

# ESSEX FIRE AUTHORITY

## Essex County Fire & Rescue Service



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**MEETING**

**Audit, Governance & Review  
Committee**

**AGENDA ITEM**

**6**

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**MEETING DATE**

20 April 2016

**REPORT NUMBER**

**EFA/058/16**

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**SUBJECT**

**ANNUAL REVIEW OF THE GOVERNANCE STATEMENT**

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**REPORT BY**

The Finance Director & Treasurer, Mike Clayton

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**PRESENTED BY**

The Finance Director & Treasurer, Mike Clayton

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### **SUMMARY**

The Authority has a statutory duty to publish an Annual Governance Statement. In preparation for this the Audit, Governance and Review Committee is asked to review the governance framework and the effectiveness of the system of internal audit. This has been carried out by means of a gap analysis measuring existing governance arrangements against expectations established in the Local Code of Corporate Governance.

### **RECOMMENDATIONS**

Members of the Audit, Governance and Review Committee are asked to:

1. Review and agree the schedule setting out how the Authority meets the principles of the Local Code of Corporate Governance (Appendix 1);
2. Determine whether an effective system of internal audit has been in place during the year to 31 March 2016; and
3. Review and comment on the draft Annual Governance Statement (Appendix 2).

### **BACKGROUND**

Each local authority operates through a governance framework. It is an interrelated system that brings together an underlying set of legislative requirements, governance principles and management processes. Traditionally local Government has conformed in whole or in part and in many different ways to the principles of good governance and has a sound base on which to build. There has been a strong regulatory framework in existence and robust arrangements for monitoring and review.

Since 2007 a framework has been adapted for local Government purposes; it is comprised of six core principles taken from the Good Governance Standard developed by the Independent Commission on Good Governance in Public Services, with support from the Office for Public Management and CIPFA<sup>1</sup>, in partnership with the Joseph Rowntree Foundation.

The present Local Code of Corporate Governance was adopted by the Authority in 2007 and is subject to annual review before the Authority, through the Policy & Strategy Committee, to approve the Annual Governance Statement which forms part of the annual accounts in June of each year.

### **Local Code of Corporate Governance**

It is widely recognised that the framework model demonstrates best practice in respect of developing a local code of governance.

Performance in each of the code's dimensions is measured against a series of narratives that collectively demonstrate how effective existing governance arrangements are and where there may be areas for improvement. Appendix 1 sets out details of each of the dimension's narratives and the evidence of where this can be seen in action, together with any assurance provided to Members on the evidence.

The Committee is asked to consider whether there is clarity on the following aspects of the assurance process:

- **Identify** - What the Authority wants assurance on;
- **Assess** - How the assurance is provided;
- **Review** - How the assurance is reviewed and validated; and
- **Act** - What has been done with the information.

It is a core component of the local code that the Authority publishes an Annual Governance Statement which clearly sets out, where the review of corporate governance arrangements has revealed gaps, and which areas require action to ensure effective governance in the future. This statement will form part of the Authority's accounts and be approved by the Policy & Strategy Committee in June. Prior to approval, this Committee is being asked to review the corporate governance arrangements and the evidence of compliance with the principles of the code.

### **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

Under the Accounts and Audit regulations there is also a requirement that the Authority shall, at least once per year, conduct a review of the effectiveness of internal audit.

For the Service the internal audit function in 2015/16 comprises:

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

- Internal Audit Services provided under an outsourced contract by RSM UK Group LLP;
- Operational audit reviews carried out by a team of Officers within the Service's Human Resources and Organisational Development Directorate; and
- Specific functional reviews, generally by consultants.

Although the operational audits and functional reviews are not carried out in accordance with the guidelines for internal audit work they can provide an independent review of the effectiveness of a function and will therefore support the assessment of the effectiveness of the governance arrangements within the Authority.

## EFFECTIVENESS

The guidance is clear that this review should concentrate on the effectiveness not the process of internal audit. Effectiveness should be judged by the contribution that the function makes to the organisation. The contractual arrangements for the Authority are entered into jointly with two other Fire Authorities giving us the opportunity to share best practice and benefit from joint working opportunities. RSM UK Group LLP provides internal audit services under a contract with the Authority.

Each internal Audit report clearly sets out the level of assurance found. The levels of assurance are;

Substantial Assurance	Robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
Reasonable Assurance	Reasonable number of internal controls in place, however may not be operated all the time.
Limited Assurance	The controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
No Assurance	Fundamental breakdown or absence of core internal controls.

All of the planned internal audit work for the year has been completed. The table below sets out the details of the audits completed during the last 12 months;

Area	2015/16 Audit Conclusion
ICT Health check	Reasonable Assurance
Property Maintenance	Substantial Assurance
Workforce Planning	Not assessed
Risk Management	Partial Assurance
Governance (Draft)	Reasonable Assurance
Key Financial Controls – HR Transactions	Reasonable Assurance
Key Financial Controls - Finance	Substantial Assurance
Project/Contract Management	Reasonable Assurance

Area	2015/16 Audit Conclusion
PAYE/VAT Health Check	Not assessed
Data Retention	Not completed
Follow Up Review	Not completed

The table below compares the 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 (Part)	1	4	2

The internal audit process is risk based with some follow up reviews. A separate report is provided to each meeting of the Audit & Review Committee setting out the progress on implementation of the agreed actions for each audit recommendation. The 2014/15 review by RSM reported “reasonable progress” in implementing agreed internal audit recommendations.

The Audit, Governance and Review Committee also have the opportunity for a private session with the Internal Auditor as part of each meeting.

## **EFFECTIVENESS OF AUDIT COMMITTEE**

There has been no review of the effectiveness of the Audit, Governance and Review Committee in the last year. Attendance at meetings is reported annually to the Fire Authority. In response to the recommendations in the Lucas review a series of workshops, facilitated by consultants from the Society of Local Authority Chief Executives have been run to develop the governance, scrutiny and assurance role of the Authority. The outcomes of this work are due to be considered by the Authority later in 2016.

## **RISK MANAGEMENT IMPLICATIONS**

Failure to adopt a local code of corporate governance will leave the Fire Authority open to challenge as to the effectiveness of its arrangements for being able to demonstrate the appropriate levels of stewardship and accountability in its business activities, and the continued ability to deliver its aims and objectives.

Corporate governance arrangements are assessed on an annual basis by the Authority’s auditors. Failure to take steps to ensure adequate governance arrangements are introduced will have a negative impact on performance reporting relating to the Authority. The measures set out in this report are intended to mitigate these risks.

## **LEGAL IMPLICATIONS**

The Annual Governance Statement is a statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 (SI 2006/564). The requirement for a review of the Effectiveness of the

System of Internal Audit is set out in Regulation 6(3). The guidance recommends that the review of the effectiveness of the system of internal control, also required under the same Audit Regulations, should be reported in the Annual Governance Statement.

There are no direct legal implications associated with accepting the recommendations set out in this report. There may however be significant legal risk associated with a failure to ensure adequate corporate governance arrangements are in place.

## **FINANCIAL IMPLICATIONS**

There are no direct financial implications associated with accepting the recommendations set out in this report. There may however be significant financial risk associated with a failure to ensure adequate corporate governance arrangements are in place.

## **USE OF RESOURCES**

Response to the gap analysis undertaken will need to consider whether the Authority's resources are sufficient to enable compliance. Specific approval will be sought if additional resources are required.

<b>LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985</b>	
<b>List of appendices attached to this paper:</b>	
Appendix 1 – Local Code of Corporate Governance: Gap Analysis	
Appendix 2 – Draft Governance Statement	
<b>List of background documents (not attached):</b>	
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Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<p><b>Principle 1</b></p> <p>Focus on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for Essex</p>	<ul style="list-style-type: none"> <li>Set out a clear Service Strategy for the Authority</li> <li>Have a clear understanding of the community risks we manage through the Strategic Assessment of Risk</li> <li>Use our Integrated Risk Management Plan to explain how we reduce and respond to community risks and consult on our approach.</li> <li>Provide regular Performance Reports on key measures and an Annual Report.</li> <li>Publish external assessments of our performance.</li> <li>Work with Partners to deliver improvements to community safety.</li> </ul>	<p>Service Strategy 2014-2019</p> <p>Strategic Assessment of Risk 2013</p> <p>Integrated Risk Management Plan</p> <p>Performance Report</p> <p>Annual Report</p> <p>Statement of Accounts</p> <p>Medium Term Financial Strategy</p> <p>Partnership Register</p>	<p>Audit, Governance &amp; Review Committee</p> <p>2013 Peer Review and Action Plan</p> <p>Internal Audit Plan, Reports and follow up on recommendations</p> <p>Internal Audit Annual Report</p> <p>External Audit Governance Report and Management Letter</p> <p>Approval of Service Strategy by Essex Fire Authority – a new Strategy for the Authority will be brought forward in June 2016.</p>

Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<p><b>Principle 2</b></p> <p>Members and officers working together to achieve a common purpose with clearly defined functions and roles</p>	<ul style="list-style-type: none"> <li>• Constitution sets out the roles and responsibilities of Members and Officers and defines Authority and Committee terms of reference.</li> <li>• Use Job Descriptions or Role Maps to define individual staff responsibilities.</li> <li>• Have a clear, written scheme of delegation.</li> <li>• Have clearly defined roles for a Chief Fire Officer/Chief Executive, a Clerk and Monitoring Officer and the Treasurer as the Senior Finance Officer.</li> <li>• Have a clear Service Strategy that flows down to Departmental Strategies and individual objectives.</li> </ul>	<p>Fire Authority Constitution</p> <p>Authority and Committee agendas. Papers and minutes</p> <p>Scheme of Delegation</p> <p>Job Descriptions</p> <p>Service and Departmental Strategies</p> <p>Appraisal Records</p> <p>2020 Programme Board and workshops with representative bodies.</p>	<p>Members</p> <p>Clerk and Monitoring Officer</p> <p>Treasurer</p> <p>Internal Audit Review of Governance</p> <p>SOLACE workshops undertaken in 2015/16 to re-define the relationship between Members and Officers.</p>

Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<p><b>Principle 3</b></p> <p>Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</p>	<ul style="list-style-type: none"> <li>• Service strategy sets out the core values.</li> <li>• Provide clarity to Members, Officers and Staff on the expected standard of behaviour.</li> <li>• Provide arrangements for reporting and investigating any allegations of misconduct.</li> <li>• Record the personal interests of Members and Senior Officers.</li> <li>• We treat people fairly and follow our Equality and Diversity Policy.</li> <li>• We have a zero tolerance approach to fraud and corruption.</li> <li>• We remind staff of their rights and responsibilities.</li> <li>• We encourage feedback from those we serve.</li> </ul>	<p>Service Strategy 2014-2019</p> <p>Members Code Of Conduct</p> <p>Staff Code of Conduct and associated policies</p> <p>Whistleblowing Policy</p> <p>Joint Standards Committee with Essex County Council</p> <p>Disciplinary Policy</p> <p>Register of Members Interests and Annual Declaration of Interests</p> <p>Equality and Diversity Policy</p> <p>Anti- Fraud Policy</p> <p>Public Opinion Survey</p> <p>Communications Strategy</p>	<p>Monitoring Officer</p> <p>Annual Report to Authority on Workforce Matters</p> <p>External Audit review</p> <p>Internal Audit review of Governance</p> <p>Action Plan to address recommendations from the Lucas review</p> <p>Appointment of Expert Advisory Panel</p>



Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<p><b>Principle 4</b></p> <p>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</p>	<ul style="list-style-type: none"> <li>• Authority and Committee agendas, papers and minutes available for public scrutiny.</li> <li>• Members required to declare any interest in an Authority decision.</li> <li>• Implications of decisions identified.</li> <li>• Freedom of Information responses and expenditure information published.</li> <li>• Publication scheme advising what information is available.</li> <li>• Public consultation on community safety issues with feedback used to inform the decisions made.</li> <li>• Accessible arrangements for the purchase of goods and services.</li> </ul>	<p>Information published on Authority website</p> <p>Authority and Committee minutes</p> <p>Authority and Committee papers</p> <p>Reports on the results of Consultations</p> <p>Use of Delta e-sourcing website linked to Government Contracts Finder</p> <p>2020 Consultations and reports</p>	<p>Audit, Governance and Review Committee reviews key decisions and performance information.</p> <p>Internal Audit Review of Risk Management Arrangements</p> <p>Freedom of Information requests</p> <p>Action Plan to address recommendations from the Lucas review</p> <p>Appointment of Expert Advisory Panel</p>

Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<p><b>Principle 5</b></p> <p>Developing the capacity and capability of Members and officers to be effective</p>	<ul style="list-style-type: none"> <li>• Induction programmes for Members and senior officers.</li> <li>• Member workshops and briefings on key issues.</li> <li>• Job Descriptions or Role Maps for all staff.</li> <li>• Constitution ensures that Members have access to the information they need.</li> <li>• Requirement for senior officers to have appropriate professional qualifications and to undertake continuous professional development.</li> <li>• Appraisal of staff.</li> <li>• Wide ranging programme for learning and development.</li> </ul>	<p>Member workshops in 2015/16</p> <p>SOLACE workshops</p> <p>Job Descriptions</p> <p>Achievement First appraisal system</p> <p>Training Plan</p>	<p>Audit, Governance &amp; Review Committee review of Governance arrangements</p> <p>Action Plan to address recommendations from the Lucas review</p> <p>Appointment of Expert Advisory Panel</p>

Key Principle	What we do	Evidence of Compliance	Assurance and Actions
<b>Principle 6</b>  Engaging with local people and other stakeholders to ensure robust public accountability	<ul style="list-style-type: none"> <li>• Publication scheme advising what information is available.</li> <li>• Public consultation on community safety issues with feedback used to inform the decisions made.</li> <li>• Use of Active8 network of community representatives.</li> <li>• Annual Report</li> <li>• Authority and Committee agendas, papers and minutes available for public scrutiny.</li> <li>• Freedom of Information responses and expenditure information published.</li> <li>• Consultation and Negotiation framework agreed with staff representative bodies.</li> </ul>	Information published on Authority website  Authority and Committee minutes  Authority and Committee papers  Reports on the results of Consultations  Public Opinion Survey  Joint Negotiation and Consultative Committee  2020 Consultations  Member, Officer and Representative Bodies workshops on 2020 Programme	Reports to the Authority  Freedom of Information Requests  Internal Audit Report on Governance  Action Plan to address recommendations from the Lucas review  Appointment of Expert Advisory Panel

## **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 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 2016 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:

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

- overseeing the implementation and monitoring the operation of the code;
- reviewing the operation of the code in practice; and
- 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. **An overall positive opinion was given for 2015/16.** 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 controls 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 2015/16, following the review of the Authority's culture by Irene Lucas the Authority appointed an Advisory Panel to support Members and Officers in the implementation of actions in response to the 35 recommendations made.

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 made a number of recommendations concerning the governance of the Authority. Ten of the 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 a 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 meets formally with lead Members and Officers on a monthly basis with 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 run a series of workshops to develop an action plan to strengthen the role of Members in the governance of the Authority.

A number of areas were identified in the 2014/15 governance statement for further development. The most significant areas and the actions undertaken are summarised below:

Area	Actions
Completion of an action plan to address lack of assurance in Corporate Risk and Business Continuity	Additional resources were used to support departmental managers in ensuring that there were regular reviews of risks and control measures and that testing and reviews of business continuity plans were undertaken. Internal Audit confirmed that progress has been made, but further work to address the recommendations will continue in 2016/17.
The level of reserves and the approach to investment of surplus cash balances	The policy in relation to Reserves was reviewed by the Audit, Governance and Review Committee in October 2015. The Committee resolved that no changes be made to the Authority's policy in respect of investment, cash holdings and reserves.
The 2020 programme of Service re-design	Progress reports on the 2020 Programme have been submitted to the Audit, Governance and Review Committee. In addition, lead Members of the Authority sit on the Programme Board.

For 2016/17 the main focus remains the completion of the action plan to address the recommendations in the Lucas report, and the continued development of assurance around risk management.

## 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.