

Meeting: Corporate Governance Committee

Date/Time: Monday, 25 November 2013 at 10.00 am

Location: Framland Committee Room, County Hall, Glenfield

Contact: Mrs. J. Twomey (tel: 0116 305 6462)

Email: joanne.twomey@leics.gov.uk

Membership

Mr. E. D. Snartt CC (Chairman)

Mr. G. A. Boulter CC Mrs. J. Richards CC
Mr. G. A. Hart CC Mr. S. D. Sheahan CC
Mr. K. W. P. Lynch CC Mr. R. J. Shepherd CC

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 23 September 2013.		(Pages 3 - 8)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. Annual Audit Letter 2012/13.	Director of Corporate Resources	(Pages 9 - 18)
7. External Audit Plan 2013/14.	Director of Corporate Resources	(Pages 19 - 48)
8. Risk Management Update.	Director of Corporate Resources	(Pages 49 - 66)



- | | | | |
|-----|--|---------------------------------|------------------|
| 9. | Annual Governance Statement 2013 - Update against Key Improvement Areas | Director of Corporate Resources | (Pages 67 - 74) |
| 10. | Quarterly Treasury Management Report. | Director of Corporate Resources | (Pages 75 - 78) |
| 11. | Sale of Part of Lloyds Banking Group Shareholding by UK Government - Impact on list of Acceptable Loan Counterparties. | Director of Corporate Resources | (Pages 79 - 82) |
| 12. | Quarterly Internal Audit Service Progress Report. | Director of Corporate Resources | (Pages 83 - 96) |
| 13. | Regulation of Investigatory Powers Act 2000 - Annual Report. | County Solicitor | (Pages 97 - 105) |
| 14. | Date of next meeting.

Monday, 10 February 2014 at 10.00am. | | |
| 15. | Any other items which the Chairman has decided to take as urgent. | | |



Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Monday, 23 September 2013.

PRESENT

Mr. E. D. Snartt CC (in the Chair)

Mr. G. A. Boulter CC
Mr. G. A. Hart CC
Mr. K. W. P. Lynch CC

Mrs. J. Richards CC
Mr. S. D. Sheahan CC
Mr. R. J. Shepherd CC

32. Minutes.

The minutes of the meeting held on 2 September 2013 were taken as read, confirmed and signed.

33. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

34. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

35. Urgent Items.

There were no urgent items for consideration.

36. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Mr Hart declared a personal interest in agenda item 6 'External Audit of the 2012/13 Statement of Accounts and Annual Governance Statement' (minute 37 refers) as Chairman of the Pensions Fund Management Board.

37. External Audit of the 2012/13 Statement of Accounts and Annual Governance Statement.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to report the key findings from the external audit of the 2012/13 financial statements. A copy of the report is filed with these minutes.

The Chairman welcomed Richard Bacon of PricewaterhouseCoopers (PwC), the County Council's external auditors, to the meeting.

The Committee noted that the final paragraph on page 16 of the Appendix should state that work undertaken to determine whether the Authority had proper arrangements to secure economy, efficiency and effectiveness in the use of resources had not identified any issues which would lead to “a qualified value for money conclusion” and that the report would be amended accordingly.

The following points arose from discussion:

- i. There had been one unadjusted item in the accounts relating to the Local Authority Mortgage Scheme which had resulted from conflicting advice being received on whether transactions made under this scheme should be treated as capital or revenue expenditure. Following professional advice from the County Council's treasury management advisors, Sector, the County Council had treated such transactions as capital transactions. However, the external auditors held a different view having received guidance from the Audit Commission. There were differing views nationally and the Audit Commission was seeking legal advice on the correct treatment, which was awaited. The Committee was advised that the final decision would not have an impact on the County Council and the unadjusted item would not affect the unqualified audit opinion which PwC expected to issue;
- ii. PwC fees for work undertaken in respect of East Midlands Councils (EMC) had not been confirmed, as this had been a new area of work and it had been unclear what level of input would be involved. Accounting requirements had meant that a separate audit of EMC 2012/13 accounts had been required.
- iii. It was proposed that reference to ‘Members’ should be included in the section relating to ‘Fraud and non-compliance with laws and regulations’ contained on page 26 of the Appendix to the report;
- iv. The actuarial valuation was awaited and this would estimate the pension fund deficit more accurately. The Committee noted that actuaries were assuming a lower return on Bonds, which was a key factor when assessing the value of any pension fund. This had affected all local authorities;
- v. The level of reserves held by the County Council had been reviewed annually and these had fallen in 2012/13. The majority of the reserves held had been earmarked to address future identified costs. It would be important to balance risk with future spending plans and this would be taken into account as part of the 2013 review of reserves. However, the level of risks faced by the Authority, particularly in 2015/16, were expected to increase significantly as further cuts to Local Government budgets were introduced.

RESOLVED:

- (a) That the External Audit of the Financial Statements be approved as now amended;
- (b) That it be agreed that the one unadjusted item in the accounts relating to the Local Authority Mortgage Scheme remain unadjusted;
- (c) That it be agreed that PwC’s conclusion on its independence and objectivity, as contained on page 14 of the Appendix to the report, be agreed.

38. Proposed changes to the Contract Procedure Rules.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to report on the operation of the Contract Procedure Rules between 1 July

2012 and 30 June 2013, to bring to the Committee's attention actions being taken to continue to ensure compliance and recommend revisions to the Rules. A copy of the report is filed with these minutes.

Arising from discussion the following points were noted:

- i. The 34 approved exceptions equated to less than 1% (£302m) of the County Council's annual procurement expenditure each year and related to only 0.1% of the total number of contracts held by the County Council.
- ii. Approximately 50% of the County Council's procurement expenditure had been with small to medium sized enterprises (SMEs) based across the UK. Approximately 40% of such expenditure related to businesses in the Leicestershire area.
- iii. The County Council was an active member of the Leicester and Leicestershire Enterprise Partnership's (LLEP) Procurement Taskforce, aimed at helping SMEs within the LLEP area to compete for business.
- iv. Some of the barriers faced by SMEs, such as the difficulty in identifying business opportunities and the use of large tender documentation, had already been addressed by the County Council through, for example, the use of a web portal 'Source Leicestershire' and the use of Request for Quotations rather than full tender documentation for contracts below £100k. The additional change proposed in the Contract Procedure Rules for contracts under £20k in value was intended to continue to reduce such barriers as far as the law would allow.
- v. 10 of the 34 exceptions related to contracts for services linked to the Adults and Communities Department. This reflected the volume of contracts and value of procurement activity undertaken in that service area, as well as the level of transformation being undertaken and the need to realign contracts with service reviews.

RESOLVED:

- (a) That the contents of the report on the operation of the Contract Procedure Rules between 1 July 2012 and 30 June 2013 be noted;
- (b) That the County Council be recommended to approve the proposed amendments to the Contract Procedure Rules, as set out in Appendix B to the report.

39. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide a summary of the work finalised by the Internal Audit Service since the last report to the Committee and to highlight audits where high importance recommendations had been made to managers. The report also provided an update on the recovery of outstanding costs owed by the former Leader of the County Council, Mr David Parsons. A copy of the report is filed with these minutes.

High Importance Recommendation - Section 106 contributions

The Committee noted that a working group had been established to implement a new planning data system and that issues arising from the audit of Developers Contributions (section 106) would be addressed in the work programme. There had been no indication that any income from developer contributions had been lost, but improvements were

required to ensure more consistent records in this area were kept in future.

Recovery of outstanding monies owed by Mr Parsons

The Committee was advised of recent media reports and the suggestion by Mr Parsons that no further monies were outstanding.

The County Solicitor reported the following:

- i. Mr Parsons had been in contact with the East Midlands Shared Service (EMSS) and raised a query regarding the invoice payable by him for the sum of £3,670.66.
- ii. EMSS operated a ticketing system to ensure queries were dealt with in an orderly fashion. A ticket number had been issued to Mr Parsons when he raised his query and when the operator felt this had been dealt with, an automatic reply had been generated to Mr Parsons confirming that the ticket had been 'resolved and closed'.
- iii. Whilst the allocated ticket number had been closed, the invoice remained open and the amount due remained outstanding and consequently Mr Parsons continued to receive reminders.
- iv. A letter had subsequently been received from Mr Parsons' solicitors on 18 September 2013 disputing that this invoice was still owed, in the light of the ticket supplied by EMSS. A response by the County Solicitor had been issued on 19 September confirming that at no time had there been any indication that the claim or the invoice for the sum of £3,670.66 would be abandoned by the County Council and that it would continue to seek repayment for this sum from Mr Parsons'. The letter further invited Mr Parsons to discuss and agree payment of the invoice.

The Committee endorsed the response made by the County Council to Mr Parsons solicitor and considered that it had been made clear what monies were still owed, both in correspondence and in reports to this Committee.

The Committee expressed its disappointment that payment remained outstanding and requested that further updates be provided to the Committee, as appropriate, until such time as the matter had been brought to a satisfactory conclusion. Nevertheless, the Committee acknowledged that the process of issuing ticketing messages generated by EMSS needed to be reviewed.

RESOLVED:

- (a) That the contents of the report and the information now provided be noted;
- (b) That further updates on the progress being made to recover the payment of all outstanding invoices from Mr Parsons, the former Leader of the County Council, be provided to the Committee as appropriate.

40. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on Monday, 25 November 2013 at 10.00am.

10.00 - 10.55 am
23 September 2013

CHAIRMAN

This page is intentionally left blank

**CORPORATE GOVERNANCE COMMITTEE****25 NOVEMBER 2013****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****ANNUAL AUDIT LETTER 2012/13****Purpose of Report**

1. To present the Annual Audit Letter for 2012/13 for approval.

Background

2. A copy of the Annual Audit Letter for 2012/13 is included in the Appendix attached to this report. A partner from our external auditors, PricewaterhouseCoopers, will attend the meeting in order to present the letter and answer any questions.

Recommendation

3. The Committee will be requested formally to approve the Annual Audit Letter and agree its distribution to all Members of the Council.

Equal Opportunities

4. None.

Circulation Under the Local Issues Alert Procedure

5. None.

Background Papers

6. None.

Officers to Contact

Brian Roberts, Director of Corporate Resources
Tel : 0116 3057830 Email : brian.roberts@leics.gov.uk

Judith Spence, Head of Corporate Finance
Tel : 0116 3055998 Email : judith.spence@leics.gov.uk

This page is intentionally left blank

Leicestershire County Council

Annual Audit Letter

2012/13

Government and
Public Sector

October 2013

pwc

Contents

<i>Introduction</i>	<i>1</i>
<i>Audit Findings</i>	<i>3</i>
<i>Final Fees</i>	<i>5</i>

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2012/13 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Corporate Governance Committee in the following reports:

- Audit opinion for the 2012/13 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260);
- Annual Certification Report (to those charged with governance); and
- Medium Term Financial Strategy Report.

The matters reported here are the most significant for the Authority.

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the Leicestershire Pension Fund. Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in November 2012 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results	Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	▶ We reported our findings to the Corporate Governance Committee on 23 September 2013 in our 2012/13 Report to those charged with governance (ISA (UK&I) 260). On 27 September 2013 we issued an unqualified audit opinion.	<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	▶ There were no issues to report in this regard.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	▶ We reported our findings to the National Audit Office on 27 September 2013. We identified no significant issues as part of this work.	<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	▶ There were no issues to report in this regard.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	▶ On 27 September 2013 we issued an unqualified value for money conclusion.	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	▶ There were no issues to report in this regard.
<i>Issue a certification report summarising the work we have done in certifying grant claims and returns.</i>	▶ Our certification report for 2012/13 will be issued in early 2014 when this work has been completed. We presented our 2011/12 report to the Corporate Governance Committee in February 2013.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	▶ We have not been able to issue our audit certificate because the Leicestershire Pension Fund Annual Report is not required to be completed until December 2013. When this is done we will be in a position to issue our completion certificate.

We issued an unqualified audit opinion on your accounts on 27 September 2013.

We also issued an unqualified value for money conclusion.

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 27 September 2013.

We identified the following key issues:

- The financial statements and the supporting schedules were ready within the agreed timetable. The quality of the working papers and draft accounts were again of a high standard. The finance staff were helpful and co-operative throughout;
- Our work on the systems identified no material weakness, with some minor recommendations reported for action;
- The net pension liability at the balance sheet date was £497.6 million. This represents an increase of £58.8 million on the previous year, largely because of changes in actuarial assumptions;
- The useable reserves at the balance sheet date were £143.7 million, an decrease from £151.8million on the previous year. The Authority will need to continue to monitor the level of reserves and agree an appropriate strategy for their use as part of the Medium Term Financial Strategy; and
- No material errors were found in our work on the accounts. One misstatement was not adjusted. We agreed with officers and the Corporate Governance Committee that this was not material.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment. We issued an unqualified conclusion in respect of the two criteria above.

Our work included a review of the Medium Term Financial Strategy (MTFS), which concluded that:

- The Authority has appropriate project management arrangements in place;
- The scale of the challenge for future years is significant. This is something the Authority recognises;
- A number of prudent assumptions were made in the MTFS when compared to our benchmark average. These are realistic assumptions which will help the Authority to manage financial risk over the next few years;

We identified no issues to report regarding the Annual Governance Statement or Whole of Government Accounts.

- The Audit Commission value for money profile, whilst backwards looking, identifies a number of key areas where the Council is providing value for money services when compared with other County Councils; and
- The Authority has set aside a significant level of earmarked reserves and a contingency to manage future cost pressures. Whilst these are larger than in other similar Authorities, they will be used to deliver future transformation and invest to save schemes.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to

us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 27 September. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2011/12 to those charged with governance In February 2013. We certified one claim worth £38 million regarding the Teachers' Pension Return. A qualification letter was required to set out the issues arising from the certification of the claim. We will issue the Annual Certification Report for 2012/13 in early 2014.

Our final fees were in line with our original proposals.

Final Fees

Final Fees for 2012/13

We reported our fee proposals in our audit plan. Our actual fees were in line with our proposals. Our fees charged were therefore:

	2012/13 outturn	2012/13 fee proposal	2011/12 final outturn
Audit work performed under the Code of Audit Practice:			
- Statement of Accounts	£112,600	£112,600	£171,000
- Conclusion on arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Leicestershire Pension Fund audit	£27,637	£27,637	£46,000
Certification of Claims and Returns*	tbc	tbc	£9,366
Non Audit Work	£41,000	£41,000	£7,000
TOTAL	£181,237	£181,237	£233,366

We performed work which fell outside of the Code of Audit Practice requirements. Our actual non-audit fees during 2012/13 were £41,000. More details are included in our ISA 260 report which was presented to the Corporate Governance Committee in September 2013.

Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to those charged with governance within the 2012/13 Annual Certification Report.



In the event that, pursuant to a request which Leicestershire County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Leicestershire County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Leicestershire County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Leicestershire County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Leicestershire County Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

130610-142627-JA-UK

**CORPORATE GOVERNANCE COMMITTEE****25 NOVEMBER 2013****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****EXTERNAL AUDIT PLAN 2013/14****Purpose of Report**

1. To present the external Audit Plan 2013/14 for approval.

Background

2. A copy of the Annual Audit Plan for 2013/14 is included in the Appendix attached to this report. A partner from our external auditors, PricewaterhouseCoopers, will attend the meeting in order to present the letter and answer any questions.

Recommendation

3. The Committee will be requested formally to approve the external Audit Plan for 2013/14.

Equal Opportunities

4. None.

Circulation Under the Local Issues Alert Procedure

5. None.

Background Papers

6. None.

Officers to Contact

Brian Roberts, Director of Corporate Resources
Tel : 0116 3057830 Email : brian.roberts@leics.gov.uk

Judith Spence, Head of Corporate Finance
Tel : 0116 3055998 Email : judith.spence@leics.gov.uk

This page is intentionally left blank

Leicestershire County Council

External Audit Plan 2013/14

Government and Public
Sector

November 2013

Members of the Corporate Governance Committee
Leicestershire County Council
County Hall
Glenfield
Leicester
LE3 8HD

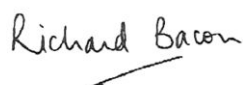
Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

We would like to thank Members and Officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Richard Bacon or Matthew Elmer.

Yours faithfully,



PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT

T: +44 (0)121 200 3000, F: +44 (0)121 232 2001, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

Contents

<i>Introduction</i>	2
<i>The PwC Audit</i>	4
<i>Risk Assessment</i>	6
<i>Audit approach</i>	10
<i>Risk of fraud</i>	13
<i>Your team and independence</i>	15
<i>Communicating with you</i>	17
<i>Audit fees</i>	18
<i>Appendix - Other engagement information</i>	19

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2013/14 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Corporate Governance Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2013/14

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Corporate Governance Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

Risk assessment

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

Responsibilities

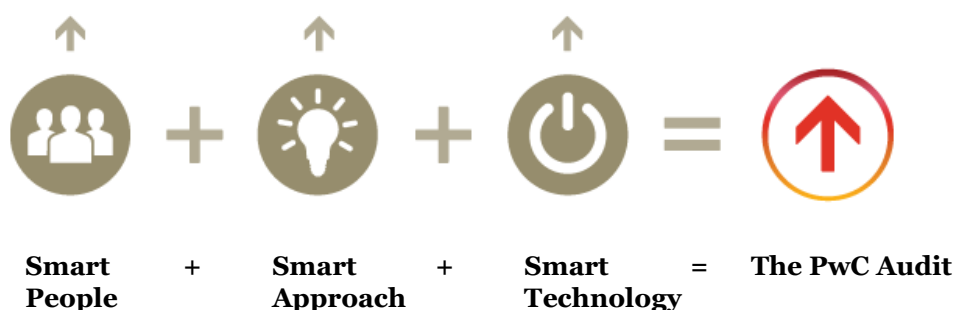
Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

The PwC Audit

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.



We work smart to ensure a quality, efficient audit. Our unique methodology involves our people, a tailored audit approach and our use of technology:

Smart People

We have deployed our best people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Trust and the Local Government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Trust for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/2014 we anticipate the work will include:

- Testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.
- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

Centre of Excellence

We have a Centre of Excellence in the UK for the Local Government sector which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Your audit team works side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

The use of our delivery centres frees up your audit team to focus on the areas of the audit that matter to you.

We have agreed a process with the Audit Commission, under which data can be off-

shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in the Appendix.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Trust audit cycles.

Our 'smart' approach underpins your audit.***Client acceptance & independence***

Our audit engagement begins with an evaluation of the Trust on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk. We expect that by January 2014 we will be able to benchmark the risk score across our portfolio of Local Government appointments and we will be happy to share an analysis of how your risk score compares with other organisations across the country.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team. Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Trust, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Risk Assessment

Risk Assessment Results

Leicestershire County Council faces a range of challenges. You continue to face external scrutiny on your services and have significant savings targets in current and future years. The environment is extremely difficult. We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine our audit effort should be focused and whether we can place reliance on the effective operation of your controls.

We have separately identified the significant risks for our audit based on the likelihood, nature and magnitude of the balance or transaction. Auditing Standards require us to include two fraud risks as Significant:

- Management override of controls:

“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- Income and expenditure recognition:

“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.

Both are included in our risk assessment:

Significant audit risks for the audit of financial statements

- Fraud and management override of controls; and
- Recognition of income and expenditure.

Significant audit risks for our other Audit Code responsibilities

- Medium Term Financial Strategy

A summary of the risks we have identified, including significant risks (●), is included in the tables below.

Financial Statements risk

Risk	Audit approach
<p>● <u>Fraud and management override of controls</u></p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>We will review your internal control structure. In particular we will focus our work on testing of journals and will utilise computer assisted audit techniques to do this. This will provide you with assurance over the level of manual and automated journals together with the appropriateness of journals posted.</p> <p>We will also:</p> <ul style="list-style-type: none"> • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform ‘unpredictable’ procedures – these are tests we have not carried out before to test the robustness of controls. <p>We will perform other audit procedures if necessary.</p>
<p>● <u>Recognition of income and expenditure</u></p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the code of accounting for Local Government.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk when we develop our detailed plan.</p>
<p><u>Valuation of properties</u></p> <p>Property, Plant and Equipment is the largest figure on your balance sheet. The economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment. Whilst you are only required to re-value your assets at least once every 5 years, there is a requirement to assess the carrying value of your assets for impairment every year.</p> <p>The Council measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of internally professionally qualified valuers and processes and assumptions underlying fair</p>	<p>Where asset valuations are undertaken in-year we will:</p> <ul style="list-style-type: none"> • agree the source data used by your Valuer to supporting records; • assess the work of your Valuer through use of our own internal specialists where required; and • agree the outputs to your Fixed Asset Register and accounts. <p>Where any changes to valuation bases are proposed we will work with you to understand and evaluate the rationale you are using on a timely basis.</p> <p>Where assets are not re-valued in year, we will review your impairment assessment, and evaluate whether your assets are held at an appropriate value in your accounts at the year-end</p>

Risk	Audit approach
<p>value estimates.</p> <p>Specific areas of audit risk include:</p> <ul style="list-style-type: none"> • The accuracy and completeness of detailed information on assets. • Whether the assumptions underlying the classification of properties are appropriate. • The valuer's methodology, assumptions and underlying data, and our access to these. 	
<p><u>East Midlands Shared Service (EMSS)</u></p> <p>On 7 September 2010, the Cabinet considered proposals for a new East Midlands Shared Service centre with Nottingham City Council. This project involves shared services for HR, payroll and financial transaction services, utilising the Oracle ERP system currently used by the Council.</p> <p>The shared service went live earlier this year and is now fully operational.</p>	<p>We will update our understanding of the processes and controls in place relevant to the audit. In particular, we will use the work of Internal Audit where possible to update our understanding of your transactional finance controls.</p> <p>We will focus our testing on:</p> <ul style="list-style-type: none"> • data migration; • access to data and information; • any relevant transition arrangements; and • understanding and evaluating the new control environment. <p>We will engage with our Risk Assurance team to provide support and insight into the new shared service where appropriate.</p> <p>We will also make available the Oracle GATE tool to provide added value and insight to the configuration of your Oracle system post-implementation if required by the Council.</p>
<p><u>Local Government Pension Scheme</u></p> <p>One of the most material estimates in the accounts is your share of the Leicestershire Pension Fund net liability.</p> <p>The trend over the past five years has been an increase in the net liability. There has been a significant increase in the pension fund net liability, as estimated by the actuary, due to changing demographics and other assumptions. The fair value of the scheme assets has remained broadly flat over the period, resulting in the increased liability.</p> <p>The actuarial assumptions are primarily driven by the results of the triennial funding review of the Pension Scheme as at March 2010. This information is updated for using a</p>	<p>We will review the assumptions you have used in your accounts to measure the pension fund liability.</p> <p>In particular, we will:</p> <ul style="list-style-type: none"> • test the source data used by your Actuary to supporting records; • assess the work of your Actuary through use of our own internal specialists where required; and • agree the outputs of the Actuary to your accounts. <p>We will also test the value of the pension fund assets which you recognise in your accounts.</p>

Risk	Audit approach
“roll forward” approach (where previous balances are adjusted to account for known trends) until the next full valuation. A new triennial valuation is due to be completed to inform the 2013/14 accounts.	
<p><u>Leicestershire Highways - Oracle</u></p> <p>The financial information associated with Leicestershire Highways will be migrated onto Oracle from 6 January 2014.</p>	We will update our understanding of the processes and controls in place relevant to the audit. We will focus our testing on the accurate migration of data onto Oracle.

Other Audit Code responsibilities risks

Risk	Audit approach
<p>● <u>Medium Term Financial Strategy (MTFS)</u></p> <p>The Authority has made significant strides over the past few years to identify savings and deliver more efficient services. The current MTFS is based upon a reduction in formula grant over the four year period 2013/14 to 2016/17. It includes savings of £79m. Growth of £24m has been included for service improvement, cost and demand pressures. Recent announcements on likely future funding mean that the total savings requirement for the next 5 year period starting in 2013/14 is likely to be around £110 million.</p> <p>There is a well-established Change Management Programme and Organisational Efficiency Programme which has helped deliver demonstrable value for money. A ‘Transformation Board’ has also been introduced on an all party-basis for members to engage with officers around the medium term transformation of the way the Council operates.</p> <p>You have historically provided value for money services when benchmarked against your nearest neighbours. However, the scale of the challenge over the next few years is significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered. In some areas reduced service provision is inevitable.</p> <p>During 2011/12 and 2012/13 you continued to deliver savings. The delivery of your savings plan has given you flexibility to direct resources towards ‘invest to save’ schemes. However, the environment continues to be challenging. You will need to ensure that a robust Medium Term Financial Strategy is approved before March 2014 so that you can demonstrate how you will be financially resilient in the years ahead.</p>	<p>In forming our conclusion economy, efficiency and effectiveness, we will review your Medium Term Financial Strategy. We will understand how you develop the strategy and will compare the assumptions you have used to comparative benchmarks and best practice.</p> <p>In particular, we will review:</p> <ul style="list-style-type: none"> the governance structure in place to deliver your plans ; how you have managed your 2013/14 savings programme; the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities. The sensitivity of key assumptions to change; the impact of potential changes to key assumptions and the rigour behind the MTFS; the prioritisation of resources as part of the MTFS; and your arrangements to review the value for money which your services provide; and the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

Audit approach

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts, including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2013/14 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Materiality

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £100,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Council. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit.

Robust Testing

Where we do our work

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

1. Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
2. Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
3. Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
4. Validate key controls relevant to the audit approach; and
5. Perform substantive on transactions and balances as required.

When we do our work

Our audit is designed to get ahead of issues to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you whilst not getting ahead of management's decision making.

Meaningful conclusions

We believe fundamentally in the value of the audit and its crucial position in providing confidence to the Council and other stakeholders. In addition, we believe that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight which supports your evolution.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights.

We have also developed a national Centre of Excellence for Local Government audit, which Richard and Matthew lead. This supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

Internal Audit

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2013/14 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances.

Local government pension fund

We will prepare a separate audit plan for work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund.

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the corporate governance committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

**Why
commit
fraud?**

Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Rationalisation/attitude

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

We enquire of the Corporate Governance Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Your team and independence

Your audit team has been drawn from our government and public sector team based in the Midlands. Your audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
Lead Partner Richard Bacon 5 th year on the audit 0121 232 2598 richard.f.bacon@uk.pwc.com	Lead Partner responsible for the overall quality of our audit service. Also responsible for liaison with the Chief Executive and Members.
Engagement Director Alison Breadon 1 st year as Engagement Director 0121 232 2598 richard.f.bacon@uk.pwc.com	Engagement Director responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions.
Engagement Senior Manager Matthew Elmer 7 th year on the audit 0121 265 5517 matthew.r.elmer@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Engagement Team Leader Edward Cooke 3 rd year on the audit 0121 265 5182 edward.cooke@uk.pwc.com	Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work.

Our team members

It is our intention that, wherever possible, staff work on the Leicestershire County Council audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the

appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Corporate Governance Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Plan	November 2013
Audit findings	Internal control issues and recommendations for improvement (if applicable)	Throughout the audit
	ISA (UK&I) 260 report incorporating specific reporting requirements, including:	September 2014
	<ul style="list-style-type: none"> Any expected modifications to the audit report; Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; Material weaknesses in the accounting and internal control systems identified as part of the audit; Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; Any significant difficulties encountered by us during the audit; Any significant matters discussed, or subject to correspondence with, Management; Any other significant matters relevant to the financial reporting process; and Summary of findings from our use of resources audit work to support our value for money conclusion 	
Audit reports	Financial Statements opinion including Use of Resources	September 2014
Other public reports	Annual Audit Letter A brief summary report of our work, produced for Members and to be available to the public.	November 2014

Audit fees

The Audit Commission has provided indicative audit fee levels for the 2013/14 financial year. The base fee scale for your audit is £102,600. This does not include the fee for the audit of the pension fund which is subject to a separate plan.

The fee is broken down as follows:

	2013/14 Plan	2012/13 Actual
Accounts	90,000	90,000
Use of Resources/ Value for Money Conclusion	12,600	12,600
Sub-total	102,600	102,600
Response to East Midlands Shared Service (EMSS) audit risk, including Oracle GATE*	0	10,000
Certification of claims and returns (estimated)	6,700	5,500
Total Audit Fee	109,300	118,100
Planned non-audit work	0	0*
Total Fees	109,300	118,100

*In addition to the audit of the Statement of Accounts, PwC undertook some non-audit work for the Authority during 2012/13. This consisted of:

- Review of the upgrade of Oracle (£20,000) – we were successful in a competitive tender to support the Authority in reviewing the upgrade of your Oracle system.
- VAT Helpline (£3,000) – we provide a VAT service to the Council giving unlimited access to a telephone helpline for routine VAT queries.
- VAT claim (estimated £14,000) – you have requested administrative assistance with a VAT claim you are progressing.

We have also been asked to undertake some work to audit the 2012/13 accounts of the East Midlands Councils, for which Leicestershire is the administering authority. The fees are unknown at this stage and the cost will be borne by East Midlands Councils. We will update members as this work progresses.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- Working papers and financial statements have been reviewed by officers before providing for audit;
- The quality of working papers being good;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based; and
- Our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendix - Other engagement information

The Audit Commission appoint us as auditors to Leicestershire County Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are some further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at

our office at 7 More London, Riverside, London, SE1 2RT. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Matthew Elmer.



Private & Confidential

Members of the Corporate Governance Committee
Leicestershire County Council
County Hall
Glenfield
Leicester
LE3 8HD

November 2013

Dear Sir,

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Richard Bacon, Engagement Leader

In the event that, pursuant to a request which *Leicestershire County Council* has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. *Leicestershire County Council* agrees to pay due regard to any representations which PwC may make in connection with such disclosure and *Leicestershire County Council* shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, *Leicestershire County Council* discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This page is intentionally left blank



CORPORATE GOVERNANCE COMMITTEE

25 NOVEMBER 2013

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the key roles of the Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them. This is to enable the Committee to review or challenge progress as considered necessary, as well as highlight risks that may need to be given further consideration. It covers:
 - The Corporate Risk Register;
 - Emerging Risks;
 - Internal Audit Review.
2. The report also provides an update on related risk management matters such as Insurance, Business Continuity, training; and Anti-Fraud initiatives, being undertaken.

Corporate Risk Register (CRR)

3. The Council maintains a CRR and departmental risk registers. These registers contain the most significant unmitigated risks which the Council is managing and are owned by Director's and Assistant Directors.
4. The key changes since the CRR was last presented to the Committee in September, are:
5. *Risk 1 (Adults and Communities) – 'Utilisation of the Resource Allocation System (RAS) does not ensure the most cost effective package of care, leading to service users given too much or not enough cash to commission their care'* [Previous rating: 15 / Revised rating: 12] There is continual monitoring in place to produce a report of indicative and actual budget results with a snapshot analysis of 2012/13 revealing no issues. The 2013/14 review is underway and although there is a slight increase in costs per person, Adults and Communities will be simplifying processes for service users and will be looking at the RAS as part of the Customer Journey Simplification project. This risk will therefore be

managed through the department's Efficiencies and Service Reduction programme.

6. *Risk 5 (Corporate Resources) – ‘From April 2013 the East Midlands Shared Service (EMSS) began phasing the implementation of shared systems, including Oracle, and changing some business processes. Inadequate system controls and operational processes post ‘go live’ may result in disruption to service delivery’.* [Previous rating: 15 / Revised rating: 12]. An action plan was put in place and significant progress has been made to resolve issues. This work includes: implementation of system improvements; updating I-procurement hierarchies (thus rectifying problems within the approval process) and recruitment of additional temporary staff to focus on any existing back logs/complex queries. Whilst there will be an ongoing review of processes both within EMSS and the County Council, the dedication of staff implementing the plan has meant that the current risk score has decreased from quarter 1, to an ‘amber/medium’ risk and will be managed at departmental level going forward.
7. *Risks 10 and 11 (Corporate Resources) – ‘Combined effect of multiple service areas failing to meet required funding reductions set out within current MTFS’ and ‘The County Council is unable to deliver savings required to produce a ‘balanced budget’ in addition to those already allocated to departments within the MTFS’.* These two risks have been amalgamated into one new risk (16) to better reflect overall position.
8. The latest assessment of the highest ranking risks is shown in the table below.

Dept/ Function	Risk No	Risk Description	Risk Score	Actions taken/Progress during Qtr 2
(A&C) Adult Social Care	2	Proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council	25	<p>The key risks and implications to LCC have been identified and included for feedback to Department of Health through a consultation, which was approved by the Cabinet in October. The feedback also includes comments from a Member Q&A session.</p> <p>An officer level Project Board is to be established to oversee development and delivery of an implementation plan.</p>

(CE) Strategy, Partner- ships & Community	3	Partnerships failing to agree a joint approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved.	20	First draft of the revised Leicestershire Together outcome framework circulated to partners with discussions held between: health and local government; Districts and County Council; City and County council; and with the Voluntary & Community Sector, to explore where further efficiencies and joint working could take place to achieve better outcomes at lower cost. There is a need to further develop partnership working in relation to health and social care integration and other transformation.
(CE) Strategy, Partner- ships & Community	4	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	There remains a challenge in ensuring PBR data is correct – ways are being explored to obtain correct data, including information on worklessness. Additional funding has been announced in the Spending Review for the continuation of the national Troubled Families programme.
(CR) Customer Service & Operations	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	20	This risk primarily relates to the performance issues experienced with the Council's Storage Area Network (SAN) in February. The new SAN is now in place and has significantly improved the ability to restore critical services in the event of an outage. Work continues with Strategic Information & Technology and Business Continuity to further improve the policies and documentation around Disaster Recovery.
(CR) Strategic Information & Technology	7	Continuing risk of failure of information security.	16	Comprehensive internal and external health checks undertaken by consultants as part of preparations for submission of new and more rigorous PSN Code of Connection standards. Work is progressing on the resulting action plan and it is on-track to be re-submitted by 8 December 2013. Additional PSN security measures have been published on mobile device management and are being assessed.

(E&T) Transportation	8	Impact of academy and secondary age conversion on home to school transport policy.	16	A report to the Cabinet in November will seek approval to consult on a new school transport policy.
All	12	Challenges caused by the Welfare Reform Act.	25	<p>The Committee received a presentation on the key risks, causes and consequences of service users losing support/income, which could lead to a rise in the number of people needing support from LCC and other local agencies.</p> <p>The County Council has agreed a contribution towards the districts hardship funds to assist people in financial difficulty, with additional contingency help for non collection of council tax. Economic growth is a key priority and an Economic Growth Board will be established to oversee delivery of City Deal.</p>
All	13	Failure to ascertain and manage increased demand for services.	20	Action to improve business information on customers and costs of services is on track with the establishment and scoping of cross-organisation virtual team to focus on Business Intelligence (BI). This includes an initial assessment of the areas that affect our current BI capability, and very initial discussions with the affected stakeholders to create some impetus around the action plan, consider structural options for the teams involved and identify priority actions to address the current barriers.
(CR) Procurement	14	Ability to effectively contract manage devolved services through new service delivery models.	15	To ensure that proactive contract management arrangements are in place, the Corporate Commissioning Contracts Board began monitoring the performance of some of the Council's key contracts. This new regime is expected to show some differences in the way contracts are currently managed, which will be addressed. A review of business critical services will also help confirm key supplier dependencies for inclusion in monitoring.

(CR) Strategic Information & Technology	15	Insufficient Information & Technology solutions.	16	<p>Work is continuing to identify future business requirements and prioritise and manage demand. Additional work on the I&T strategy will be completed in order to consider the implications of the MTFS, the vision for the organisation and ensure it is aligned with the strategic direction of the Council. I&T solutions that enable mobile and flexible working and improve access to information for BI purposes are being investigated and trialled.</p> <p>The Corporate Information and Technology Work Programme enable good visibility and this will be linked to a wider 'stock-take' of project/change activities.</p>
All	16	Risk around our ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS	25	<p>Although an overall under spend is forecast for 2013/14, there is likely to be underachievement of the 'Effective Support' Adult Social Care saving.</p> <p>The Council recently concluded a large scale consultation on the need to save £110m over the next 5 years and these results have now been published. The public has identified services totalling £32m which they would be prepared to see reduced, as well as other services they would not want to see reduced. Whilst the results provide a useful starting point, no decisions have been made yet and the Council is carefully considering the results.</p>

9. This register is designed to capture strategic risk, which by its nature has a long time span. However, risk owners are engaged and have demonstrated a good level of awareness regarding their risks. The full Corporate Risk Register is attached as Appendix 1 (shaded areas represent updates).
10. The improvements introduced to the risk management framework acknowledge that the CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be introduced to the Corporate Risk Register on an ongoing basis, as necessary. Equally, as further mitigation actions come to fruition and current controls are enhanced, the risk scores will be reassessed and this will result in some risks being removed from the CRR and being reflected within the relevant departmental risk register.

Emerging Risk - ITF

11. The June 2013 Spending Round announced a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities - This money is called the Integration Transformation Fund (ITF).
12. The ITF provides an opportunity to transform care so that people are provided with better integrated care and support – it encompasses a substantial level of funding and it will help deal with demographic pressures in Adult Social Care. It calls for a new shared approach to delivering services and setting priorities, and presents Councils and Clinical Commissioning Group's (CCG's) working together, through their Health & Wellbeing Boards, with an unprecedented opportunity to shape sustainable health and care for the foreseeable future.
13. The requirements of the fund are likely to significantly exceed existing pooled budget arrangements and Councils and CCG's will have to redirect funds from these activities to shared programmes that deliver better outcomes for individuals. The Government has made it clear that part of the fund will be linked to performance.
14. To access the ITF, each locality has to develop two year plans for 2014/15 and 2015/16 (which must be in place by February 2014). The plans will need to be developed jointly by CCG's and the County Council and signed off by each of the parties and the Health and Wellbeing Board. Areas receiving the ITF funds must be able to meet certain conditions which were laid out as pre requisites for ITF funding.
15. The County Council has established a Health Transfer Monies Subgroup and a draft timetable for agreement/submission of the ITF plan. Work has started across agencies to develop the plan. Detailed guidance is still awaited from the Department of Health on the requirements of the plan and the full conditions for the ITF. The Council will receive its detailed funding allocation following the Autumn Statement (December) in the normal way and it will include two-year allocations for 2014/15 and 2015/16 to enable planning. The likely size of the ITF in Leicestershire is around £30m. Allocation details will specify the amount that is included in the pay-for-performance element, and is therefore contingent in part on planning and performance in 2014/15 and in part on achieving specified goals in 2015/16.
16. There are many potential risks surrounding the delivery of an integrated function and these will be highlighted through the Corporate Risk Register in February 2014 when more detail is known.

Internal Audit Review

17. The County Council's revised Risk Management Policy Statement and supporting documentation form an integrated framework that supports the

Council in the effective management of risk. The Internal Audit Service has begun work on a phased consolidated risk management audit which focuses on framework design and associated governance.

18. The objective of the audit during Phase 1 is to provide assurance to management that sufficient direction, attention and approval has enabled a framework to be designed, which exists to promote and guide robust risk management arrangements within the organisation and there is adequate governance to monitor compliance with the framework. Phase 2 will review implementation at department level to ensure that the department's risk management processes demonstrate adequate compliance with the corporate framework.
19. The Committee will be provided with an update of the internal audit in January 2014.

Other Risk Information

20. To ensure improvements are achieved against the revised Risk Management Strategy (by expanding reporting to Corporate Management level and Members) these quarterly reports will also now include key points from Insurance and Business Continuity.

Business Continuity (BC)

21. The purpose of this section is to provide an update to Members on BC progress.
22. During 2012, a number of BC priorities were agreed to drive through improvements in the BC approach following a desk top audit. A Schedule of Work and revised BC Policy was approved.
23. The following is a summary of progress made on Business Continuity since November 2012:
 - BC plans are in place for critical services covering Chief Executive's Department, Children and Young People's Services (CYPS) and Environment and Transport (E&T). The majority of plans are in place for Corporate Resources, whilst Public Health and Adults and Communities (A&C) planning is also underway;
 - Major Incident Management Plan has been reviewed and updated;
 - 10 incidents have been managed to a successful conclusion, without visible impact on the council's critical services;
 - 10 BC exercises have been completed with teams from CYPS, Chief Executives, A&C, Corporate Resources, E&T and Resilience Planning Group (RPG) (Silver level response);

- Work has taken place to develop BC plan templates for Care Homes and Schools;
 - The BC Manager continues to be actively involved in a number of ICT projects to ensure business needs are represented and to reflect the growing dependency on ICT systems and infrastructure in the Corporate Risk Register;
 - The Cold Weather and Heat wave plans have been refreshed under the guidance of the RPG;
 - An external review of the council's BC capability was carried and assessed as '**good; progress being made**'.
24. To ensure the County Council's BC response reflects priorities and that we stay abreast of both current threats and industry best practice, focus over the next year will be on: supplier planning; work area recovery strategy; and telephony resilience.

Insurance

Renewal

25. The County Council's insurance programme was due for renewal on 1st October and the main Commercial Combined Insurance covering corporate property and liability risks is placed with Travelers Insurance Company Limited. Overall, liability rates increased for public liability and employers' liability insurance by 84% and 56% respectively.
26. There are two key factors that can be attributed to the significant increase in renewal costs. Firstly, local government is viewed as unattractive business by insurers owing to arson in schools and high cost claims, such as those arising from abuse. Secondly, in the current economic climate insurers are taking the view that reductions in budgets in areas such as highways, will result in an increased numbers of claims.

Liability Claims Experience

27. The insurance section handles liability claims on behalf of the insurer under a delegated claims handling authority up to a value of £150,000. Travelers undertake an audit of the quality of claims handling each year and in July 2013 the handling was considered 'excellent' with an overall technical proficiency score of 97%.
28. This rating is particularly pleasing considering the steady increase in the volume of claims (particularly public liability claims) that are now being handled. The average number of claims received each insurance year between 2006 and 2012 was 475, whereas the average number of claims received to date for the insurance year 2012/13 is 691.

Risk Management Training

29. One of the objectives within the revised Risk Management Strategy is the availability and improvement of appropriate risk management training. E-Learning is the most suitable forum to reach the wider staff group and to this effect, work is taking place with Learning and Development to develop an existing module, with the aim of having something in place by the end of the calendar year.
30. Refresher training and support will also be provided to Departmental Management Teams and specific groups within department's, to coincide with the annual service planning process in early 2014.

Anti Fraud Initiatives

31. At its meeting on 2 September 2013, the Committee was informed that the County Council will revise its existing anti-fraud framework to align with best practice outlined in the National Fraud Authority (NFA), Fighting Fraud Locally (FFL) – The Local Government Fraud Strategy.
32. The underlying principle of the NFA strategy is that local government should use its knowledge, flair and determination to tackle the serious problem of fraud, but also that central government should create the right conditions for local authorities to take the necessary initiatives and create the right incentives to reward councils that reduce fraud.
33. The FFL Strategy is organised around three themes of Acknowledge, Prevent and Pursue and the phased revision will follow key recommendations contained within each of these themes. The starting point of a strategic approach is to acknowledge the threat of fraud by performing a fraud risk assessment.

Acknowledge - Fraud Risk Assessment

34. The County Council does not provide those services that have historically been considered to be at high risk of fraud, such as revenue and benefits. However, the change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More arm's length delivery of services by third parties, for example, voluntary/not for profit sector and personal control of social care budgets, means that more public money is entrusted externally, which may impact the wider control environment. All of these changes are happening against a backdrop of depressed economic activity in which the general fraud risk tends to increase.
35. Whilst the FFL outlines the main areas of fraud risk across local government, each authority's risk profile will be different. Therefore a thorough fraud risk assessment for the County Council has been conducted taking into account areas identified in FFL, as well as the Audit Commission's Protecting the Public

Purse publication, reports from the bi-annual National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases.

36. Appendix 2 contains a summary level of the fraud risk assessment, with a corresponding risk score for each, based on the Council's overall potential exposure (impact on service delivery, finance and reputation) and actual reported frauds of this kind. Recognising fraud in this manner has ensures there is a comprehensive understanding and knowledge about where potential fraud and bribery problems are likely to occur and the scale of potential losses. This in turn will direct the revision of the strategy and allow the Council to direct resources accordingly.

Building the Leicestershire County Council Strategy

37. The Committee will be pleased to learn that whilst there is always room for improvement, the County Council has robust procedures in place within respective areas that contribute to prevention of fraud/bribery. On an annual basis, the Head of Internal Audit completes the 'Audit Commission Fraud Survey' – an analysis of the number and value of reported fraud cases at the County Council over the last three years reveals relatively low numbers and values of fraud against the Council.
38. However, no local authority is immune from fraud and the changing landscape detailed above echoes this outlook. In the absence of a dedicated fraud investigative team, an effective fraud response relies on the efficient sharing of information internally, both to prevent and investigate fraud. In producing the fraud risk assessment, it was evident that some sections have access to information that maybe useful for other areas – a simple review of such opportunities are conducive to creating a more pro-active approach to preventing fraud.
39. The best fraud fighters are the staff and clients of local authorities and to ensure they are supported to do the right thing, comprehensive anti fraud arrangements need to be in place. Fraud prevention is closely linked to early recognition and reporting processes and therefore local authorities are encouraged to establish clear and transparent Whistleblowing procedures. To this effect the County Solicitor has commissioned a team to review the Council's existing Whistleblowing Policy to ensure that it conforms to the 'British Standard (PAS1998) Whistleblowing Arrangements Code of Practice'.
40. To help maintain an anti-fraud culture, the NFA have developed a 'fraud awareness campaign pack' that can be adapted locally and communicated across the Authority. The benefits of running a 'fraud awareness week' are being considered.
41. Officers will continue to follow recommendations contained within each of FFL themes and a further update will be provided to the Committee in February 2014.

Recommendation

42. That the Committee:

- (a) Notes the current status of the strategic risks facing the Council and make recommendations on any areas which might benefit from further examination;
- (b) Identify a risk area for presentation at its next meeting;
- (c) Approve the updated Corporate Risk Register;
- (d) Support the initiatives adopted to improve the Councils acknowledgement, prevention and pursuit of fraud.

Resources Implications

None.

Equal Opportunities Implications

None.

Circulation Under the Local Issues Alert Procedure

None.

Background Papers

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 2 September 2013

Officers to Contact

Chris Tambini, Head of Strategic Finance

Tel: 0116 305 6199

E-mail: chris.tambini@leics.gov.uk

Declan Keegan, Finance Manager

Tel : 0116 305 7668

Email : declan.keegan@leics.gov.uk

Appendices

Appendix 1 – Corporate Risk Register

Appendix 2 - Summary Fraud Risk Assessment

This page is intentionally left blank

Updated: Oct-13

Corporate Risk Register

15 to 25 Red (R) / High
6 to 12 = Amber (A) / Medium
3 to 5 = Green (G) / Low

APPENDIX 1

Depart ment	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	Current Risk Score			Controls		Residual Risk		
						Impact	Likelihood	Risk Score	List of current controls	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
A&C	1	Risk removed											
		Inability to establish long term delivery strategies as a result of proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council	<ul style="list-style-type: none"> •Increase in LCC responsibilities and costs •National eligibility criteria increases demand with no additional funding (reform under funded) •All service users (existing and new) requiring a 'care account' •Cap on total lifetime costs paid by individuals •Leicestershire more affluent therefore more of the costs which are currently self funded will pass to tax payer •Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care •Uncertainty about formula used to allocate funding 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •Double the number of service users eligible •Concern on how well changes will be understood by service users/public <p><u>People</u></p> <ul style="list-style-type: none"> •Significant staffing and ICT resource implications •Required additional staffing at a time where workforce planning to be reduced <p><u>Financial</u></p> <ul style="list-style-type: none"> •Major impact on substantial savings/efficiencies required •Additional operating costs associated (increased assessment activity / care accounts) •Significant reduction in income from charges •More deferred payments for care costs 	Mick Connell / Sandy McMillan	5	5	25	<ul style="list-style-type: none"> •Key risks and implications to LCC identified and included for feedback to DoH through consultation - approved by Cabinet •Member Q&A session 	<ul style="list-style-type: none"> •Careful planning to avoid potential risk of making staff redundant when future new recruitment may be required •Officer level Project Board to be established to oversee development and delivery of an implementation plan •Review of risks as changes communicated 	5	4	20
CE	3	Increased demand for LCC and partner services combined with reduced expenditure, leads to more vulnerable people at risk. Partners failing to agree a joint approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved.	<ul style="list-style-type: none"> •Partners disagree on targets, improvements and outcomes •Service or agency interest is put ahead of the best service for Leicestershire people 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •LCC cannot meet statutory responsibilities •Objectives of 'best possible outcomes' not achieved <p><u>People</u></p> <ul style="list-style-type: none"> •Vulnerable people at risk because service provision is inadequate <p><u>Reputation</u></p> <ul style="list-style-type: none"> •Affected by incidents involving vulnerable people <p><u>Financial</u></p> <ul style="list-style-type: none"> •Budget reduction decision taken on an agency by agency/service by service basis with potential cost shunting 	John Sinnott / Andy Robinson	5	4	20	<ul style="list-style-type: none"> •Leicestershire Together (LT) Executive support obtained •First draft of the revised (LT) outcome framework circulated to partners •Further discussion held to explore where further efficiencies and joint working could take place to achieve better outcomes at lower cost •Review of partnership outcome priorities taken place 	<ul style="list-style-type: none"> •Further testing of internal and external partner support through LT Board, Corporate Management Team, Transformation Board and specific meetings 	5	3	15
CE	4	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond its 3 year funding	<ul style="list-style-type: none"> •Supporting families services not effective •Savings arising from SLF not agreed •Data unavailable/immeasurable on some outcomes 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •Reduction in families supported •Increase in reactive service demand <p><u>People</u></p> <ul style="list-style-type: none"> •Families and individuals do not achieve their potential <p><u>Reputation</u></p> <ul style="list-style-type: none"> •Loss of confidence in place based solutions <p><u>Financial</u></p> <ul style="list-style-type: none"> •Services unable to reduce budgets to make required reductions as a result of 	John Sinnott / Andy Robinson	5	4	20	<ul style="list-style-type: none"> •Data project underway to increase provision, quality and access •Training for workers to achieve optimum outcomes with families at earliest opportunity •Government announced a fourth year of funding into 2015/16 	<ul style="list-style-type: none"> •Opportunities to nationally ring fence budgets to be discussed with partners/services •Measuring outcomes to demonstrate reduced demand 	5	3	15
CR	5	Risk removed											
CR	CR	CR	CR	CR	CR	CR	CR	CR	CR	CR	CR	CR	CR

Department	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	Current Risk Score			Controls		Residual Risk		
						Impact	Likelihood	Risk Score	List of current controls	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
CR	7	The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security. An increase in information security incidents has resulted in the ICO requiring the Council to sign an Undertaking.	<ul style="list-style-type: none"> Increased information sharing More hosted technology services Greater emphasis on publication of data and transparency Greater awareness of information rights by service users Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence. 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Diminished public trust in ability of Council to provide services <p><u>People</u></p> <ul style="list-style-type: none"> Loss of confidential information compromising service user safety <p><u>Reputation</u></p> <ul style="list-style-type: none"> Damage to LCC reputation <p><u>Financial</u></p> <ul style="list-style-type: none"> Financial penalties 	Brian Roberts / Liz Clark	4	4	16	<ul style="list-style-type: none"> Action plan to address issues linked to ICO MoU Info Security and related policy in place to ensure compliance 	<ul style="list-style-type: none"> Continued delivery of the Information Security programme of work Sign-off refreshed Acceptable Use Policy by Members 	4	3	12
E&T	8	Impact of academy conversion and secondary age range conversion on home to school transport policy	<ul style="list-style-type: none"> Age range changes for compulsory secondary education Changing academy admissions arrangements from previous LA determined catchments which conflict with long standing transport arrangements not reflected in the home to school transport policy 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> No change to existing pattern of service delivery with current transport policy <p><u>People</u></p> <ul style="list-style-type: none"> Parents do not understand eligibility and/or make school choices not fully understanding current policy <p><u>Reputation</u></p> <ul style="list-style-type: none"> Potential for conflict / legal challenge leading to negative media <p><u>Financial</u></p> <ul style="list-style-type: none"> Continuing existing transport policy is cost neutral - any transport policy changes would need financial implications assessing 	Ian Drummond	4	4	16	<ul style="list-style-type: none"> Engaging with Academies about to convert, explaining risks Members understand risks through SCG and Scrutiny briefings 	<ul style="list-style-type: none"> Cabinet report (November) seeking approval to consult on new school transport policy Web and telephone help/guidance would need updating to assist parental queries as admission and age range changes take effect in academies 	4	4	16
PH	9	Risk removed											
ALL	10	Risk removed											
ALL	11	Risk removed											
All	12	Inability to establish long term delivery strategies as a result of proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council	<ul style="list-style-type: none"> Increase in LCC responsibilities and costs National eligibility criteria increases demand with no additional funding (reform under funded) All service users (existing and new) requiring a 'care account' Cap on total lifetime costs paid by individuals Leicestershire more affluent therefore more of the costs which are currently self funded will pass to tax payer Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care Uncertainty about formula used to allocate funding 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Double the number of service users eligible Concern on how well changes will be understood by service users/public <p><u>People</u></p> <ul style="list-style-type: none"> Significant staffing and ICT resource implications Required additional staffing at a time where workforce planning to be reduced <p><u>Financial</u></p> <ul style="list-style-type: none"> Major impact on substantial savings/efficiencies required Additional operating costs associated (increased assessment activity / care accounts) Significant reduction in income from charges More deferred payments for care costs 	Mick Connell / Sandy McMillan	5	5	25	<ul style="list-style-type: none"> Key risks and implications to LCC identified and included for feedback to DoH through consultation - approved by Cabinet Member Q&A session 	<ul style="list-style-type: none"> Careful planning to avoid potential risk of making staff redundant when future new recruitment may be required Officer level Project Board to be established to oversee development and delivery of an implementation plan Review of risks as changes communicated 	5	4	20
All	13	Failure by LCC to ascertain and manage increased demand for services will restrict implementation of effective preventative strategies/actions, impacting council wide priorities	<ul style="list-style-type: none"> Insufficient business intelligence on customers and cost of service as a result of reduced IM/IT investment Demand influenced by unmanageable external environment Reduced research, performance and finance support for projects Inadequate data quality and data sharing Incorrect predictions for growth (and decline) For e.g. Waste 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Inadequate information for business cases Jeopardise importance of robust and effective decision making Service priorities not being met <p><u>People</u></p> <ul style="list-style-type: none"> Difficulty in identifying and implementing effective preventative measures <p><u>Reputation</u></p> <ul style="list-style-type: none"> Potential inspection and reputation impact <p><u>Financial</u></p> <ul style="list-style-type: none"> Risk of litigation/judicial review 	Brian Roberts / Andy Robinson / Liz Clark / Chris Tambini	5	4	20	<ul style="list-style-type: none"> Business Intelligence action plan, group and approach being developed Project controls in place for developing key systems Sharing of specialist knowledge Establishment and scoping of cross-organisation virtual team to focus on BI 	<ul style="list-style-type: none"> Regular review meetings to assess progress IT capacity and competency building Governance structures to oversee delivery of priority intelligence improvements 	4	3	12

						Current Risk Score			Controls		Residual Risk		
Depart ment	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	Impact	Likelihood	Risk Score	List of current controls	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
All	14	The ability of LCC to effectively contract manage devolved services as a result of an increasing amount of expenditure through new service delivery models (E.g. outsourcing / externally commissioned)	<ul style="list-style-type: none"> •Loss of direct control •Robustness of supply chain - For e.g., Liquidation of insurer MMI •Reduced funding and resources •Staff turnover leading to lack of continuity •Insufficient investment in contract management skills and competencies 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •Business disruption due to cost and time to re-tender the contract •Standards/quality not met •Relationships with providers/suppliers deteriorate <p><u>People</u></p> <ul style="list-style-type: none"> •Additional workload where disputes arise <p><u>Reputation</u></p> <ul style="list-style-type: none"> •Customer complaints <p><u>Financial</u></p> <ul style="list-style-type: none"> •VFM/Efficiencies not achieved •Increased costs as LCC has to pick up the service again •Unfunded financial exposure (MMI) 	Brian Roberts / Chris Tambini	5	3	15	<p>[R]</p> <ul style="list-style-type: none"> •The Corporate Commissioning & Contracts Board is monitoring the performance of the Authority's 23 'top' contracts on a quarterly basis to ensure that a robust approach is taken to managing performance. 	<ul style="list-style-type: none"> •Ensure that services transferred are well implemented and sufficient consideration given to contract and relationship management and managing liabilities 	4	3	[A] 12
All	15	Insufficient capacity to provide Information & Technology solutions to support major change projects	<ul style="list-style-type: none"> •Imbalance of IT resources versus IT requirements •Demand outweighs supply •Loss of knowledge and lack of continuity as a result of staff turnover and/or inadequate investment in skills and competencies 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •Departmental and corporate objectives not met or delayed •Delays to project delivery <p><u>Financial</u></p> <ul style="list-style-type: none"> •Failure to support delivery of efficiency programme and ICT replacement projects (E.g. SSIS) 	Brian Roberts / Liz Clark	4	4	16	<p>[R]</p> <ul style="list-style-type: none"> •Forward planning for major projects •Demand management for lower priority projects •Workforce planning •IT solutions that enable mobile and flexible working and improve access to information are being investigated and trialled. 	<ul style="list-style-type: none"> •Additional work on IT Strategy •Regular review of capacity versus demand •Review of workforce plans and development of 3 month rolling plan •Further work to assess impact of strategy and transformation activities 	4	3	[A] 12
All	16	The County Council is unable to deliver savings and efficiencies through Service Redesign/Transformation as required in the MTFS.	<ul style="list-style-type: none"> •Local Government Finance Settlement significantly reduced •Prolonged economic downturn restricts increases from funding sources •Exceptional/Unforeseen increase in demand/costs •Demand for the most vulnerable continues to increase: Adult Social Care / CYPs •Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> •Negative impact on all services as further service cuts will be required to reduce deficit <p><u>Reputation</u></p> <ul style="list-style-type: none"> •Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted <p><u>Financial</u></p> <ul style="list-style-type: none"> •Loss of income 	John Sinnott / CMT	5	5	25	<p>[R]</p> <ul style="list-style-type: none"> •Potential impact of 2015/16 Spending round and government funding consultation evaluated. •Resource review undertaken •Public consultation undertaken •Monitoring processes in place at both departmental and corporate level 	<ul style="list-style-type: none"> •LCC give careful consideration as to which services it will continue to provide and how that provision will be achieved - report as part of MTFS / Transformation •Further work required to agree Transformation process, resources and governance •Further work on commissioning, active communities and demand management •Improved provision of management and performance information 	5	2	[A] 10

Department

A&C = Adults & Communities
CE = Chief Executives
CR = Corporate Resources
CYPs = Children and Young People's Service

E&T = Environment and Transport
PH = Public Health
All = Consolidated risk

This page is intentionally left blank

APPENDIX 2

Under the 'Acknowledge' theme of the NFA there is a recommendation that authorities complete a fraud risk assessment to identify their own fraud threat. The Corporate risk management impact and likelihood criteria has been used to reflect the current risk score

NB: This is not an exhaustive list

Type of Fraud / Bribery	Impact	Likelihood	Current risk score
FRAUD (NFA / PPP areas)			
Council Tax Discount / Local Council Tax Support	5	2	10
Personal Budgets (direct payment)	2	3	6
Procurement (general)	5	2	10
Procurement Cards	2	3	6
Payroll:			
Expenses Fraud	1	4	4
Recruitment Fraud	2	2	4
Mandate Fraud	5	2	10
Business Rate Fraud	5	2	10
Social Fund & Local Welfare Assistance	1	4	4
Grant Fraud	1	2	2
LCC NFI Fraud Matches:			
Pension Fraud - died but still being paid	5	2	10
Pension Fraud - pensioner reemployed	1	1	1
Employee Fraud - failing to work contracted hours	1	1	1
Employee Fraud - not entitled to work in UK	2	2	4
Employee Fraud - employee and creditor are linked	2	2	4
Blue Badge misuse	2	2	4
Concessionary Travel	2	3	6
Residential Care	1	2	2
Insurance Claimant Details	5	1	5
VAT Overpayment	1	1	1
Fraud Other - Cash			
Food Court	1	3	3
Libraries	1	3	3
Museums	1	3	3
Imprest Accounts	1	3	3

BRIBERY

Includes: **Passive Bribery (Receiving a bribe)**
Active Bribery (Bribing another person)

Ministry of Justice Areas

Country Risk	4	1	4
--------------	---	---	---

Sectoral Risk including:

Extractive Industries	4	2	8
Large Scale Infrastructure	5	2	10

Transaction Risk including:

Charitable contributions	1	3	3
Procurement	5	2	10
License/Permits	3	1	3

Business Partnership Risk including: transactions with Foreign Officials and/or prominent public officials	2	3	6
--	---	---	---

LCC Specific Areas

From a member of the public in return for providing them with care services which they are not entitled to	2	3	6
From a member of the public in return for priority over foster and adoption approvals and placement of children	4	1	4
From a business in return for not investigating trading standard complaints	3	1	3
From a parent in return for allocating their child a school place which they otherwise wouldn't be given	3	1	3
Bribing an external assessment agency (e.g. Ofsted, HMRC, CQC) to issue a positive report when this otherwise wouldn't be the case	4	1	4
Bribing an investment expert in respect of gaining 'insider' information to aid treasury management investment decisions	4	1	4

This page is intentionally left blank

**CORPORATE GOVERNANCE COMMITTEE****25 NOVEMBER 2013****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****ANNUAL GOVERNANCE STATEMENT (AGS) 2013 – UPDATE
AGAINST KEY IMPROVEMENT AREAS****Purpose of Report**

1. The purpose of this report is to provide a mid-year update to the Committee on those areas identified for improvement included within the Council's 2012/13 approved AGS.

Key Improvement Areas 2013/14

2. At its meeting on 14 June 2013 the Committee approved the 2012/13 AGS. There were no changes to the AGS since its presentation to the Committee at its meeting on 14 June 2013 (as was reported to the Committee on 2 September) and a copy of the final signed statement accompanied the Annual Statement of Accounts which has now been published on the Council's website.
3. The County Council's review of effectiveness concluded that overall financial management and corporate governance arrangements were sound. To ensure that this continues to be the case, during the assurance gathering process development areas were also identified.
4. Section 4 of the 2012/13 AGS includes a table which describes those areas identified for improvement during the review period 2012/13 and to carry forward for monitoring within 2013/14. Appendix 1 to this report provides a mid-year progress update. The Committee will be pleased to note that there have been some moves forward under every area identified. Whilst many action plans are still work in progress, the overall response is positive and encouraging.
5. Implementing actions to address identified issues will ensure that gaps identified within the County Council's current control environment will be filled and strengthened and this will further enhance overall governance arrangements.

Recommendations

6. The Committee is requested to note the content of this report and the progress detailed in Appendix 1.

Resource Implications

None.

Equal Opportunities Implications

None.

Background Papers

Report to the Corporate Governance Committee 14 June 2013 – ‘Annual Governance Statement 2012/13’

Report to the Corporate Governance Committee 2 September 2013 – ‘Annual Governance Statement 2012/13’

Circulation Under the Local Issues Alert procedure

None

Officers to Contact

Declan Keegan, Finance Manager, Corporate Resources Department
Tel : 0116 305 7668 Email : declan.keegan@leics.gov.uk

List of Appendices

Appendix 1 – Annual Governance Statement 2012/13 - Key Improvement Areas for 2013/14

APPENDIX 1**Key Improvement Areas – 2013/14**

The table below describes identified areas for improvements included within the 2012/13 approved AGS, with a corresponding mid-year update.

Key Improvement Areas – Principle A	Lead Officer	Deadline
<p><u>Complaint Handling</u> The County Council has an effective complaints policy and procedures which inform positive service improvements. As part of this, a number of action plans are formulated showing how lessons learned feed into wider departmental plans. The 'lessons learned' process can be enhanced by translating more complaints into action plans.</p> <p><u>Update October 2013</u> Changes have been made to the way LCC analyses complaints. The onus is now not on the Team Manager but on the Customer Relations Team to undertake post evaluation of the root cause and any corrective action (more than simply resolving the problem).</p> <p>The advantage of this is that every case has been reviewed to see what opportunities exist for systemic service improvement.</p>	Customer Relations Manager	March 2014
<p><u>Value for Money (VfM)</u> The Council's Value for Money Strategy is detailed within the MTFS. Delivery of this strategy can be enhanced by Departmental Management Teams' agreeing an approach on how to measure / benchmark VfM within their directorates and reflecting results in the department's performance plans.</p> <p><u>Update October 2013</u> LCC partakes in benchmarking activity to help ascertain VfM data on services provided. There is an annual process to benchmark performance on key indicators using CIPFA and service benchmark data which are included in the Annual Report to Council.</p> <p>At departmental level, a number of services participate in regional and national benchmarking with some completing self assessments, as well conducting a peer review. Data from a variety of appropriate sources including CIPFA VFM measures will continue to be used as an understanding of outputs will provide better information for future decision</p>	Assistant Director: Strategic Finance	March 2014

making. Some departments have commenced a forensic review of service costs and values.		
--	--	--

Key Improvement Areas – Principle B	Lead Officer	Deadline
<p><u>Performance Monitoring</u> All DMT's receive regular reports on the status of key performance indicators and other relevant performance measures and have a process to address poor performance. Performance Monitoring can be improved by: Refining quarterly reporting; defining expectations and implementing KPI's; including wider client base; embedding performance management in revised Scrutiny function and; Communication of refreshed Council priorities after election.</p> <p><u>Update October 2013</u> The Leader of the Council established a quarterly corporate performance dashboard and requested that cabinet portfolio holders establish a similar approach at departmental level. DMT's receive quarterly performance reports on both the 'health-check' indicators for the department and performance against the key priorities identified in service plans. Performance issues which arise are discussed and appropriate course of action is agreed by DMT.</p>	Departmental Management Teams'	March 2014
<p><u>Partnership Working</u> The Council has monitoring processes in place to review and manage the performance of key partnerships / joint working arrangements. Given that Partnership working and the investment of County Council funding is becoming potentially more complex, partnership protocols and governance arrangements need to be reviewed.</p> <p><u>Update October 2013</u> Guidance on partnership risk management has been rolled out to departments via risk representatives. A 'Partnership Healthcheck' has been created, to be completed by all partnerships in the Leicestershire Together structure. The results will be used as an input into the Peer Review of Leicestershire Together structures and governance later this year. They will also be used to ensure that involvement in specific partnerships does not expose the County Council to unacceptable levels of risk</p>	Assistant Director: Strategic Finance	December 2013

Key Improvement Areas – Principle C	Lead Officer	Deadline
<p><u>Anti Fraud & Corruption</u> The County Council assesses itself against the Audit Commission's 'Protecting the Public Purse' (PPP) and the</p>	Assistant Director: Strategic	December 2013

<p>National Fraud Authority's (NFA) Counter Fraud checklist to increase understanding of fraud exposure. Internal Audit has reviewed the Authority's response to this and a list of target areas for potential improvement has been identified. Refreshing and aligning the Council's existing policy, strategy and procedures to guidance within the NFA Fighting Fraud Locally, Local Government Fraud Strategy, will enhance arrangements to create fraud awareness and further emphasise the Council's zero tolerance towards fraud.</p> <p><u>Update October 2013</u> As presented within the Risk Management Update report, the following progress has been made:</p> <ul style="list-style-type: none"> • A thorough fraud risk assessment taking into account risk areas highlighted by the Audit Commission and the NFA as well as local/historical issues. The assessment identifies areas where focus should be directed within the revision of the strategy and policy. • The NFA have developed a 'fraud awareness campaign pack' for communication across all authorities. The benefits of running a 'fraud awareness week' are being considered. • The County Solicitor has commissioned a team (comprising of Legal Services, Internal Audit, Risk Management and Strategic HR) to review the Council's existing Whistleblowing Policy to ensure that it conforms to the British Standard (PAS1998) Whistleblowing arrangements Code of Practice. A refresh of this policy will feed into the revision of the Anti Fraud & Corruption policy and strategy, as well the review into the employee code of conduct. 	Finance	
<p><u>Review of Officer Code of Conduct</u> The County Council has adopted an Employee Code of Conduct which is supported by regular items on the Council's intranet. A review of this Code will be undertaken.</p> <p><u>Update October 2013</u> The County Solicitor has commissioned a project team (comprising of Legal, Committee Services, Risk Management and Strategic HR Services staff) to review the Code of Conduct to ensure that it is up to date and legally compliant and aligns to LCC policies and processes, whilst ensuring that it is easily understood by managers and employees alike. A report has been presented to the People</p>	County Solicitor	April 2014

Strategy Board with a view to implementing a revised / new 'Code of Conduct' in April 2014.		
---	--	--

Key Improvement Areas – Principle D	Lead Officer	Deadline
<p><u>Business Intelligence</u> The corporate Research and Information function is co-located with the Performance function enabling provision of quality information drawing on census, research and variety of other sources, including operational systems. Business Intelligence is one of the seven themes in the Information and Technology Strategy and actions to improve will enhance the effectiveness of decision making at both departmental and corporate level.</p> <p><u>Update October 2013</u> Action to improve business information on customers and costs of services is on track with the establishment and scoping of cross-organisation virtual team to focus on Business Intelligence (BI). This includes an initial assessment of the areas that affect our current BI capability, and very initial discussions with the affected stakeholders to create some impetus around the action plan, consider structural options for the teams involved and identify priority actions to address the current barriers</p>	Performance and Business Intelligence Function	March 2014

Key Improvement Areas – Principle E	Lead Officer	Deadline
<p><u>Succession Planning</u> The County Council recognises that there is a need to focus on improving succession planning. To this the People Strategy Board has agreed a pilot approach to Talent Management and Succession Planning which is due to commence during 2013.</p> <p><u>Update October 2013</u> A pilot scheme is currently being developed to be implemented by March 2014. This scheme will feed into the work to improve the overall approach to managing performance within the Council.</p>	Learning & Development Manager	March 2014
<p><u>Review of Mandatory Training</u> Learning and Development (L&D) Plan's are approved by Departmental Management Teams / Workforce Groups and are reviewed and updated on a periodic basis. Relevant L&D activities are communicated through intranet, email updates, newsletters, briefings and staff workers groups. A review of</p>	Learning & Development Manager	March 2014

<p>Mandatory E-Learning programmes and training will be undertaken with departments to support staff in having the appropriate skills for their role.</p> <p><u>Update October 2013</u> A review of mandatory E Learning modules was completed, presented and approved by the People Strategy Board in July. Quarterly reporting on performance (uptake) is in place and improvement plans are being developed as a result.</p>		
---	--	--

Key Improvement Areas – Principle F	Lead Officer	Deadline
<p><u>Engaging with Officers and Public</u> The County Council recognises that engagement with officers and the public is vital to achieving objectives. To this effect, the Council is committed to publishing as much information and data as it can both for internal and external customers. Provision of information via the Intranet and County Council Website can be improved by routine checks and updates at both departmental and corporate level.</p> <p><u>Update October 2013</u> The corporate communications' team actively and routinely engage with both staff and public. This is done through internal campaigns as well as information via press releases and the Council's website. Good examples of this are illustrated through the savings consultation and targeted consultation for specific themes.</p> <p>Service areas within departments are aware of whom their stakeholders are and the responsibility to engage with them, especially on matters that could affect their work/operations. Departments have established communications within their own areas via newsletter/ team briefs etc, as well as representatives attending groups that cover cross organisational issues, ensuring internal stakeholders are communicated to and allowed to feedback. Departments will also regularly consult and engage with external stakeholders, either directly or through an external agency.</p>	<p>Departmental Management Teams'</p>	<p>March 2014</p>

This page is intentionally left blank

CORPORATE GOVERNANCE COMMITTEE

25 NOVEMBER 2013

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. To update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 30 September 2013.

Background

2. Treasury Management is defined as:-

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3. A quarterly report is produced for the Corporate Governance Committee to provide an update on any significant events in the area of treasury management.

Economic Background

4. Based on survey evidence, it appears that UK growth in the September quarter was at least as high as the 0.7% growth experienced in the June quarter. Consumer spending continued to rise, the unemployment rate fell and employment rose. The housing market experienced activity and price rises that were the highest for some time and although this is currently mainly a London-based phenomenon, there is evidence that the rest of the country is also beginning to see an upturn.
5. The new Governor of the Bank of England, Mark Carney, introduced a new policy of forward guidance in which the Monetary Policy Committee pledged not to raise official interest rates, or reduce the level of quantitative easing, until the ILO unemployment rate falls below 7%. There are a number of caveats which would allow interest rates to be raised if they were breached, but the guidance suggested that interest rates would be set at 0.5% until late 2016.
6. After comments in the previous quarter by the Chairman of the Federal Reserve in the United States (the Fed) about the possibility of ‘tapering’ their asset purchase (i.e. quantitative easing) activities at an earlier point than had previously been anticipated, bond markets had sold off quite sharply. In September the Fed announced its decision to maintain the level of quantitative easing and explained that it wanted to “await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases”. The sharp sell-off in bonds that occurred after the initial announcement had perhaps highlighted the fragility of

investor confidence, and had proved that the removal of Quantitative Easing is unlikely to be smooth.

7. Eurozone business surveys suggested that the economy continued to expand during the September quarter, albeit at a moderate pace. The better-than-expected performance of Angela Merkel in the German general election gives hope of stability in the Eurozone's biggest economy and most influential member, although she will be forced to form a coalition government. Although it would be difficult for anyone to suggest that the Eurozone's woes have been resolved, at least nothing new has surfaced for some time.

Action Taken during September Quarter

8. The balance of the investment portfolio decreased to £179.6m at the end of September 2013, from £201.9m at the end of the previous quarter. This decrease in balances is quite normal, especially given the front-loading of many Central Government grants very early in the financial year.
9. During the September quarter two loans to Royal Bank of Scotland totalling £15m matured, and these were not renewed as Royal Bank of Scotland are no longer an acceptable counterparty. A £5m one year loan with Bank of Scotland (part of the Lloyds Banking Group) also matured and was replaced with a new one year loan, but at a rate of 1.01% in comparison with the previous 3.0%. The small loan to Redditch Borough Council was placed at the end of September and matures at the beginning of November, and the rate of 0.45% is better than can be achieved by holding the money within a money market fund.
10. The average rate of interest earned on the investments decreased over the quarter from 0.74% to 0.67%. This reduction is a function of loans at attractive rates maturing and being reinvested at much lower rates. The rate will reduce further over the quarters ahead, as existing loans mature and are replaced at a lower rate of interest.
11. The loan portfolio at the end of September was invested with the counterparties shown in the list below.

	£m
Barclays	5.0*
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Redditch Borough Council	2.6
Money Market Funds	<u>107.0</u>
	<u>179.6</u>

* Barclays are no longer acceptable counterparties and no further loans will be made to them following maturity.

12. The current list of acceptable counterparties is very short and comprises:

Lloyds Banking Group (£40m, for up to 1 year)
 HSBC (£25m, for up to 2 years)
 Local Authorities (£10m per Authority, for up to 1 year)
 Money Market Funds (£25m limit per fund, maximum £125m in total)
 UK Debt Management Office (unlimited, for up to 1 year)
 UK Government Treasury Bills (unlimited, for up to 1 year)

13. There are also four further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and one of these was made during the quarter. These do not form part of the treasury management portfolio, but are listed below for completeness:
- 5 year loan for £2m, - commenced 5th September 2012 at 2.72%
 - 5 year loan for £1.4m - commenced 27th November 2012 at 2.19%
 - 5 year loan for £2m - commenced 12th February 2013 at 2.24%
 - 5 year loan for £2m - commenced 1st August 2013 at 2.31%
14. Within the external debt portfolio a loan of £12m loan (originally for four years at a rate of 2.80%) from the Public Works Loan Board matured on 1st July 2013. This maturity would have occurred on 30th June if it had not been a weekend, and the loan was not replaced.

Local Authority Mortgage Scheme (LAMS)

15. LAMS in Leicestershire commenced in early September 2012 and £7.4m of the agreed £10m has now been lent to Lloyds TSB, as backing for the mortgages given under the scheme. None of the mortgages are in arrears. Details of the individual loans are included in paragraph 13.
16. The latest available figures show that 292 mortgages have been approved within the scheme, of which 219 have completed. The total value of mortgages approved is £32.8m, with £24.9m of these completed. At an average property value of about £113,000 it is clear that the houses being purchased through the scheme genuinely are within the 'first time buyers' range of prices.
17. The Government's Help to Buy scheme (to commence in January 2014, but with applications already being processed) shares many of the attributes of LAMS, and Lloyd's Banking Group have currently suspended any further launches of LAMS while they assess whether the market can simultaneously support both schemes. £840,000 of the latest loan to Lloyds has not yet been committed to mortgages and whilst this will be utilised, it is unclear whether the further available funding will be accepted by Lloyds. Whilst the risks involved in LAMS are relatively modest, in the event that Lloyds agree to continue with LAMS it will be necessary to assess whether there is any value in the Authority continuing to support LAMS if there is a Government scheme which achieves similar outcomes.
18. LAMS has undoubtedly been a success within Leicestershire and it has allowed many first time buyers to enter the housing market with much lower deposits than would have been required if they wanted to access mortgage rates that were affordable to them. Whilst impossible to quantify, the impact of a housing market that has a larger number of first-time buyers is a positive force within both the local housing market and the local economy generally.

Resource Implications

19. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

Equal Opportunities Implications

20. There are no discernable equal opportunity implications.

Recommendation

21. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

Colin Pratt, Investment Manager, Corporate Resources Department
Tel: (0116) 3057656 Email: colin.pratt@leics.gov.uk

Chris Tambini, Deputy Head of Strategic Finance, Corporate Resources Department,
Tel: (0116) 3056199 Email: chris.tambini@leics.gov.uk



CORPORATE GOVERNANCE COMMITTEE

25 NOVEMBER 2013

SALE OF PART OF LLOYDS BANKING GROUP SHAREHOLDING BY UK GOVERNMENT – IMPACT ON LIST OF ACCEPTABLE LOAN COUNTERPARTIES

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. To inform the Corporate Governance Committee about the impact that the sale of part of the Government's shareholding in Lloyds Banking Group, which took place on 17 September, has had on the list of acceptable loan counterparties for the authority.

Background

2. The authority has a policy in respect of the minimum credit ratings that are required in order that loans can be made to certain counterparties, and this policy dictates both the maximum amount that can be lent to any counterparty and the maximum period that a loan can be placed for.
3. Leicestershire's credit rating requirements are high, which is a reflection of the fact that the security of the sum invested is considered to be of the utmost importance. Following the downgrading of credit ratings that have occurred over recent years, the only banks that are on the list of acceptable counterparties are HSBC and (until the recent share sale) Lloyds Banking Group.
4. Under the counterparty policy, banks which are more than 1/3rd owned by the British Government (Lloyds and Royal Bank of Scotland) may have slightly lower credit ratings than other banks and still be acceptable counterparties. This is a reflection of the greater security afforded by the significant Government ownership, but the recent Lloyds share sale took them below the 1/3rd ownership limit to 32.7%. As a result they were immediately removed from the list of acceptable counterparties and no further loans will be placed with them; the existing loans (totalling £40m) will, however, be allowed to mature naturally.
5. Despite the 81% Government ownership, Royal Bank of Scotland is not an acceptable counterparty. This is due to the fact that their credit rating does not meet the requirements of the authority's policy.

Does the share sale affect the risk of lending to Lloyds Banking Group?

6. Despite the availability of credit ratings that are produced by independent agencies, risk is a subjective judgement and each individual will have a different perception on how 'risky' a counterparty is.
7. The Lloyds share sale, which was for about 6% of the company and raised £3.2bn for the Government, was absorbed quite easily by the market and the discount to the share price prior to the sale was relatively modest. The 75p per share sale price was marginally above the average price that the Government had paid for its shareholding. The fact that the Government was able to make a small profit from the sale is an indication of how far Lloyds has come in the years since the bail-out, and is a contrast to the position at RBS, where the market price of the shares is still well below the average price paid by the Government. Whilst RBS is a much-improved bank in recent years, its problems were clearly much deeper than those at Lloyds and will take longer to resolve.
8. The Government has made it quite clear that it will continue to reduce its holding in Lloyds over the coming years, when market conditions allow this to happen. The most salient question, when it comes to risk, is whether Lloyds Banking Group becomes any more of a risk as the Government's shareholding reduces? Given that the share price of banks includes an inherent assessment of their risk – equity holders will almost undoubtedly face a 100% loss if a bank fails – the ability of the Government to sell its shareholding to the market is a clear indication of the market's perception of risk. Whilst there are many examples of markets being wrong, the fact that Lloyds is such a significant part of the UK and Global banking system suggests quite strongly that they will not be allowed to fail. Government share ownership of any meaningful level is merely an extra level of security in respect of the default risk.

Proposal for change of policy for deciding acceptable counterparties

9. Treasury Management Policy is agreed annually by the Council at its February meeting, with changes to policy during the year being the responsibility of Cabinet. The Cabinet would expect to be able to take into account the views of the Corporate Governance Committee, wherever possible, when making decisions on any changes.
10. It is my view that the risks associated with making loans to Lloyds Banking Group are no greater now than they were when the Government owned 38% of it. It can also be argued that further share sales do not materially increase the risks. However, it is my view that we remain cautious about the limits we set. Given the above, and subject to the views of the Committee, I propose to recommend to Cabinet on 13 December that the relevant part of the policy in respect of Treasury Management be amended so that the previous requirement for 1/3rd Government ownership be replaced with a 20% ownership level. If agreed, the relevant policy will read as follows:

Banking groups that are at least 20% owned by the UK Government and maintain a support rating of '1' on the Fitch ratings can be included on the list of acceptable counterparties for an amount of £40m for up to 1 year, as long as their short-term ratings do not fall below F1 (Fitch) and P-2 (Moody's), and their long-term ratings are maintained at least at A (Fitch) and A2 (Moody's).

11. The central scenario is that the Government will only be able to make further share sales at above the average price that it paid for the shares if Lloyds continues to perform adequately as a bank. In the event that the financial position of Lloyds deteriorates, it is expected that their credit rating would be reduced and they would be removed from the list because of a failure to meet the required credit rating levels. The relevant policy will be kept under review.

Resource Implications

12. Treasury Management Policy should not be based on a desire to maximise interest earned and security of the sum invested should always be the main consideration. There are financial implications if Lloyds remain as an unacceptable counterparty, although it should be stressed that this is not the reason for the proposed recommendation to the Cabinet.
13. It is difficult to know how money markets will evolve in the coming months and years, so it is only possible to calculate the financial implications of Lloyds remaining off the list as things currently stand. Based on current average cash balances of about £190m, a portfolio without Lloyds would invest £25m with HSBC (the maximum allowed within the current policy), £125m with money market funds (again, the current maximum) and £40m with the Government's Debt Management Office at 0.25%.
14. With Lloyds as an acceptable counterparty, the £40m that would otherwise be invested with the DMO would be invested with Lloyds at their current 1 year rate of 0.98%. The difference between the rate available from the DMO and the rate available from Lloyds would equate to £292,000 p.a.

Equal Opportunities Implications

15. There are no discernable equal opportunity implications.

Recommendation

16. The Committee is asked to consider this report and to provide any comments that it would like the Cabinet to consider.

Background Papers

None.

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

Colin Pratt, Investment Manager, Corporate Resources Department
Tel: (0116) 3057656 Email: colin.pratt@leics.gov.uk

Chris Tambini, Deputy Head of Strategic Finance, Corporate Resources Department,
Tel: (0116) 3056199 Email: chris.tambini@leics.gov.uk

**CORPORATE GOVERNANCE COMMITTEE****25 NOVEMBER 2013****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****INTERNAL AUDIT SERVICE PROGRESS REPORT****Purpose of Report**

1. The purpose of this report is to:
 - (a) Give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work finalised since the last report to the Committee and highlight audits where high importance recommendations have been made to managers;
 - (b) Provide an update on the County Solicitor's report on the investigation into allegations concerning the conduct of the former Leader of the County Council, Mr David Parsons, regarding his use of County Council resources and action to be taken to recover costs incurred;
 - (c) Provide an update on other amounts invoiced to the former Leader of the County Council, Mr David Parsons.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan. The Committee is also tasked with monitoring the implementation of internal audit high importance recommendations by managers.
3. Most planned audits undertaken (including those at maintained schools and locality sites) are of an 'assurance' type, which requires an objective examination of evidence to be undertaken so that an independent opinion can be given on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by providing commentary on the effectiveness of controls designed before a new

system is implemented. Also, unplanned 'investigation' type audits may be undertaken.

Summary of Progress

4. The reporting of audits conducted at two Children's Homes was inadvertently missed from the report presented to the Committee on 23 September 2013. They have been added to this report which covers audits finalised between 1 August and 31 October 2013.
5. The overall opinions reached on schools' financial management arrangements are summarised in the table below. The individual opinions are found on the LCCIAS web page. The web link is:-
http://www.leics.gov.uk/audit_schools_colleges.htm

Opinions are given in relation to attaining a pre-set standard based on the Service's 'MOT' system (explained in detail on the web page).

Opinion given	Number
Far exceeds	0
Well above	2
Above	3
Reaches	0
Generally reaches, however....	2
Below	0
Total	7

6. The outcome of all other audits completed since the last progress report to the Committee is shown in **Appendix 1**. For assurance audits, the 'opinion' is what level of assurance can be given that material risks are being managed. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance recommendation would not normally get a classification above partial.
7. **Appendix 2** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some movement has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.

8. To summarise movements within appendix 2:
 - i. two new recommendations have been added (Integrated Adults System and Capital Maintenance Programme);
 - ii. two recommendations have been closed (BACS separation of duties and Information Governance);
 - iii. one implementation date was further 'extended' to allow for a stabilisation of management arrangements in EMSS (Pension Fund Contribution Banding) .

Progress against the County Solicitor's report on investigation into allegations concerning a Member's conduct

9. At the Committee meeting held on 23 September 2013, Members were informed that following the independent investigator's conclusion that the former Leader of the County Council, Mr David Parsons, had used the official car and chauffeur inappropriately, the Head of Internal Audit Service (HoIAS) had calculated the total cost of the 28 (previously 29) journeys plus an overnight hotel stay in January 2009 and VAT to be £3,670.66. Mr Parsons had been invoiced for the sum which was due on 24 June, and in accordance with the County Council's normal debt recovery policy had been sent three reminders (on 22 July, 2 August and 10 September respectively) from the Finance Service Centre (FSC) at East Midlands Shared Service (EMSS).
10. Perhaps triggered by the first reminder sent to him on 22 July, Mr Parsons had emailed the FSC on 1 August disputing that he owed the amount invoiced. His email immediately generated an automatic response from the FSC customer system which allocated a unique fifteen digit 'ticket' number to indicate that his enquiry had been allocated to a FSC agent. Within five minutes, the FSC agent sent a personalised email to Mr Parsons asking for further information to support his assertion that he did not owe the amount. At the same time, the customer system automatically generated a separate email to Mr Parsons that clearly stated the **ticket number** allocated against his initial enquiry had been 'resolved and closed'. However, Mr Parsons incorrectly interpreted from that email that the **invoice** raised to him (only eight digits, unique and significantly different to the fifteen digit ticket number), had been resolved and closed. A follow up personalised request email from the FSC on 12 August for Mr Parsons to supply further information was met by Mr Parsons referring back to the automatically generated email he had received on 1 August, which he had misinterpreted.
11. On receipt of the final reminder, Mr Parsons' solicitors wrote to the FSC disputing that this invoice was still owed. The County Solicitor responded explaining how the query 'closure and resolution' had been misinterpreted and reaffirmed that at no time had there been any indication that the claim would be abandoned by the County Council and that it would continue to seek repayment for the sum due. The letter further invited Mr Parsons to discuss and agree payment of the invoice.

12. At its last meeting the Committee endorsed this response and requested that further updates on the progress being made to recover payment of all outstanding monies owed by Mr Parsons' be provided at future meetings. The Committee also acknowledged that the process of issuing ticketing messages generated by EMSS needed to be reviewed.
13. Correspondence with Mr Parsons' solicitor is continuing with a view to establishing whether a settlement can be reached.
14. The HoIAS has received confirmation from the FSC that the generic ticketing message wording has been improved.
15. Further to all of the above, a freedom of information request was received on 2 October 2013 asking whether Mr Parsons had repaid what had been calculated for the costs of travel by official car. A response was sent on 30 October 2013 explaining that at that point in time, the amount referred to in paragraph 12 above remained outstanding, but that it was the subject of on-going negotiation between the County Council and Mr Parsons' representatives.

Other amounts invoiced to the former Leader of the County Council, Mr David Parsons.

16. The final instalment of £250 for the early termination of Mr Parsons' leased car was received on 1 October. This amount has now therefore been fully paid.
17. In accordance with the Committee's previous resolutions further reports will be submitted as necessary until all matters referred to have been concluded to the satisfaction of the HoIAS and the Director of Corporate Resources.

Resource Implications

18. None.

Equal Opportunities Implications

19. There are no discernible equal opportunities implications resulting from the audits listed.

Recommendation

20. That the contents of the report be noted.

Background Papers

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 13 February 2013 and 14 June 2013 - Internal Audit Plan for 2013-14

Reports to the Corporate Governance Committee on 15 May and 29 June 2012 –
Response to a request for an audit by Mr G.A. Boulter c.c. and reports to the
Corporate Governance Committee on 14 June and 23 September 2013 –
Investigation into allegations concerning Members' conduct

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Internal Audit Service
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

Appendix 1 - Summary of Final Internal Audit Reports issued during the period 1 August to 31 October 2013

Appendix 2 - High Importance Recommendations

This page is intentionally left blank

Appendix 1 Summary of Final Internal Audit Reports Issued 01.08.2013 - 31.10.2013

<u>Company</u>	<u>Sub-Function</u>	<u>Name</u>	<u>Final Issue Act</u>	<u>Audit Opinion</u>	<u>HI Recommendation</u>
Adults & Communities	Payables	Day Care Payments	21-Oct-13	Substantial	No
Adults & Communities	Developments	Social Care Information Systems	15-Oct-13	Partial	Yes
Chief Executives	Governance	Grant Claim 1 Supporting Leics Families	21-Aug-13	Full	No
Chief Executives	Governance	Coroners Service - Memorandum of Understanding	14-Aug-13	Substantial	No
Chief Executives	Advice	Broadband UK	14-Oct-13	Advisory	No
Children & Young Peoples Service	Site visit	Greengate House	30-May-13	Reaches standard	
Children & Young Peoples Service	Site visit	Welland House	01-Jun-13	Well above standard	
Children & Young Peoples Service	Financial Liabilities	Funding of High Cost Pupils	29-Aug-13	Substantial	No
Children & Young Peoples Service	Payables	b/f Payment to children in care providers	03-Sep-13	Substantial	No
Consolidated Risk	Developments	Innovative ICT Solutions - Emerging Technology	25-Oct-13	Advisory	No
Corporate - Finance	Accounting/ General Ledger	General Ledger Joint Audit 12/13 Final	30-Aug-13	Substantial	No
Corporate - Human Resources	Payroll	b/f Employee Service Centre - Payroll	14-Aug-13	Substantial	No
Corporate - Human Resources	Procurement	Learning & Development - procurement allegations	01-Oct-13	Some founded	No
Corporate - ICT	Information	Information Security Risk Assessment Process	29-Oct-13	Substantial	No
Corporate - ICT	Developments	b/f ICT General Controls 12/13	10-Sep-13	Substantial	No
Corporate - Property	Procurement	b/f Other Capital Builds & School replacements	27-Sep-13	Partial	Yes
Environment & Transport	Developments	Integrated Transport Unit - procurement allegations	01-Aug-13	Not founded	No
Environment & Transport	Grants, Fund Form, Precepts	Certification of local transport grant	20-Aug-13	Compliance	No
Pension Fund	Payroll	Contribution Bandings	21-Aug-13	Substantial for most See HI @ appendix 2	No

This page is intentionally left blank

High Importance Recommendations

<u>Audit Title (Director)</u>	<u>Summary of Finding and Recommendation</u>	<u>Management Response</u>	<u>Action Date:</u>	<u>Confirmed Implemented</u>
Reported November 2013				
Integrated Adults System (A&C)	<p>A consulting/advisory style audit of current state of readiness for the implementation of the Integrated Adults System (IAS) revealed issues around: -</p> <ul style="list-style-type: none"> • Migration of data from the current management information system to the new one • Shortage of time to conduct full tests • The interfaces between IAS and both the Corporate Financial and Electronic Data Records Management Systems <p>Recommendations made in each of the three high risk areas have been accepted by the Project Sponsor. Internal Audit Service will be undertaking a follow-up review in early December 2013 to determine the status of the project to ensure that key risks identified are either being managed or mitigated in time for a successful go-live in January 2014.</p>	A	December 2013	
Capital Maintenance Programme (Corporate Property)	<p>There had been a history of high value, large scale building works commencing and progressing before contracts were formally signed, with potential for risks from disputes on liability, insurance etc.</p> <p>Recommended a formal document should be introduced, to confirm the target cost and method of procurement, which when signed by LCC and the contractor would be sufficient safeguard to allow work to start whilst the detailed contract requirements were finalised.</p>	A	Already designed and implemented but cannot be tested to prove it's embedded until a new contract starts.	

Reported September 2013				
Information Governance (A&C)	<p>An audit of a large sample of staff across a variety of sections within the Department, revealed a weak approach to operational information governance including: -</p> <ul style="list-style-type: none"> • A very low percentage of staff had completed the mandatory Information Security E Learning course • There was a high number of examples of staff failing to adequately secure confidential/sensitive data both within the office and in transit <p>Recommended formal and regular reminders on staff responsibilities.</p>	A	<p>A group was immediately set up to implement good practice, culture change and monitor performance in all service areas. Progress to be reported back to A&C Management Team.</p>	<p>Yes – there are signs of a marked improvement but Internal Audit Services will continue to monitor</p>
Pension Fund contribution 'bands' (Pension Fund)	<p>Each year the Department for Communities & Local Government set the contribution bandings for the Local Government Pension Fund. These come into effect each April, hence payrolls have to be revised to reflect the new bandings. EMSS payroll staff should check that the changes have properly occurred. The audit revealed that a report designed to assist this task was inadequate and also that due to work load and time constraints no checks were undertaken on one payroll and only a random sample on another. This could impact on both employee and employer contributions and have reputation damage.</p> <p>Recommended that the report should be reconfigured and a framework for sample testing should be agreed and implemented to cover future pension banding changes.</p>	A	<p>September 2013</p> <p>Implementation of the new business reporting mechanism has been delayed and there have been changes to management.</p> <p>Extend from October to December 2013</p>	

Reported February 2013				
Employee annual leave recording (CHR)	<p>Oracle Self-Service was not being used by all eligible staff to request and record annual leave, instead they were relying on traditional and familiar methods. This was partly due to operational management not enforcing usage based on uncertainty that the module was “fit for purpose”. A range of potential risks were identified including inefficiency and inconsistency created by continuing use of traditional methods, inability to calculate total unused leave for financial reporting requirements and a risk to reputation should EMSS seek to roll out its Oracle functions and add new partners.</p> <p>Recommended a strategic decision was taken whether to instruct that the use is mandatory or defer, awaiting full confidence in the application and its accuracy.</p>	<p>Agreed in principle subject to: -</p> <p>Certain staff groups needing to be excluded;</p> <p>Development of recording leave by hours rather than days.</p>	<p>Mar 2013</p> <p>EMSS partners have agreed Oracle requirements and are requesting changes to the system from April 2014, but these will need to be considered against other system developments.</p> <p>Extend to January 2014</p>	
Reported September 2012				
Partnerships Risks (CG)	<p>Considerable time & effort had been invested to identify all types of partnerships (including those falling under Leicestershire Together) and associated governance arrangements, with a view to identifying risks associated with any key arms-length organisations/partnerships. Nevertheless, the audit concluded that existing guidance for evaluating and managing partnership risks could be strengthened.</p> <p>Recommended: -</p> <p>An effective framework to define and identify significant partnerships and ensure the risks from those partnerships have been identified, prioritised and monitored should be devised and implemented. Example content was supplied.</p>	A	<p>February 2013</p> <p>A framework has been designed and implemented. A period of operation is required before compliance testing can take place, which will be performed later in the year.</p> <p>Extend to January 2014</p>	

Originally reported Nov 2011				
BACS separation of duties (CR)	<p>There is potential for some staff in the Financial Systems Team to override segregation of duties within the BACS payment process. Staff could potentially amend their own access rights to override the end to end process. The Assistant Director Customer Services and Operations is planning for the East Midlands Shared Service project to revise processes to address this issue.</p> <p>Of the two interim recommendations made, only one remains outstanding - Ascertain from Oracle if any additional safeguards could be put in place.</p>	A	<p>September 2011</p> <p>A process to alert the system administrator of temporary changes to BACS access, has been tested in a 'development' environment but further testing is required by Internal Audit Service to prove it works in 'live' environment.</p> <p>Extend to October 2013.</p>	Yes

‘On hold’ pending new internal audit work

Reported February 2012				
Developers Contributions (Section 106) (CEEx) in conjunction with all departments	<p>Departmental records have not been consistent in providing a clear trail of income and expenditure.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. Monitoring income and expenditure to project time-spans and purpose intended 2. validating the accuracy of individual record content as it was migrated onto the new database 3. department 'links officers' reporting to a central coordinator 	A	<p>March 2012</p> <p>Agreed to extend to April 2013</p> <p>Suspended June 2013</p>	<p>1. Met</p> <p>2. Data migration errors have now been addressed. Work underway on validation checks and introducing systems to capture spending data.</p> <p>3. Not met</p>
Developers Contributions (Section 106) (CEEx) in conjunction with all departments	<p>Once the S106 has been agreed the responsibilities for co-ordinating and monitoring income and expenditure relating to the administration of developers' contributions against the Section 106 are fragmented. Recommended establishing a time limited working group to produce agreed procedures.</p>	A	<p>February 2012</p> <p>Agreed to extend to April 2013</p> <p>Suspended June 2013</p>	<p>Partly met</p> <p>A group is established but await the data migration cleansing to finalise methodology.</p>
Developers Contributions (Section 106) (CEEx)	<p>The Statement of Requirements for Developer Contributions clearly states how the County Council aims to ensure efficiency and transparency in the handling of developer contributions, but formal monitoring reports had not been produced to aid those aims. Recommended a review and decide on which (and to who) reports should be produced.</p>	A	<p>March 2012</p> <p>Agreed to extend to April 2013</p> <p>Suspended June 2013</p>	<p>Not yet in place</p>

Key to management response

A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

Audit/CGC/13-14/Nov 13/Appendix 2 HI Progress Report

Last Revised 12/11/2013

This page is intentionally left blank



CORPORATE GOVERNANCE COMMITTEE

25 NOVEMBER 2013

REPORT OF THE COUNTY SOLICITOR

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

Purpose of Report

1. The purpose of this report is:
 - (i) to advise the Committee on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period of 1 October 2012 to 30 September 2013;
 - (ii) to advise the Committee of the outcome of an inspection by the Office of Surveillance Commissioners (OSC) conducted on 13 August 2013;
 - (iii) to ask the Committee to review the Policy Statement relating to RIPA; and
 - (iv) to ask the Committee to make recommendations to the Cabinet on the approval of a revised Policy Statement.

Policy Framework and Previous Decisions

2. The Codes of Practice made under RIPA require elected members of a local authority to review the authority's use of RIPA and set the policy at least once a year. They should also consider internal reports on the use of surveillance on a quarterly basis to ensure that it is being applied consistently with the local authority's policy and that the policy remains fit for purpose. Elected members should not, however, be involved in making decisions on specific authorisations.
3. Since October 2000 the County Council has had statutory responsibilities under RIPA to ensure there is appropriate oversight for the authorisation of County Council officers who are undertaking covert surveillance governed by RIPA.
4. The Cabinet agreed a Policy Statement at its meeting on 3 June 2005 and gave the County Solicitor delegated powers to designate officers as

Authorising Officers. The Cabinet subsequently agreed revisions to this Statement at its meeting on 16 November 2010.

5. This Committee at its meeting on 29 June 2012 noted that the Policy Statement remained fit for purpose, but that it would be necessary for this decision to be reviewed in the light of the imminent legislative changes on the use of RIPA.

Background

6. The three activities primarily used by the County Council are "Directed Surveillance", the conduct and use of "Covert Human Intelligence Sources" (CHIS) and authorisations to acquire certain types of communications data. The Trading Standards Service is the primary user of RIPA within the County Council. These are the RIPA 'powers' referred to in this paper.
7. Directed surveillance is the pre-planned covert surveillance of individuals, sometimes involving the use of hidden visual and audio equipment. CHIS includes the use of County Council officers, who pretend to be acting as consumers to purchase goods and services, e.g. in person, by telephone and on the internet. Communications data relates to information obtained from communication service providers, for example, subscriber details relating to an internet account, mobile phone or fixed line numbers, but this does not include the contents of the communication itself.

Legislative Changes

8. With effect from 1 November 2012 changes were implemented governing how local authorities use RIPA. The amendments are contained within the Protection of Freedoms Act 2012. Essentially, the changes have implemented an additional layer of scrutiny. Local authority authorisations under RIPA for the use of these particular covert techniques can only be given effect once an order approving the authorisation or notice has been granted by a Magistrates 'Court.
9. Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010, adds further restrictions on the use of RIPA. A local authority can now only grant an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminality. These are criminal offences and only those offences which on conviction are punishable by a maximum term of imprisonment of six months or more, or offences relating to the sale of alcohol or tobacco to children.

The Process

10. An application by the Authority for a RIPA authorisation or notice is considered at a hearing in the Magistrates' Court. The hearing is conducted in private and heard by a Magistrate or District Judge who will read and consider the RIPA authorisation or notice applied for. Home Office guidance recommends the County Council Monitoring Officer should designate certain officers for the

purpose of presenting RIPA cases to the Magistrates' Court. Delegated powers agreed by the Cabinet enable the County Solicitor to "authorise staff to prosecute, defend or appear in proceedings before Magistrates' Courts on behalf of the County Council". A pool of suitable officers within Regulatory Services are designated for this purpose. The existing delegated power will allow for further designations to be made by the County Solicitor should it become necessary and appropriate for officers from other service areas to be able to represent the County Council in RIPA hearings.

11. The Corporate Governance Committee continues to be the appropriate body to receive quarterly reports and to review the RIPA Policy Statement annually, with a view to reporting to the Cabinet on an annual basis on both the use of RIPA powers and whether the policy remains fit for purpose.
12. New procedures and the published Home Office guidance for local authorities are available to all employees via the County Council's intranet.

Use of RIPA

13. For the period from 1 October 2012 to 30 September 2013 the following authorisations have been given:
 - 7 directed surveillance;
 - 3 CHIS;
14. All authorisations granted within this period related to covert surveillance activities undertaken by the Trading Standards Service. These criminal investigations related to the sale and repair of vehicles, the supply of counterfeit products, unfair trading practices conducted via the internet and the sale of alcohol or tobacco to children
15. To date, all RIPA applications submitted by the Council were approved by a District Judge or a Magistrate sitting at Leicester Magistrates' Court. On each occasion an application was put before the Court, the County Council was able to demonstrate that appropriate consideration had been given to the necessity and proportionality of the surveillance to be undertaken and that it was being sought for a legitimate purpose.

Inspection of the County Council by the Office of Surveillance Commissioners (OSC)

16. On 13 August 2013 the OSC conducted an inspection of the County Council. In his report, Assistant Surveillance Commissioner His Honour Judge Hodson concluded:

"This was a very satisfactory inspection. Whilst I have made a number of recommendations they are relatively minor in nature and are designed to improve still further on what is a very efficient RIPA process. I was impressed with the enthusiasm and dedication of all those who have responsibility for organising and directing RIPA matters. They deserve congratulation and commendation for all they have achieved"

“I was struck by the enthusiasm and interest everyone shared in the RIPA process and I was hugely impressed at the steps this Council... had introduced to improve their RIPA efficiency.”

17. The Commissioner's report is complimentary about the electronic process used to ensure compliance with legislative requirements, appropriate authorisation and completion of required forms.
18. The Commissioner made four principal recommendations as follows:
 - (i) that the Policy Statement be re-written to reflect the recent legislative changes;
 - (ii) that the County Solicitor as the Senior Responsible Officer shall cease to be an Authorising Officer;
 - (iii) that the Council maintain a schedule of all those officers that have received RIPA training;
 - (iv) that appropriate refresher training is provided for all those officers who are already registered on the electronic RIPAR system.
19. The Committee are asked to note that all the recommendations have been addressed and the revised Policy Statement is set out in the Appendix to this report for consideration.
20. During the course of the inspection, discussions took place with the Assistant Surveillance Commissioner about the use of covert investigatory techniques for the prevention and detection of illegal sales of the following age restricted products: butane and knives and fireworks. It was the view of the Commissioner that these techniques could be used in appropriate cases even though they do not fall within the rules applicable under RIPA, provided that due consideration was given to human rights legislation. It is the view of officers that the potential harm that could be caused by the sale of such products is such that there are strong reasons for extending the use of those techniques to those cases and the policy in the Appendix has been amended to that effect.

Recommendations

21. That the Committee:
 - a) Agree the proposed changes made to the Policy Statement to reflect the legislative changes and recommendations made by the Commissioner and agree to recommend to the Cabinet that the revised Policy Statement be approved.
 - b) Continue to receive quarterly reports on the use of RIPA powers and to report to the Cabinet on an annual basis on both the use of RIPA powers and whether the Policy remains fit for purpose in order to fulfil the statutory obligations placed on the County Council.

Background Papers

Report to the Cabinet on 3 June 2005

Report to the Cabinet on 16 November 2010

Report to the Corporate Governance Committee on 24 November 2012

Circulation under the Local Issues Alert Procedure

None

Equal Opportunities Implications

None

Officers to Contact

David Morgan, County Solicitor

Tel: 0116 305 6007 Email: david.morgan@leics.gov.uk

Appendices

Appendix - The Regulation of Investigatory Powers Act 2000 (RIPA) revised
Policy Statement

This page is intentionally left blank

Covert Surveillance and the Acquisition of “Communications Data” Policy Statement

1. This policy sets out how Leicestershire County Council (the Council) will comply with the Regulation of Investigatory Powers Act 2000 (RIPA), the Human Rights Act 1998 and the European Convention of Human Rights (ECHR) - Article 8, when carrying out any covert investigatory techniques. If such covert investigatory techniques are conducted by the Council, RIPA regulates them in a manner that is compatible with ECHR, particularly the right to respect for private and family life (Article 8). The use of covert investigatory techniques are an interference with the rights protected by the ECHR (Article 8) and there may be a potential violation of those rights, unless the interference is in accordance with the law and is necessary in a democratic society in the interests of:
 - national security;
 - public safety;
 - economic well –being of the country;
 - prevention of disorder or crime;
 - protecting of health or morals; or
 - the protection of the rights and freedoms of others.

Any such interference must be proportionate requiring a balancing of the seriousness of the intrusion against the seriousness of the offence and consideration of whether there are other means to obtain the required information.

The Council has a number of specific core functions requiring it to investigate the activities of private individuals, groups and organisations within its jurisdiction, for the benefit and protection of the greater public. Such investigations may require the Council to undertake covert investigatory techniques.

2. In accordance with RIPA the Council will only use three covert investigatory techniques for its core functions (details set out below), for the purpose of preventing or detecting crime or preventing disorder:

“Directed Surveillance” will only be used for the purposes of the Council’s investigations. This is covert non-intrusive surveillance, which is carried out in such a way that the persons subject to the surveillance are unaware that it is or may be taking place. It is undertaken for the purposes of a specific investigation or operation and is conducted in such a manner, that it is likely to result in the obtaining of private information about a person and in circumstances other than by way of an immediate response to events where it would not be reasonably practicable to seek authorisation for the surveillance. The Council will not undertake surveillance in residential properties or private vehicles.

“Covert Human Intelligence Source” will only be used for the purposes of the Council’s investigations. These are individuals, who establish or maintain a personal or other relationships with another person(s), without revealing his or her true identity, for the covert purpose of obtaining information and disclosing the information to the Council.

“Communications Data” (CD) will only be used for the purposes of the Council’s investigations. CD is the ‘who’, ‘when’ and ‘where’ of a communication, but not the ‘what’ (i.e. the content of what was said or written). In accordance with RIPA the Council will only utilise the less intrusive types of CD: “service use” (e.g. the type of communications, time sent and duration) and “subscriber information” (e.g. billing information). Under **no circumstances** will the Council obtain “traffic data” (e.g. information about where the communications are made or received) under RIPA. The Council will **not** intercept the content of any person’s communications, as it is an offence to do so without lawful authority.

3. The Council will not utilise a “Directed Surveillance” or “Covert Human Intelligence Source” authorisation or a “Communications Data” notice(s) under RIPA, until an order approving the grant or renewal of an authorisation and/or notice(s) has been granted by a Magistrates’ Court.

Before an authorisation is submitted to a Magistrates’ Court it must be internally authorised by an “Authorising Officer” or a “Designated Person” of the Council. Such covert investigatory techniques will only be used where it is considered necessary (e.g. to investigate a suspected crime or disorder) and proportionate (e.g. balancing the seriousness of the intrusion into privacy against the seriousness of the offence and whether the information can be obtained by other means). The Council will follow the relevant Codes of Practice on the scope of powers, necessity and proportionality.

In accordance with the Protection of Freedoms Act 2012 the Council will only submit a “Directed Surveillance” authorisation to the Magistrates’ Court for authorisation, for the purpose of preventing crime or disorder, where a criminal offence(s) is punishable (whether on summary conviction or indictment) by a maximum term of at least 6 months’ imprisonment is suspected or if the offence relates to the underage sale of alcohol and tobacco, where the necessity and proportionality tests are met. The Council will ensure that any authorisations and/or notices, which are granted and/or renewed by the Magistrates’ Court or by the Council’s Authorising Officers, are not utilised beyond the statutory time limits prescribed.

4. The Council will maintain a list of senior officers, who are designated to oversee the covert investigatory techniques specified in paragraph 2, in respect of the Council’s internal procedures for authorisations and/or notices under RIPA, prior to the authorisations and/or notice(s) being approved by a Magistrates’ Court and to oversee the process following such approvals until cancellation. A record of approved authorisations and notices will be kept by the Council and certain information about the approvals will be published on the Council’s website. The Council’s County Solicitor, being the Senior

Responsible Officer under RIPA, will ensure that the senior officers with responsibility for overseeing any covert investigatory techniques are at Director, Head of Service, Service Manager or equivalent level of seniority and are aware of the Council's obligations to comply with RIPA and with this policy. Furthermore, all officers who are required to undertake covert techniques will receive appropriate training or be appropriately supervised.

5. The Council may undertake any of the covert investigatory techniques specified in paragraph 2 above, in respect to the prevention and detection of illegal sales of the following age restricted products: Butane, Knives and Fireworks, even though these products do not meet the criteria specified in the Protection of Freedoms Act 2012 and therefore do not attract the protections of RIPA, in respect to these covert investigatory techniques. The Council believes that it is important that the Council's Trading Standards Service is authorised to use any of the aforementioned covert investigatory techniques, in order to undertake enforcement activities in respect of the aforementioned products, even though the Council will not be afforded the protection of RIPA. The Council will ensure that it continues to comply with its obligations under the ECHR (Article 8), by requiring its Trading Standards Service to adhere to the same authorisation procedures for RIPA authorisations and/or notices, except for the requirement to seek the approval of a Magistrates' Court. The Council will ensure that covert investigatory techniques, not requiring the approval of a Magistrates' Court, will be subject to the same internal authorisation processes as referred to above.
6. This policy and the procedures for the proper approval of authorisations and/or notice(s), the recording of covert investigatory techniques, will be reviewed when it is considered appropriate to do so.

Approved: Cabinet 3rd June 2005

Revised: Cabinet xxxxxxxx 2013

This page is intentionally left blank