

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 11

Meeting: Policy Committee
Date: 27th August 2014
Subject: Annual Governance Statement 2013/14
Report by: The Treasurer
Author: Trevor Peel
For: Decision

1. Purpose

The purpose of this report is to outline the background and approach taken to produce the Combined Fire Authority's (CFA) Annual Governance Statement (AGS) 2013/14 and to present it for approval for publication on the CFA's website with the final Statement of Accounts.

2. Executive Summary

The AGS replaced the Statement of Internal Control in 2007/08. Approval and ownership of the AGS is required at a corporate level and it will be published with the final Statement of Accounts that should be presented to the CFA for approval on 25th September 2014.

3. Report Detail

- 3.1 The Framework "Delivering Good Governance in Local Government" was launched in June 2007 at the Chartered Institute of Public Finance's (CIPFA) annual conference. The Framework which was produced by CIPFA and the Society of Local Authority Chief Executives (SOLACE) set the standard for local authority governance in the UK and introduced the requirement from the 2007/08 Statement of Accounts to produce an AGS to replace the Statement of Internal Control. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remained "fit for purpose" and issued revised guidance.
- 3.2 The Framework urges Local Authorities to review and report on the effectiveness of their governance arrangements, with an increased emphasis on a strategic approach focusing on outcomes and value for money, driven by the significant change being experienced in Local Government and the introduction of other key legislation. The AGS is an important statutory requirement which enhances public reporting of governance matters.

- 3.3 The Solicitor and Monitoring Officer presented the final annual review of governance arrangements to the CFA on 22nd June 2011. Historically, this would have included the annual self-assessment of the CFA's performance against the six principles of good governance described in the CIPFA / SOLACE Framework. However, he recommended and the CFA approved the cessation of the practice of producing an annual review of governance arrangements, and the adoption of a Local Code of Governance.
- 3.4 Following analysis of the CFA's governance arrangements, the AGS has been produced in accordance with the guidance in the CIPFA / SOLACE Framework and provides a self-assessment of the CFA's performance across all of its activities. It is attached as **Appendix 1**. Other sources of evidence included corporate assessments, external inspections and internal and external audit reports. It is being presented to the Policy Committee to comply with CIPFA guidance, which requires high level input in order to ensure that the AGS reasonably reflects their knowledge and experience of the CFA's governance and control framework and that suggested areas for improvement are appropriate. Any comments by the Committee will be duly considered and incorporated as appropriate.
- 3.5 Guidance states that the 'Significant Governance Issues' are those that:
- Seriously prejudice or prevent achievement of a principal objective of the CFA.
 - Have resulted in the need to seek additional funding to allow these issues to be resolved, or has resulted in the significant diversion of resources from another aspect of the business.
 - Have led to a material impact on the accounts.
 - The Overview and Scrutiny Committee advises should be considered significant for this purpose.
 - The Head of the Internal Audit Service reports on as significant in the annual opinion on the internal control environment.
 - Have attracted significant public interest or have seriously damaged the reputation of the organisation.
 - Have resulted in formal action being undertaken by the Treasurer and/or the Monitoring Officer.
- 3.6 For the AGS to have its intended benefit it is important to be open and honest about the areas for improvement but also to give a balanced view of the organisation. The assurance gathering process identified key corporate areas of improvement and implementing actions to address. These will ensure that identified gaps within the CFA's current control environment will be filled and will further enhance the CFA's overall governance arrangements. The 2013/14 review of the Governance Framework has identified a number of minor issues that required attention. Outstanding actions identified in the AGS will be assigned to specific managers at the Senior Management Team (SMT) meeting on 8th September 2014.

- 3.7 The Code of Practice in Local Authority Accounting states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Therefore, in the event of the above occurring, the AGS presented as Appendix 1 would change. Details would, of course, be reported to the CFA on 25th September 2014 for information.
- 3.8 The Head of the Internal Audit Service has produced his annual opinion on the Internal Control Environment operated by the CFA and this is attached as **Appendix 2**. The assurances contained in this opinion were presented to the Overview and Scrutiny Committee as part of the Annual Internal Audit report but as the Policy Committee were due to approve the AGS it makes sense for the internal audit opinion to accompany it.
- 3.9 Approval and ownership of the AGS will be reflected at corporate level by SMT and the statement will be signed on behalf of the CFA by the Chief Fire and Rescue Officer and the Chair of the CFA.

4. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

There is a statutory requirement in England under the revised Accounts and Audit (England) Regulations 2011, for a Local Authority to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the CFA relies on, to be brought together and reviewed, from both a departmental and corporate view.

4.2 *Financial (including value for money, benefits and efficiencies)*

None.

4.3 *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

The revised Accounts and Audit (England) Regulations 2011 require the approved AGS to 'accompany' the Statement of Accounts. The change in wording emphasises that the statement is separate from the accounts for the purposes of external audit.

4.4 *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)*

None.

4.5 ***Environmental***

None

4.6 ***Impact upon Our Plan Objectives***

One of the CFA's corporate aims is achieving excellence in managing our Service. This is underpinned by the objective of efficiency and provision of a Value For Money service. The production of the AGS supports both the aim and objective.

5. Recommendations

The Policy Committee is asked to review and approve the Annual Governance Statement 2013/14 for publication on the CFA's website subject to such changes as are required by the Code of Practice in Local Authority Accounting and detailed in paragraph 3.7 of this Report.

6. Background Papers

- a) Delivering Good Governance in Local Government Framework (CIPFA / SOLACE 2007 and 2012)
- b) Annual Review of Governance Arrangements (CFA Report - 22nd June 2011)
- c) Annual Governance Statement 2012/13 (Policy Committee Report – 28th August 2013)
- d) Statement of Accounts for 2012/13 (CFA Report – 26th September 2013)
- e) Annual Internal Audit Report 2013/14 (Overview and Scrutiny Committee Report – 28th May 2014)

7. Appendices

- 1 Draft Annual Governance Statement 2013/14
- 2 Head of the Internal Audit Service's Annual Opinion

DRAFT - ANNUAL GOVERNANCE STATEMENT 2013/14

1. INTRODUCTION

Leicester, Leicestershire and Rutland Combined Fire Authority (the CFA) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those working for and with the Authority. This ensures that the services provided to the residents of Leicester, Leicestershire and Rutland are properly accounted for and delivered economically, efficiently and effectively.

The CFA 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. The CFA publicise all agenda, meeting papers and minutes on our website. We also publish an Annual Report which includes information on outcomes, achievements, satisfaction and progress against key priorities and plans. We have extended our communication to social media, which includes a Facebook Page and an increase in the use of Twitter both corporately and at Station level.

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

2. WHAT IS GOVERNANCE?

Corporate Governance is defined as how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The CFA's governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled. It enables the CFA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CFA has approved and adopted a local code of Corporate Governance, which is consistent with the six core principles of the Chartered Institute of Public Finance and Accountancy's (CIPFA) / the Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website www.leicestershire-

fire.gov.uk and this statement explains how the CFA has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare and publish an Annual Governance Statement (AGS).

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Authority has an effective system of internal control that manages risks 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.

4. HOW THIS STATEMENT HAS BEEN PREPARED

There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Authority relies on, to be brought together and reviewed. The governance framework has been in place at the CFA for the year ended the 31st March 2014 and up to the date of approval of the Annual Report and Statement of Accounts.

5. THE CFA's GOVERNANCE FRAMEWORK

The Authority's Constitution provides the framework for its decision making processes and sets out the detailed procedures and codes of conduct by which Members and Officers operate to achieve the Authority's objectives. It defines the CFA's political structure, roles and responsibilities of the CFA, its Committees, Members and Officers and the rules under which they operate.

The CFA currently promotes its purpose and vision through "Our Plan" (which incorporates the Integrated Risk Management Plan as a separate appendix). It is available to view at: www.leicestershire-fire.gov.uk . This needs to be considered in conjunction with the Medium Term Financial Plan (MTFP) which was agreed by the CFA in February 2014. This highlights the current financial risks facing the Authority.

Members of the CFA also need to satisfy themselves that the Authority's Statement of Accounts have been prepared in accordance with best practice. This is achieved through receiving the annual External Audit Report which also gives an opinion on how the CFA is achieving Value for Money.

The Authority's visions and its implications are reviewed during the annual review of its Strategy, which creates a new version of "Our Plan". This annual plan will set out how the visions will be achieved and any changes to governance requirements.

A Policy Committee and an Overview and Scrutiny Committee were established in 2005. This change was intended to streamline and improve member decision-making by devolving much of this to the Policy Committee but providing a check on the exercise of that power by giving OSC a right to call-in decisions. The Policy Committee also monitors the financial and non-financial performance of the organisation.

The Overview and Scrutiny Committee was given the role of being the CFA's Audit Committee with responsibility for monitoring the adequacy of the risk management framework and the associated control environment.

To ensure quality of service and efficient use of resources, and furthermore to ensure the information needed to review service quality effectively and regularly, the Authority has established a Performance Management Framework, which requires each Directorate to produce annual service plans, setting out their objectives and targets in relation to the Authority's policy priorities. These plans, with "Our Plan", form the basis of the Authority's Annual Report, which summarises progress against targets and sets out proposed improvements in performance and service standards. Progress against the Authority's priorities and budgets is monitored and reported to Members on a regular basis.

To ensure effective leadership throughout the Authority, Members and Officers work together to deliver a common purpose with clearly defined functions and roles. The CFA's Constitution includes details of the role and responsibilities of the Committees, the full Authority and Officers and the rules under which they operate. The Constitution is subject to annual review and is revised as necessary during the intervening period. The Authority's Solicitor (the Head of Corporate Services) is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Authority, its Committees and Officers, providing support and advice on the maintenance of ethical standards.

As Chief Financial Officer, the Director of Finance and Corporate Services is responsible for the proper administration of the Authority's financial affairs. The Authority's financial arrangements fully conform to the governance

requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance and Corporate Services is a key member of the Senior Management Team and leads a fully resourced and suitably qualified Finance function. The Director of Finance and Corporate Services is actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFP. The Chief Fire and Rescue Officer and the Director of Finance and Corporate Services are Directors of Forge Health Limited, a wholly owned subsidiary of the CFA.

The success of the CFA's services relies substantially on the contribution of staff to the planning, development and delivery of services. The CFA recognises that the value of staff contributions will be enhanced through: clear communication of the Authority's expectations; nurturing and developing staff skills and abilities; encouraging, celebrating and rewarding achievements; providing a safe, healthy, supportive and inclusive working environment and by treating all people fairly and with respect. The Chief Fire and Rescue Officer is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice.

The People Strategy priorities have been established to promote an organisational culture that delivers excellent services. It is focused on providing the Authority's workforce with opportunities and experiences to maximise their full potential and enables managers to recruit, manage, develop, reward and retain the right people with the right skills and attributes. Engagement of the workforce is a key strand of the People Strategy and the CFA uses various well established means of communicating and consulting with staff to ensure understanding and, to secure commitment in terms of delivering services and managing change. A process of identifying individual employee targets and development needs has been established and implemented. Within this process, every employee must receive an annual Personal Development Review with an optional six monthly review if requested. A staff survey was undertaken in 2012/13 and the findings were presented to the Senior Management Team. Performance information is made available to the public through the Authority's website, primarily through the production of the annual report.

The importance of a strong ethical framework and culture has always been recognised by the CFA. As part of the Constitution both the Member's and Officer's Codes of Conduct have been agreed. Members have attended briefings and training. The values embedded in the Codes of Conduct define the standards of behaviour for all Members and staff. The system of internal financial control is based on a framework of regular management information,

financial procedure rules and standard financial instructions, contract procedure rules, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability.

The Authority's scheme of members' allowances was developed after consultation with the Independent Remuneration Panels of our constituent Authorities. Reports on member's allowances are public and the CFA publicises information in accordance with Members' Allowance Regulations together with details of allowances received by every member. Declarations of personal and prejudicial interests are recorded in minutes of meetings which are available on the CFA's website as is the member's Register of Interests including gifts and hospitality which is also made available for public inspection. Members receive induction and training is offered regularly. The CFA's political groups monitor the performance of their membership.

The Authority actively recognises the necessity of compliance with relevant laws, regulations, internal policies and procedures. The Solicitor monitors reports to ensure probity of decision making and that legal advice is included where necessary and appropriate and is fully involved in policy development and the Scrutiny process. The Authority's whistle-blowing policy is available to all staff. The CFA's constitution states that it is the policy of the CFA to take seriously all complaints and concerns made by members of the public and to thoroughly investigate them. A summary of the current complaints, concerns and compliments procedure is available on the Authority's website.

All Officers receive an Induction Pack on commencement of employment at the Authority which includes information on Conditions of Service and other various personnel subjects. Officers declare all gifts and hospitality over £25 and this is also made available for public inspection on the CFA's website.

We work in partnership where it is beneficial to do so and ensure appropriate arrangements are in place to safeguard us against unacceptable levels of risk. The Authority's significant partnerships have been identified and a high level review was undertaken in 2012 to ensure that appropriate partnerships and governance arrangements were in place. The Authority's significant partnerships are underpinned by Partnership Agreements and governance frameworks to ensure there is a common vision for their work. As part of the Authority's governance arrangements, guidance has been provided on assessing partnership risks. It is the Authority's aim to ensure that all future and new agreements and partnerships continue to include a section on Governance and risk management arrangements.

The CFA already makes available a large amount of information through several means, but is also committed to meeting its obligations to give rights of public access to information held by Local Authorities, through the

Freedom of Information Act 2000 and the Environmental Information Regulations 2004. This legislation helps the Authority to create a climate of openness and dialogue with all its stakeholders, which in turn will help to increase public confidence in the way that the Authority is operating. The CFA fully complies with all transparency requirements of the Department for Communities and Local Government (DCLG) and the Localism Act 2011. The Authority's Pay Policy statement ensures the Authority manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way.

6. REVIEW OF EFFECTIVENESS

The CIPFA Governance Framework details the key sources of typical systems and processes that an Authority can adopt to ensure it has an effective system of internal control. Using this guidance, the CFA can provide assurance that it has effective governance arrangements which includes:

- Providing effective internal audit
- Effective risk management arrangements
- An Overview and Scrutiny Committee
- Independent External Audit review

The CFA 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 senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

The Monitoring Officer has a duty to monitor and review the operation of the Constitution and to report to the Authority on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer ensures compliance with the local code of corporate governance.

Formal assurance is provided by Directors that the policies and procedures are being applied in the initiation, development and delivery of service plans. Where gaps have been identified, action plans have been drafted and responsibility for implementation assigned. A full review of project governance arrangements was undertaken in 2013 and reported to the Senior Management Team.

The effectiveness of the Authority's key financial and ICT controls and parts of its wider internal control environment are examined through the work of our Internal Audit provider, Leicestershire County Council's Internal Audit Service (LCCIAS). The Service's annual plan is based on an assessment process that

focuses resources on higher risk areas. The plan for 2013/14 was produced from a risk assessment and consultation with the Director of Finance and Corporate Services. It was agreed and reported to the Overview and Scrutiny Committee. Internal Audit findings are reported to the Senior Management Team, together with recommendations for improvement and agreed action plans. Specific follow up checks are undertaken by LCCIAS to ensure that all agreed high importance recommendations have been implemented. All Internal Audit findings are reported to the Overview and Scrutiny Committee. The Committee last received a presentation on the role and responsibility of Internal Audit in April 2012.

The CFA's Internal Audit Service arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The Head of Internal Audit Service (HoIAS) at LCCIAS works with the Director of Finance and Corporate Services to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the CFA's control environment.

LCCIAS has adopted the principles of the Public Sector Internal Audit Standards (PSIAS) introduced from April 2013. However, a requirement to design and implement an internal audit charter (the Charter) formally defining the purpose, authority and responsibility of the internal audit activity, was not met. Responsibility for, and ownership of the Charter remains with the organisation and final approval of the Charter will reside with those charged with governance.

The PSIAS require the HoIAS to complete an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Authority. Based on evidence from planned audits and any special investigations, the HoIAS reports each year to the Director of Finance and Corporate Services and to Members of the Authority on any major weaknesses that have been identified in the internal controls examined, and highlights where high importance improvements are considered necessary. Detailed information is contained in the Internal Audit Annual Report 2013/14 and the following conclusions have been drawn:

- a) On governance, nothing of such significance, adverse nature or character has come to the HoIAS' attention, and as such reasonable assurance is given that the CFA's governance arrangements are robust.
- b) On risk management, it is recognised that there is scope to continue coordinating the risk management framework. Management has agreed to

implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

- c) On internal control, reasonable assurance can be given that the operation and management of the core financial systems are of a sufficient standard to provide for the proper administration of the CFA's financial affairs.

The Director of Finance and Corporate Services reviews this information along with other relevant information such as budget monitoring reports in compiling this statement. The work of LCCIAS and the wider financial aspects of corporate governance and performance management are examined each year by the Authority's External Auditors. Further assurance is provided by regular reports produced by independent review bodies such as the Audit Commission and the National Audit Office. We assess ourselves against the Audit Commission's 'Protecting the Public Purse' to gain better knowledge of fraud exposure and direct potential improvement. We have a 'zero tolerance' approach to fraud or corruption perpetrated against us.

The CFA's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Service's Corporate Risk Management Guidance provides the framework within which these risks can be managed.

Risk management is undertaken as part of the normal service planning and project management process. The Risk Management Group, which includes the lead CFA Member for Risk, through the Director of Community Services, reports progress on mitigating the risks in the corporate risk register to the Policy Committee. This register captures strategic risk, which by its nature has a long time span. Regular performance monitoring reports are also brought to the Policy Committee and Overview and Scrutiny Committee showing progress against 'Our Plan'.

The Overview and Scrutiny Committee supports the work of the Authority, by producing reports and recommendations, which advise the Authority on its policies, budget and service delivery. Decisions by the Policy Committee are monitored by this Committee who have the facility to examine them in detail. They are able to call-in any decision which would mean that implementation is delayed to enable the Overview and Scrutiny Committee's views to be considered by the Policy Committee. This right has not been exercised in 2013/14 although the Committee has followed an agreed work plan for the year. This includes monitoring the effectiveness of Officer arrangements for ensuring an adequate internal control environment and combating fraud and corruption and ensuring that an adequate risk management framework and

associated control environment is in place. The Committee also considers the findings of the annual internal audit report. The Committee produces and publishes a report to the CFA on the activities of the Committee over the municipal year.

The Policy Committee plays a key role in monitoring and reviewing the effectiveness of the system of internal control by promoting and maintaining high standards within the Authority. The Policy Committee also considers the Annual Governance Statement.

The CFA's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Authority which contribute to the production of the Annual Statement of Accounts. The CFA's external auditors PricewaterhouseCoopers (PwC) review these arrangements and detail findings from their planned audit work to those charged with governance.

Under International Auditing Standards, PwC are required to report to those charged with governance (the CFA) on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. Their last report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion. The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts are sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2012/13, the CFA's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulations.

The CFA is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, PwC are satisfied that, in all significant respects, the CFA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended the 31st March 2013.

As Chief Fire and Rescue Officer and the Chair of the CFA we have been advised on the implications arising from the review of the effectiveness of the governance framework by the Director of Finance and Corporate Services

(the Treasurer) and Monitoring Officer, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

7. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

The reviews of effectiveness undertaken by both Internal and External Audit have advised that the Authority's overall financial management and corporate governance arrangements during 2013/14 are sound. The review of the Authority's governance arrangements has been undertaken in order to produce this statement and has highlighted a number of governance issues (detailed below) that require attention and action is being taken to address these issues: -

- The pressure on public spending will continue to present new pressures for the CFA. The Authority will be proactive in addressing the impact of the reductions in Government funding on the Authority and the services it provides to the people of Leicester, Leicestershire and Rutland. In particular emphasis will be placed on continuing to minimise the community risk whilst maintaining an appropriate level of Council Tax. We will undertake extensive public consultation and involvement on proposed changes and will continue to communicate with, and publish results of our consultations with stakeholders on future plans and proposals.
- Whilst both Corporate Risk Management Guidance and Corporate and Project Risk Registers are in place, there is a constant need to further develop risk management processes to ensure risk management principles are embedded and applied consistently throughout the Authority's operations.
- Information risk is a growing risk area with the potential for fines for loss of personal data and damages to an organisation's reputation. The CFA will continue to review and strengthen its data protection where necessary to prevent such loss and damage.
- The CFA takes account of feedback to review outcomes so they reflect progress and wider changes. Whilst we have various channels to review formal complaints, further work is needed in undertaking an overview of the complaints received, identifying trends and ensuring they inform systematic service improvement.
- There needs to be a review and refresh of the Authority's Anti-Fraud and Corruption Policy, Strategy and Procedures.

- The CFA's current Employee Code of Conduct and Whistleblowing Policy needs to be revised taking into account recent best practice.
- The development and adoption of an internal audit charter will strengthen the governance arrangements in relation to internal audit activity
- Collaboration between the three regional CFAs on both the Agresso Financial System and the Tri-Service Control project has led to different project structures being created. The CFA will ensure that these enable good governance and collective responsibility.

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 7. 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 in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Dave Webb
 Chief Fire and Rescue Officer/
 Chief Executive Officer
 Leicestershire Fire and
 Rescue Service

Stephen Corral
 Chair
 Leicester, Leicestershire and
 Rutland Combined Fire
 Authority

Appendix 2

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of Leicestershire Fire & Rescue Service's
control environment
2013-14**



Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council

12th May 2014

To the Director of Finance and Corporate Services (Treasurer), Leicestershire Fire & Rescue Service (LFRS)

Background

During the financial year 2013-14, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit to Leicestershire Fire & Rescue Service (LFRS). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of LFRS' control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document.

The HoIAS annual opinion is for a specific time interval i.e. 2013-14 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed, are formed by applying systematic grading to remove any elements of subjectivity.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the LFRS internal control environment. No system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on controls on the basis of the work undertaken.

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of key ICT controls; fraud management; budget management and the project management arrangements for the Control and Mobilisation Improvement Project and Infrastructure and Operational Improvement Programme. Recommendations were relatively minor and where they related to governance, it was to strengthen it, i.e. not to have to establish it.

The previous year's High Importance recommendations relating to governance arrangements at Forge Health (Occupational Health) were tested and confirmed as implemented.

The HoIAS attends Overview and Scrutiny Committee to present audit plans and reports, which enables him to gauge CFA Member governance at first hand. The HoIAS has regular discussions with the Treasurer (and where required the Monitoring Officer) on governance issues and related aspects of audits.

HolIAS opinion: - Nothing of such significance, adverse nature or character has come to the HolIAS attention, and as such reasonable assurance is given that CFA/LFRS governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that LFRS management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. Risk management was prevalent in the audits of projects and programmes. Risk management was improved at Forge Health. A specific audit of the LFRS risk management framework (corporate risk register) proved there were good elements of risk management, although further strengthening by co-ordination of all risks (including operational) has been recognised and is in train. A follow up audit will take place before the end of the 2014-15 financial year to evaluate progress.

The HolIAS provides the External Auditor with an opinion on LFRS management of fraud risk. This was followed up with the specific audit of counter fraud arrangements with some minor recommendations.

HolIAS opinion: LFRS recognises there is scope to continue co-ordinating the risk management framework. Management agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

Internal Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken on LFRS's general ledger activities and other operational financial systems including payroll and payables data.

No findings were of such seriousness as to suggest a fundamental weakness in a main financial system.

HolIAS opinion: Reasonable assurance can be given that the operation and management of the core financial systems of LFRS are of a sufficient standard to provide for the proper administration of its financial affairs.

Dated 12th May 2014

Signed Neil Jones CPFA
Head of Internal Audit Service
Leicestershire County Council

The control environment

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management, regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.