee in January 2017. The full Authority considered the risk register in February 2017. A further internal audit review concluded that the Authority could place partial assurance on the risk management controls.

For 2017/18 the main focus remains the completion of the action plan to address the recommendations in the Lucas report, and weaknesses identified within the partial and no assurance opinions found during the 2016/17 in the areas of HR Transactional Processes, Risk Management, Business Continuity and HR Training and Development. A further focus for the Authority will be the preparation for the implementation of the General Data Protection Regulation in May 2018. Initial work to undertake a gap analysis has commenced and a sub-group of the Service Leadership established to lead the work required to ensure that the Authority will be compliant.

Internal Control

The effectiveness of the internal audit arrangements and the system of internal control were included in the annual governance review. Elements of this review were also informed by the work of the Internal Auditors and the regular reporting on financial and performance issues to Members. As part of these reviews action plans were identified and reported on. Internal Audit reports covering key areas consistently report reasonable or substantial assurance around all areas of controls for expenditure and the use of resources. There were no materially significant internal control issues identified during the year.

Councillor Anthony Hedley - Chairman

Adam Eckley – Acting Chief Fire Officer