



**Meeting:** Corporate Governance Committee

**Date/Time:** Monday, 10 February 2014 at 10.00 am

**Location:** Guthlaxton 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 25 November 2013.		(Pages 3 - 10)
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. External Audit - Annual Grant Certifications 2012/13.	Director of Corporate Resources	(Pages 11 - 40)
7. External Auditor - Service Delivery Centres.	Director of Corporate Resources	(Pages 41 - 54)



- |     |  |                                 |                   |
|-----|--|---------------------------------|-------------------|
| 8.  | Risk Management Update.  | Director of Corporate Resources | (Pages 55 - 84)   |
|     | A presentation will be provided as part of this item on the risks associated with the Integration Transformation Fund. |                                 |                   |
| 9.  | Quarterly Treasury Management Report.  | Director of Corporate Resources | (Pages 85 - 88)   |
| 10. | Treasury Management Strategy Statement and Annual Investment Strategy.   | Director of Corporate Resources | (Pages 89 - 108)  |
| 11. | Internal Audit Service Progress Report.  | Director of Corporate Resources | (Pages 109 - 124) |
| 12. | Regulation of Investigatory Powers Act 2000.   | County Solicitor                | (Pages 125 - 126) |
| 13. | Date of next meeting.  |                                 |                   |
|     | The next meeting of the Committee has been scheduled for Monday 12 May 2014 at 10.00am.                                |                                 |                   |
| 14. | 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, 25 November 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

41. Minutes.

The minutes of the meeting held on 23 September 2013 were taken as read, confirmed and signed.

42. Question Time.

The Chief Executive reported that two questions had been received under Standing Order 35 from Mr Andre Wheeler.

**Mr Wheeler, a member of the public, asked the following questions:**

- “1. Why has David Parsons not paid back the money he still owes the Tax Payer?
2. Over 6 years (April 2006 to February 2012) he claimed £204,283 for the cost of travel; can you give the break down?”

**Mr Snartt replied as follows:**

- “1. The County Council has taken action to recover expenditure incurred by or on behalf of Mr Parsons in accordance with the decision of this Committee. The current position is set out in the report at item 12 on the Agenda. Details of the reasons why a balance remains outstanding is a matter for Mr Parsons and his solicitor. The County Council is continuing to seek repayment of the balance due.
2. A detailed breakdown of the figure quoted by Mr Wheeler (£204,283) relating to the cost of travel during the period April 2006 to February 2012, is attached.” (A copy of this breakdown is filed with these minutes.)

**Mr Wheeler asked the following supplementary question on the reply to Question 1:**

“Would other residents be given the same amount of time if they owed a debt to the County Council? If a resident were being pursued for benefit fraud, would they be allowed the same time?”

The Director of Corporate Resources and the County Solicitor, on behalf of the Chairman, confirmed that the invoices for the sums owed by Mr Parsons had been

treated in the same manner as any similar case where money had been owed to the County Council. The invoices had been raised in line with the County Council's debt recovery procedures and reminders had been sent within normal timescales. As the outstanding amount had not been paid by Mr Parsons the matter had been referred to the County Council's legal department which had been in correspondence with Mr Parsons' solicitors with a view to establishing whether a settlement could be reached.

For clarification, the County Solicitor highlighted that this had not been a case of benefit fraud.

**Mr Wheeler asked the following supplementary question on the reply to Question 2:**

"Looking at the breakdown of costs that had been included i.e. vehicle repair and maintenance costs, it was wrong to label these under the word 'expenses'. This was grossly misleading that such costs would fall under the 'expenses' category which a member should rightly be able to claim. Has the system changed for claiming expenses?"

The Director of Corporate Resources responded on behalf of the Chairman and confirmed that processes had been improved as a result of this matter in line with recommendations from the Internal Audit Service.

The Director clarified that the information presented to Mr Wheeler in response to his questions had provided a breakdown of the sum referred to (i.e. £204, 283) which was the total cost that had been calculated for journeys undertaken by Mr Parsons in the County Council's Chauffeur driven car. These were not 'expenses' which had been claimed by Mr Parsons, but 'costs' incurred on his behalf by the County Council.

The Chairman thanked Mr Wheeler for his questions and for attending the meeting.

43. Questions asked by members.

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

44. Urgent Items.

There were no urgent items for consideration.

45. 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.

No declarations were made.

46. Annual Audit Letter 2012/13.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the Annual Audit Letter for 2012/13 for approval. A copy of the report is filed with these minutes.

The Chairman welcomed Matthew Elmer of PricewaterhouseCoopers (PwC), the County Council's external auditors, to the meeting and thanked him, his Team and County Council officers for the good work that had been undertaken throughout 2012/13.

The Committee noted that training had been undertaken by new members appointed to the Committee in May. Training had been also been undertaken by the whole Committee on specific areas such as treasury management and the risk management framework. The need for further member training on other specific areas would be considered in the New Year.

RESOLVED:

That the Annual Audit Letter 2012/13 be approved and distributed to all Members of the Council.

47. External Audit Plan 2013/14.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the external Audit Plan for 2013/14 for approval. A copy of the report is filed with these minutes.

i. Anti fraud and corruption

In response to specific enquiries raised by PWC within the Plan relating to fraud, the Chairman confirmed the following:

- The Committee received regular updates on Anti Fraud and Corruption initiatives, as the Council continually assessed its counter fraud arrangements and performance against professional guidance;
- The Committee was kept informed of instances of fraud through written reports from the Head of Internal Audit Service (HoIAS) at the conclusion of any investigations. There was also scope for the HoIAS to verbally brief the Chairman and Vice Chairman of the Committee throughout an investigation when a matter was considered to be of significant concern;
- In accordance with its terms of reference, the Committee monitored on an annual basis the adequacy and effectiveness of the Internal Audit Service. On a quarterly basis it considered any major Internal Audit findings and the responses to the implementation of its recommendations, as well as arrangements for the identification, monitoring and management of strategic and operational risk (including fraud risk) within the Council;
- The Audit Commission's 'Protecting the Public Purse 2012' 'checklist' had been used by the County Council to carry out a review of its position and the effectiveness of its fraud arrangements which had been reported to the Committee in February 2013.

ii. Misstatement Threshold

The Committee agreed that the threshold for PwC treating a misstatement in the County Council's accounts as 'clearly trivial' should remain at the current level of £100,000.

iii. Letter – Working more efficiently

With regard to the letter attached to the Audit Plan (page 45 of the report) some members raised concerns about the possibility of basic audit tasks being offshored to PwC Service Delivery Centres in India and Poland and questioned who authorised such an arrangement. The Committee noted that:

- The Audit Commission had appointed PwC as the County Council's external auditors and it held the contract with PwC and had agreed the process that would allow PwC to offshore data; This would enable basic audit tasks to be undertaken at PwC's Centres in India and Poland whilst allowing its UK Centre to concentrate on identified high risk areas. This system had operated in the private sector for some time and created efficiencies (thus keeping costs down) whilst maintaining the quality of service;
- PwC did not currently offshore any data and it would not do so if the County Council did not support such an arrangement. Some members expressed concern that not supporting this option would impact fee levels in future years;
- Whether or not work was offshored would not affect the fees set out in the Plan for 2013/14 which had been determined at a national level;
- Concerns were raised about the ethics of offshoring work and the impact this might have on standards and job security in the UK.

To give assurance to the Committee, Mathew Elmer of PwC offered to present to the Committee a report at its next meeting providing more information on this issue.

It was moved by Mr Lynch and seconded by Mr Sheahan:

“That this Committee expresses its opinion that such work should not be offshored outside the European Union.”

The motion was put and not carried, three members voting for the motion and four against.

Following further discussion, it was then moved by Mr Shepherd and seconded by Mr Hart and carried:

“That PwC, the County Council's external auditors, be requested to submit a report to the next meeting of the Committee so that members might be able to understand the ramifications and consider the ethics of the proposal to allow data to be offshored to services in India and Poland for the facilitation of basic audit tasks.”

At the suggestion of the Director of Corporate Resources the Committee further requested that the Audit Commission be contacted to seek its views on the practice of off-shoring audit work.

RESOLVED:

- (a) That the External Audit Plan 2013/14 be approved;

- (b) That the threshold of when misstatements made in the County Council's accounts should be treated by the external auditors, PwC, as 'clearly trivial' should continue to be those that amount to less than £100,000;
- (c) That PwC, the County Council's external auditors, be requested to submit a report to the next meeting of the Committee so that members might be able to understand the ramifications and consider the ethics of the proposal to allow data to be offshored to services in India and Poland for the facilitation of basic audit tasks;
- (d) That the Director of Corporate Resources be requested to contact the Audit Commission to seek their views on the practice of off-shoring audit work.

#### 48. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risk areas and the measures being taken to address them. The report also provided an update on related risk management matters such as Insurance, Business Continuity, Training and Anti-Fraud initiatives being undertaken. A copy of the report is filed with these minutes.

Arising from discussion, the following points were noted:

- i. Members enquired about the membership of the Economic Growth Board and the Chief Executive undertook to provide details after the meeting;
- ii. Some members expressed concern that the risks faced by the Council if capital sums payable by Leicestershire County Care Ltd for the transfer of nine elderly persons homes was not received, had not been included on the Corporate Risk Register. It was noted that this risk had been recorded, but at Departmental level, as, whilst the impact of none payment would be significant, the likelihood of this occurring had been judged to be low. A report had recently been considered by the Cabinet and the timescale for payment of the balance due had been extended. A further report would be presented to the Cabinet in March 2014. Whilst members were reassured that this risk was being monitored and managed appropriately, the Committee requested that, for members information, details of this risk be included in future reports to the Committee;
- iii. At the suggestion of members the Director of Corporate Resources undertook to provide a presentation on the risks related to the Integration Transformation Fund at the next meeting of the Committee. A presentation on the risks related to Home to School Transport had also been suggested, but members noted that the Scrutiny Commission would be considering this issue in the New Year, following the outcome of the on-going consultation currently in progress.

#### RESOLVED:

- (a) That the status of the strategic risks facing the Council be noted and that the updated Corporate Risk Register be approved;
- (b) That the initiative adopted to improve the Council's acknowledgement, prevention and pursuit of fraud be supported;

- (c) That the Director of Corporate Resources be requested to include in future reports, for members information, details of the status of the financial risks facing the Council if capital sum payable by Leicestershire County Care Ltd for the transfer of nine elderly persons homes was not received;
- (d) That officers be requested to provide a presentation on the risks associated with the Integration Transformation Fund at the next meeting of the Committee.

49. Annual Governance Statement 2013 - Update against Key Improvement Areas

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide a mid-year update on those areas identified for improvement included within the Council's 2012/13 approved Annual Governance Statement. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

50. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the actions taken in respect of treasury management in the quarter ended 30 September 2013. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

51. Sale of Part of Lloyds Banking Group Shareholding by UK Government - Impact on list of Acceptable Loan Counterparties.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to inform the Committee about the impact the sale of part of the Government's shareholding in Lloyds Banking Group, which took place on 17 September 2013, had on the County Council's list of acceptable loan counterparties. A copy of the report is filed with these minutes.

The Committee agreed that a balance needed to be struck between the level of financial risk faced by the County Council and the level of return it could achieve on its investments.

The Committee was of the view that, whilst it was important to remain cautious in the current financial climate, the level of risk did not appear to be significantly increased. The Committee therefore supported the proposal presented by the Director of Corporate Resources and recommended that this be put before the Cabinet for consideration.

RESOLVED:

- (a) That the content of the report be noted;



- (b) That the Cabinet be advised that this Committee supports the proposed amendment to the County Council's Acceptable Loan Counterparties Policy, as detailed in paragraph 10 of the report.

52. Quarterly 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 – Developer Contributions

The Committee noted that, with regard to audit work relating to Developer Contributions (section 106 - referred to in Appendix B to the report), although the report stated that these audits had been 'suspended', the Internal Audit Service had begun work to test the new planning data system. Whilst there had been no indication that any income from developer contributions had been lost or that such monies were not being appropriately collected, to provide reassurance members requested that officers provide a more detailed update on this issue at its next meeting.

Recovery of outstanding monies owed by Mr Parsons

The County Solicitor reported that, although Mr Parsons' had not accepted liability for the debt owed by him, negotiations were on-going to reach a settlement and bring the matter to a conclusion.

The Committee noted that, since its last meeting, the process of issuing ticketing messages generated by East Midlands Shared Service had been reviewed and the wording amended.

RESOLVED:

- (a) That the content of the report be noted;
- (b) That, with regard to audit work relating to Developer Contributions (section 106) referred to in Appendix B to the report, officers be requested to report to the next meeting to provide assurance to this Committee that appropriate developer contributions continue to be collected by the County Council.

53. Regulation of Investigatory Powers Act 2000 - Annual Report.

The Committee considered a report of the County Solicitor the purpose of which was to advise the Committee of the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period 1 October 2012 to 30 September 2013, to advise the Committee of the outcome of an inspection by the Office of Surveillance Commissioners (OSC) conducted on 13 August 2013 and to ask the Committee to review the Policy Statement relating to RIPA before its submission to the Cabinet for approval. A copy of the report is filed with these minutes.

The Committee noted the following additional alterations to the revised Policy Statement:

- Paragraph 2 – the words “for the purpose of preventing or detecting crime or preventing disorder” had been deleted from the first sentence.
- Paragraph 3 – the words “or disorder” had been deleted from the second and third paragraphs.

The Committee further noted that, in place of the County Solicitor, the Authorising Officers would be the Head of Regulatory Services, the Trading Standards Manager (Operations) and the Trading Standards Legal Affairs Manager.

The County Solicitor reported that the outcome of the inspection by the OSC had been very positive. The Assistant Surveillance Commissioner had commended the work of the Trading Standards officers in this area and was of the view that the IT system ‘RIPAR’ used to support their activities presented good practice. The Committee commended the Trading Standards Service for the quality of its governance arrangements in this area.

Discussions had taken place with the Assistant Surveillance Commissioner about the use of covert investigatory techniques for the prevention and detection of illegal sales of age restricted products butane, knives and fireworks. The Committee noted that it had been the view of the Commissioner that these techniques could be used in appropriate cases even though they did not fall within the rules applicable under RIPA, provided that due consideration had been given to human rights legislation.

In light of the Assistant Surveillance Commissioner’s comments, the Committee noted that the view of officers had been that, due to the potential harm that could be caused by the sale of such products, there were strong reasons for extending the use of covert investigatory techniques to those cases and draft the policy in the Appendix had been amended to that effect.

The Committee endorsed this approach and recommended that the Cabinet adopt a policy to allow for such action to be taken.

#### RESOLVED:

- (a) That the proposed changes made to the Policy Statement to reflect the legislative changes and recommendations made by the Commissioner be supported and recommended to the Cabinet for approval;
- (b) That it be agreed that the Committee will 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.

#### 54. Date of next meeting.

#### RESOLVED:

That the next meeting of the Committee be held on 10 February 2014 at 10.00am.



## **CORPORATE GOVERNANCE COMMITTEE**

**10 FEBRUARY 2014**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

### **EXTERNAL AUDIT - ANNUAL GRANTS CERTIFICATION 2012/13**

#### **Purpose of Report**

1. To report the results of external audit grant certification work for 2012/13.

#### **Background**

2. The Audit Commission requires the County Council's appointed external auditor PricewaterhouseCoopers LLP (PwC) to report annually on the results of grant certification work to those charged with governance, in order to summarise issues, amendments and qualifications arising from their certification work on grant claims and returns.

#### **Grant Certification Report**

3. A copy of the external auditor's report is attached as Appendix 1. Representatives from PwC will attend the meeting in order to present their report and answer any questions.

#### **Issues Raised**

4. Two grants required external audit certification during 2012/13; the Teachers Pension (TP) return and the Local Transport Plan (LTP): major projects. The TP return was amended and qualified – see below. A minor amendment to the text on the LTP claim was made and this was not qualified.

#### **Teachers Pension Return**

5. The TP return is an annual summary showing teachers' pension contributions deducted and remitted by the County Council and its other payroll providers each year, for all scheme members employed by the County Council. The teachers pension scheme is administered by Teachers Pension on behalf of the Department for Education (DfE).
6. The issues raised in the auditors report relate to payrolls provided by the County Council and payrolls provided by other providers. The main issues are:

### Authority Payrolls

7. The Government introduced significant changes to the teachers' pension scheme from 1 April 2012 with the introduction of tiered rates of contributions compared with a flat rate in previous years. These changes have been complex and challenging and examples of the former rates being used in some cases have been identified. These mainly relate to back dated changes, refunded amounts and part time employees in receipt of pension allowances.
8. The return requires additional contributions and additional payments to be separately reported. The payroll system does not currently hold this additional data separately and the figures are therefore identified from manual listings. However, from a sample reviewed, an error in the classification was found. Overall this would not affect the contributions due.
9. The return also requires prior year and current year refunds to be reported. This is currently a manual process. During the audit a number of errors were identified with the accuracy and completeness of the listing. Overall, this would not affect the contributions due.

### Outside Payroll Providers

10. A number of errors were identified with the calculation of deductions undertaken by outside payroll providers. This has been a continuing problem for a number of years despite efforts by the Employee Service Centre (ESC) and the Internal Audit Service to point out common mistakes and remind the providers of their responsibilities. There will be only one school in this category from 1<sup>st</sup> April 2014.

### General

11. The deadline for submission of the TP return to the external auditor is 30 June 2013 and the return was submitted on 6 November 2013. As a result of the delay and additional testing the final fee for the TP certification work is estimated to be £11,887 compared with the indicative fee of £6,300.

### **Management Action Plan**

12. The improvements suggested by PwC (on page 9 of their report) are being addressed by the Employee Service Centre (ESC). A review of systems and processes is also being undertaken to ensure that the correct banding rates are being used. Consideration is being given to changes to the payroll system to improve reports and an appropriate plan has been put in place to ensure that, in future, the TP is submitted on time.

### **Recommendation**

13. The Committee is asked to consider any issues raised by the external auditor in their report and note the management actions being taken.

### **Resource Implications**

None.

**Equal Opportunities Implications**

None.

**Circulation Under Local Issues Alert Procedure**

None.

**Background Papers**

None.

**Officers to Contact**

Chris Tambini, Assistant Director – Strategic Finance, Property and Procurement

Tel: 0116 305 6199

E-mail: [chris.tambini@leics.gov.uk](mailto:chris.tambini@leics.gov.uk)

Judith Spence, Head of Corporate Finance

Tel: 0116 305 5998

E-mail: [judith.spence@leics.gov.uk](mailto:judith.spence@leics.gov.uk)

**Appendices**

Appendix 1 – LCC Annual Certification Report 2012/13

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# *Annual Certification Report* *2012/13* Leicestershire County Council

January 2014



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

January 2014

Our Reference: LCC/Cert/1213

Ladies and Gentlemen

### **Annual Certification Report (2012/13)**

This report summarises the results and fees for certification work for 2012/13.

#### **Results of Certification work**

For the period ended 31 March 2013, we certified one claim and one return worth a final net total of £29,727,561. Both were amended following certification work, and one required a qualification letter.

The most significant issue was the difficulty experienced in implementing pension scheme changes from 1 April 2012 in the payroll system; this resulted in Authority delays in the completion and production of the return form and deliverables, and we concluded that there was uncertainty over the entries within the return and contributions deducted.

We ask the Members of the Corporate Governance Committee to consider:

- the adequacy of the proposed management action plan for 2012/13 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan in Appendix C.

Yours faithfully,

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP



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# Introduction

## *Scope of work*

Grant-paying bodies pay billions of pounds in subsidies and grants each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions; where this is not the case matters are raised in a ‘qualification letter’.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we, as local government appointed auditors, must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies. Our role is to act as ‘agents’ of the Audit Commission when undertaking certification work.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including our conclusions on the financial statements and on value for money.

## *Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*

In November 2010 the Audit Commission updated the ‘Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns’. This is available from the Audit Commission’s website. The purpose of this Statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

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

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. 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.



# Results of Certification Work

## Claims and returns certified

A summary of the claims and returns certified during the year is set out below. In one case a qualification letter was required to set out matters arising from the certification of the return. Both the claim and return were amended following the certification work undertaken. The auditor deadlines for submission of the certified claims and returns to grant paying bodies were met.

Fee information for the claims and returns is summarised in Appendix A.

### 2012/13 Claims and returns certified

CI Reference	Scheme Title	Form	Original Value (£)	Final Value <sup>1</sup> (£)	Amendm ent	Qualifica tion
PENo5	Teachers' Pension Return	EOYCd	25,120,609	25,119,561	Yes	Yes
TRA11	Local Transport Plan: Major Projects - Loughborough Town Centre Transport Scheme	S31 AUD Form 12-13	4,608,000	4,608,000	Yes	No

<sup>1</sup> Some amendments have no impact on the overall value of the claim.

## *Matters arising*

The most important matters we identified through our certification work are summarised below. Further detail and the risks of not addressing the issues raised with our recommendations for improvement can be found in Appendix B

### *Teachers' Pension Return*

The Teachers' Pension Return (EOYCd) is an annual summary showing teachers' pension contributions deducted and remitted by Leicestershire County Council and its other payroll providers in the year, for all scheme members employed by the Authority.

The Teachers Pensions Scheme is a contributory pension scheme administered by Teachers Pensions ("TP") on behalf of the Department for Education (DfE).

There were significant changes to the scheme introduced from 1 April 2012 with the introduction of tiers ranging from 6.4% to 8.8% according to full time equivalent salary (FTE). Until March 2012 teacher contributions were at the flat rate 6.4% of contributory salary. The Return format was updated to require the consolidation of Authority Payroll records with Other Payroll Providers plus inclusion of new information for teacher contributions broken down by tier.

We raised a number of non-compliance issues with some of the scheme conditions relating to both the Authority payroll and matters identified by Internal Audit in respect of Other Payroll Providers in the qualification letter dated 29 November 2013.

In particular the Authority experienced difficulties with the introduction of tiered contribution rates and some doubt exists over the correct position of deductions and contributions paid at the end of the year from its own payroll reporting system.

For 'Other Payroll Providers', the scheme requires the Authority to have adequate arrangements to be satisfied that pension contributions have been correctly deducted and remitted to the Teachers Pensions Agency, on behalf of the Authority, in accordance with the Regulations. We work with Internal Audit in this area because they are able to access Teacher's Pensions contributions administered through Other Payroll Providers. We have reviewed the procedures performed by Internal Audit and placed reliance on the findings following sample re-performance.

We would extend our thanks to the Internal Audit function in their continued delivery and communication of this work.

### *Prior year recommendations*

We have reviewed progress made in implementing the certification action plan for 2011/12. Details can be found in Appendix C.



# Appendix A

## Certification Fees

The fees for certification of each claim/return are set out below:

Claim/Return	2012/13 Indicative Fee *	2012/13 Variation**	2012/13 Final Fee**	2011/12 Billed Fee	Comment
	(£)	(£)	(£)	(£)	
PEN05 Teacher's Pension Return	6,300	5,587	11,887	9,366	Indicative scale fee baseline was the 2010/11 fee with a 40% reduction. Since this period there has been an increase in the levels of work required and significant delays with additional auditor chases and meetings due to Authority difficulties; this is reflected with the variation to original scale fee.
TRA11 Local Transport Plan: major projects	0.00	2,789	2,789	n/a	Indicative scale fee was based on work performed in 2010/11 when a TRA11 scheme did not require certification. The Loughborough Town Centre Transport Scheme was a new project in 2011/12 and became subject to auditor certification.
<b>Total</b>	<b>6,300</b>	<b>8,376</b>	<b>14,676</b>	<b>9,366</b>	

\*It should be noted that the Audit Commission updated the fee approach for certification in 2012/13. This applied a 40% discount to the 2010/11 billed fee. Indicative fees may subsequently have been updated for Audit Commission approved variations; for example where there was a change in the level of work required.

\*\* Fee variations which are pending Audit Commission approval.

The Council could improve its performance by:-

- **Timely submission** - significant delays were incurred in the preparation and submission of the Teacher's Pension Return. We received the completed return on 6 November 2013; the Authority deadline for submission to auditors set by Teachers Pensions was 30 June 2013; this resulted in reschedules and delays in the commencement of fieldwork. We would recommend that the Authority has a timetable in place to ensure timely submission to avoid a pressurised certification process for both parties; the Authority deadline is set to provide adequate time for auditors to be able to undertake work prior to the Auditor deadline of 29 November.
- **Review:** improving the accuracy and completeness of claims/returns submitted for certification by requiring independent senior officer review prior to submission to the grant paying body and auditors. Original final claims and returns should be certified as correct at the time of submission.

- **Quality of deliverables:** There were instances during the course of certification where working papers were difficult to understand, were unprepared or had to be reworked. We recommend that the Authority takes steps to ensure that the responsible officers are familiar with the compilation requirements set out in the certification instructions and consults the relevant guidance ahead of the return preparation. Supporting documents to claims and returns should be produced as part of claim and return preparation; and reviewed for accuracy as part of the Authority's certificate sign off procedures prior to submission to the grant paying body and PwC.
- **Access:** improvements to staff availability during the certification process and ensuring deliverables are available in line with agreed timescales.
- **Information:** ensuring that information requested by the auditor is sourced and presented to the auditor on a timely basis following request and adequately supports the claim / return. We experienced some significant delay with some areas of enquiry and these areas were escalated to senior officers.
- **Mitigate:** ensuring the prior year qualification issues are reviewed and controls assessed to mitigate against similar errors occurring in future periods. There were a number of issues included in the qualification letter relating to the accuracy of deductions and contributions paid during the year. It is acknowledged that these have been the result of difficulties in implementing scheme changes into the payroll system.
- **Internal Audit:** Internal Audit are very knowledgeable on the Teacher's Pension Scheme; for issues identified within the Authority's own Payroll system, assistance could be considered with Internal Audit consultation by the Payroll Team and/ or review of processes in advance of the Authority submission to PricewaterhouseCoopers.

We would encourage review of the processes in place for the preparation and timetable for the Return to avoid additional auditor time in future periods.

We will continue to seek ways in which we can improve the overall level of liaison with senior officers regarding the progress of certification work, time and issues.

At the same time, we welcome closer scrutiny by officers of any certification claims submitted to us for review and continued efforts to ensure that the quality of evidence available to support claims/returns is appropriate. The Council's performance may also be improved by ensuring prior year qualification issues are reviewed and controls assessed to mitigate against similar errors occurring in future periods.



# Appendix B

## 2012/13 Management Action Plan

### PEN05 Teachers' Pension Return (29/11/13)

All significant matters are in respect of the 2012/13 Teachers' Pension Return. At the start of the period the scheme saw the introduction of tiered employee contribution rates according to Full Time Equivalent salary; implementation of these presented some new difficulties to the Authority alongside their limited staff time for review and completion of the Return and their investigation of Payroll reconciliation concerns; we were advised that this was due to competing demands for completion and monitoring of non-Authority Teacher Pension returns.

The most significant issues were set out in our qualification letter dated 29 November 2013; unless otherwise stated these issues were not amended for:-

Issue	Recommendation	Management response	Responsibility (Implementation date)
<b>Non-compliance with regulations, terms and conditions</b>  <b>Authority Payroll:-</b> The Authority has experienced difficulties with the introduction of tiered contribution rates in 2012/13; this has raised overall uncertainty on the correct position of deductions and contributions paid during the period from the payroll reporting system ORACLE.	The Authority should review the systems and processes in place for the correct administration of the Teacher's Pension scheme within the Payroll system to ensure the correct deductions and contributions are made and remitted to Teachers Pensions.	The introduction of tiered contributions has been complex and challenging. System and processes have been reviewed as a result of learning in this first year. In the main issues have been around backdated changes and refunds, normal deductions are in accordance with bandings and we are confident these are correct. The ESC team will work with internal audit to further review systems and processes before the next end of year return is due.	Emma Gibson ESC Manager – supported by Internal Audit Team  End February 2014

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p><b>Additional Contributions and Additional Payments</b></p> <p>The Authority's payroll system is unable to distinguish between additional pension payments and additional contributions as these are all input on the same code. Manual listings were provided to evidence the split. Our review of the completeness of the additional pension payments balance identified an employee whose further contributions had been incorrectly included in 'Additional Contributions' instead of 'Additional Pension Payments'; this was amended for. However, without testing the whole population of the 'Additional Contributions' balance it was not possible for us to give full assurance on the accuracy of classification of these amounts.</p>	<p>The Authority should review its payroll system to enable the identification of Additional Contributions and Additional Pension Payments to provide themselves with assurance over the accuracy of its reporting and appropriateness of deductions made and contributions remitted.</p> <p>Risk: misclassification of deductions and inaccurate TP records for the employee.</p>	<p>This does not have any effect on overall contributions due. A separate element to identify this will be considered and impact assessed.</p>	<p>Emma Gibson ESC Manager – supported by ICT resource</p> <p>February 2014</p>
<p><b>Employee Contributions Deducted</b></p> <p>A number of errors were identified during sample testing for deduction of employee contributions at the correct tier rate; the Authority was unable to provide further explanation for these errors and we were unable to confirm assurance that deductions had been made at the appropriate rate. Indications were that the payroll system was defaulting on a random basis to the old rate of 6.4% for some employees. At the time of our qualification, the Authority had not been able to investigate the issue to be able to conclude or provide quantification to the extent of the potential error across the total population.</p>	<p>The Authority should investigate the cause for the payroll system errors causing the default of the old rate to 6.4% for employee contributions deducted.</p>	<p>Following further investigative work after the audit we have been able to confirm that this problem relates mainly to refunds rather than deductions.</p> <p>The other main reason was that our report was not able to accurately apportion contributions where an employee had been re-banded during the year.</p> <p>Work is underway to make changes to the payroll system and resolve the reporting issue.</p>	<p>Emma Gibson ESC Manager – supported by ICT resource</p> <p>February 2014</p>

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p><b><u>Issue 1</u></b> For four out of thirty-five teachers tested, the incorrect rate of teachers' contributions was deducted. In a fifth case a backdated payment had not been correctly shown in the Return. The impact of this is the potential underpayment of employee contributions.</p> <p><b><u>Issue 2</u></b> Further to Internal Audit enquiry, the Authority advised that they have detected that for part time employees in receipt of pensionable allowances, that they have incorrectly calculated contribution tiers. Although the system uses the FTE salary for part time employees to calculate the correct tier contributions as required, they have only added to this the exact value of pensionable allowance received, rather than adding the FTE of pensionable allowance (gross) to the total FTE to determine the appropriate contribution tier. The Authority has been unable to quantify the potential impact of this error.</p>	<p><b><u>Issue 1</u></b> A review should be undertaken to ensure that all errors are corrected and refunded where shortfalls have arisen.</p> <p>Risk: under deduction of employee contributions paid into the pension scheme.</p> <p><b><u>Issue 2</u></b> The Authority should review all part time employees with the identification of those with pensionable allowances to make any necessary corrections of underpayments.</p> <p>Going forward, the system should be corrected to ensure that the contributions deducted are in accordance with the Teachers Pensions Regulations and guidance on the correct method of calculation.</p> <p>Risk: incorrect deduction of contributions paid into the pension scheme.</p>	<p>There has now been a fix applied to live system and a report of existing allowances on part time staff to check.</p>	

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p><b>Refunds</b></p> <p>The Authority advised that the prior year refunds entry had been determined through a manual review of negative balances included in the payroll system reports, with the extraction of prior year refunds to spreadsheet working papers. The Authority advised that there was no reliable method to determine the accuracy of refund classification between current and prior year. The return requires their separation within the entries.</p> <p>Manual working papers presented five prior year refunds; when we compared this to the payroll reports there were nineteen negative entries; identifying the risk of omission. Due to the uncertainty over classification a sample of five negative balances not included as prior year refunds within the return or on working papers were selected for testing. Two of the five identified classification errors and were amended for; however it was further identified that the negative balances on the payroll report were in each case net balances made up of both current year and prior year refunds.</p> <p>Further sample testing of five negative balances identified five more errors. These all related to incorrect calculations of current year refunds that had been processed with the application of the incorrect tier rate which appeared to have defaulted</p>	<p>The Authority should review its payroll system to enable the identification of current year and prior year refunds to ensure appropriate treatment and remittance of refunds to provide themselves with assurance over the accuracy of its reporting.</p> <p>For refund cases where calculation errors were noted, appropriate corrections should be made and remitted.</p> <p>For untested refunds the Authority should ensure a review and appropriate correction for refund shortfalls made to employees.</p> <p>The Authority should investigate the cause for the payroll system errors causing the default of the old rate to 6.4% for refunds made.</p> <p>Risk: underpayment of refunds and incorrect payments into the scheme.</p>	<p>Better reporting is required to identify these records and work is being undertaken to investigate the feasibility of this. Otherwise it will be a manual exercise to check all cases.</p>	<p>Emma Gibson ESC Manager – supported by ICT resource</p>

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>to 6.4% old rate.</p> <p>As a result of these refund errors identified we are unable to conclude that refunds made during the year have been processed at the correct tier contribution rate. The impact of this is the potential underpayment of employee refunds.</p> <p>The Authority is unable to provide an explanation for these errors nor has it investigated the issue to quantify the overall extent of the error.</p>			
<b>Other Payroll Providers</b>			
<p>The Authority's Internal Auditors tested the other payroll provider figures included in the Return; these providers are external to the Authority payroll. Internal Audit raised the following issues at five of these providers.</p> <p>A sample of thirty-three teachers paid by other payroll providers were tested to confirm that contributory salaries have been extracted correctly from payroll records and that teachers' and employers' contributions had been deducted at the appropriate rate. The sample testing identified the following issues:</p>			
<p><b>Issue 1</b></p> <p>For one provider (Ref A), a part-time employee contributed to the pension scheme and had received a payment for additional hours worked. This payment has been incorrectly treated as non-pensionable.</p> <p><i>Value of Under Deduction:</i>  Pensionable Pay: £272.40  Teacher Contributions (7.3%): £19.89  Employer Contributions: £38.42</p> <p><b>Issue 2</b></p>	<p>Failure to comply with the regulatory requirements may mean that the Authority submits an inaccurate Return, and that the teacher's pension contributions deducted and remitted for the year are inaccurate.</p> <p>Internal Audit has raised these matters in their report.</p> <p>The Authority should ensure that</p>	<p>Overall values are small.</p> <p>Schools with outsourced payrolls are regularly written to with requirements and for 2014/15 Charnwood High School will be the only remaining LA school with an out-sourced payroll, therefore minimising risks in this area.</p>	<p>Emma Gibson - ESC Manager</p> <p>Jennifer Lawrence Finance Business Partner(Schools)</p>

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>For the same provider (Ref A) and a second provider (Ref B), seven employees had the incorrect tier of contributions applied based on their FTE salary. This error was largely, but not wholly, associated with the annual pay increment in September 2012 when the new salaries should have been placed within the higher tier of contribution.</p> <p><i>Total Value of Under Deduction:</i> Teacher Contributions: £301.17 Pensionable Pay and Employer Contributions: unaffected</p> <p><b><u>Issue 3</u></b> Of the thirty-three employee records examined ten had received backdated pay increases.</p> <p>For five of these ten employees the new salary payable fell into the same contribution tier as the previous salary paid, therefore negating the need for recalculation of contributions. However, for the remaining five employees the new salary fell into a higher contribution tier but the backdated contributions had only been recalculated for four of them with no recalculation had been carried out for the fifth.</p> <p><i>Total Value of Under Deduction</i> Teacher Contributions: £37.74</p> <p><b><u>Issue 4</u></b> Two out of thirty five of the records examined did not have teachers' pension contributions deducted. One record could be verified as having opted out of the scheme. For the other case, the Teacher's</p>	<p>the providers responsible for calculating the contributions are aware of the regulatory requirements and their responsibilities for the provision of evidence.</p> <p>Consideration may be given to increased guidance from the Authority to the Other Payroll providers to ensure that they understand the requirements of the scheme and the implications of the introduction of the tiered contributions to ensure appropriate calculation for deductions.</p> <p>Risk:-</p> <p>Issues 1 to 4 - Under payment of contributions by both the teacher and employer.</p> <p>Issues 5 to 6 – Overpayment of contributions by both the teacher and employer.</p>		

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>Pensions Portal recorded that the individual had opted in to the scheme with effect from 1 April 2009. Further investigative work undertaken by Internal Audit, has concluded that they were automatically brought into the pension scheme in April 2009 and as such contributions should have been paid for all work undertaken and treated as pensionable under scheme requirements.</p> <p><i>Underpayment of Contributions:</i></p> <p>Contributory Salary:£12,361.43 Teacher Contributions (7.3%):£902.38 Employer Contributions:£1,742.96</p> <p><b><u>Issue 5</u></b></p> <p>Contributions had been deducted in respect of thirty one employee records tested. The teachers' record reports were examined to ensure that there were no cases of the teacher having opted out of the scheme. In one case it was identified that the employee had elected to opt out of the scheme but was still having contributions deducted from salary.</p> <p><i>Overpayment of contributions:</i></p> <p>Contributory Salary:£11,363.48 Teacher Contributions (7%):£795.47 Employer Contributions: £1,602.25</p> <p><b><u>Issue 6</u></b></p> <p>On a monthly basis the Authority pays over the value of all teachers' pension contributions deducted, i.e. all teachers employed at LA</p>			

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>maintained schools regardless of payroll provider. To facilitate this, schools/colleges that have outsourced the payroll function are required to submit details of contributions deducted and the contributory salary. A verification was undertaken by Internal Audit between the information submitted and the supporting working papers used to calculate the monthly payments to Teachers' Pensions; the results identified:-</p> <ul style="list-style-type: none"> <li>• An AVC payment to an employee of a third payroll provider of £390.72 had been incorrectly remitted to TP.</li> <li>• An over remittance of £686.25 had occurred relating to a fourth payroll provider due to misleading information of deductions provided by the college.</li> </ul> <p><b>Issue 7</b> Individual monthly reports submitted by the payroll providers where LA maintained establishments undertake the payroll in-house were examined by Internal Audit and calculations performed to verify the relevant ratio of employees' and employers' contributions to pensionable pay.</p> <p>A number of errors were noted. Although all other errors were amended, Internal Audit found that there were various anomalies within employee rate tiers 3,4,5 and 7 for a fifth external payroll provider. These were due to the college adjusting contributions for previous months following the</p>			



Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>recalculation of contribution tier as a result of backdated pay rises.</p> <p>Internal Audit was not able to identify all corresponding employees to obtain the appropriate amendments required for each tier.</p>			

# Appendix C

## 2011/12 Management Action Plan – Progress made.

### PEN05 Teachers' Pension Return (30/11/12)

Issue	Recommendation	Management response, responsibility and implementation date	Recommendation Status
<p><b>Non-compliance with regulations, terms and conditions</b></p> <p><u>Part B of the Return: Other Payroll Providers</u></p> <p>The Authority's Internal Auditors carried out testing on Provider reports and a sample of other payroll providers records and identified the following errors:-</p> <p><b>ISSUE 1</b></p> <p>For one provider Internal Audit's comparison to monthly statements provided to the Authority to the Colleges actual payroll and analytics identified that in October 2011 employer contributions were in excess of the relevant percentage when compared to contributory salary. The College had received notification of an employee opting out of the pension scheme back dated to August 2011. The college had reduced the contributory salary and refunded employee contributions previously deducted (August and September). However an error had been made when refunding employer contributions in that they had omitted to refund August contributions to the value of £19.06. Internal Audit confirmed that the college was aware of the error and will be refunding</p>	<p>Failure to comply with the regulatory requirements may mean that the Authority submits an inaccurate Return, and that the teacher's pension contributions deducted and remitted for the year are inaccurate.</p> <p>Internal Audit has raised these matters in their report.</p> <p>The Authority should ensure that the providers responsible for calculating the contributions are aware of the regulatory requirements and their responsibilities for the provision of evidence.</p>	<p>Agreed.</p> <p>A letter was sent on 11<sup>th</sup> December 2012 to the remaining three schools who use external payroll providers that are still County Council schools. All of the others with external payroll providers have now converted to Academies and are no longer included in the County Councils Teachers Pension Return.</p> <p>The letter points out the areas of concern as expressed in this report and explains the correct course of action.</p> <p>EMSS Service Delivery Manager December 2012</p>	<p>Similar issues did not arise in the work performed by Internal Audit on the other payroll providers in 2012/13.</p> <p>Whilst a number of issues were noted, these were different in nature and are detailed in Appendix B.</p>

Issue	Recommendation	Management response, responsibility and implementation date	Recommendation Status
<p>employer contributions during 2012/13.</p> <p><b>ISSUE 2</b></p> <p>For two colleges who outsource their payroll to the same payroll provider; the year-end report provided by the provider to the Authority detailing the contributory salary together with employee and employer contributions deducted in the year, highlighted, when reviewed by Internal Audit, that for two employees the contributions deducted amounted to more than the relevant percentage rate of contributions resulting in the overpayment of employee contributions by £12.75 and employer contributions by £19.46.</p> <p>Internal Audit contacted the provider regarding these two cases and has confirmation that the overpayments will be refunded in 2012/13.</p> <p>Internal Audit Sample testing of whether contributions have been properly calculated, deducted and remitted in accordance with the rules of the Teachers' Pension scheme identified:-</p> <p><b>ISSUE 3</b></p> <p>For one out of five initial records tested at one of the colleges, an employee received an additional payment of £87.29 for 'Keeping In Touch Day' whilst on maternity leave. This payment had been incorrectly treated as pensionable and resulted in the overpayment of pension as:-</p>	<p>Consideration may be given to increased guidance from the Authority to the Other Payroll providers to ensure that they understand the requirements of the scheme.</p> <p>Risk:-</p> <ul style="list-style-type: none"> <li>Overpayment of contributions by both the teacher and employer.</li> </ul>		

Issue	Recommendation	Management response, responsibility and implementation date	Recommendation Status
<p>Contributory Salary: £87.29 Employee Contributions: £5.57 Employer Contributions: £12.31</p> <p>Additional sample testing at the same college identified no further instances of this error.</p> <p>The College have advised the Authority that they will be refunding the overpayment of contributions deducted at during the 2012/13 financial year.</p> <p><b>ISSUE 4</b> For four out of five initial records tested at another college the following errors were identified:</p> <ul style="list-style-type: none"> <li>• Three employees with payments of GTC allowance treated as non-pensionable; and</li> <li>• One of these employees also had a deduction in respect of industrial strike action treated as non-pensionable.</li> </ul> <p>Additional testing of a further five records at the college identified:-</p> <ul style="list-style-type: none"> <li>• Three further employees with payments of GTC allowance treated as non-pensionable; and</li> <li>• Two of these employees also had a deduction in respect of industrial strike action treated as non-pensionable.</li> </ul> <p>Internal Audit was able to quantify the error for GTC</p>			

Issue	Recommendation	Management response, responsibility and implementation date	Recommendation Status
<p>at the college as:-</p> <p>Total number of cases of GTC allowance paid in May 2011 - 44  Value of GTC - £1,452.00  Employee Contributions - £92.32  Employer Contributions - £204.73</p> <p>Total value of deductions for industrial strike action deducted in July 2011  Value - £1,192.61  Employee contributions - £76.33  Employer contributions - £168.16</p> <p>Internal Audit has agreed with College that the overpayment of contributions detected will be refunded during the 2012/13 financial year and the college has subsequently updated the payroll system to ensure the error does not occur in future periods.</p>			37

# Glossary

## Audit Commission Definitions for Certification work

### Abbreviations used in certification work are:-

**‘appointed auditor’** is the auditor appointed by the Audit Commission under section 3 of the Audit Commission Act 1998 to audit an authority’s accounts who, for the purpose of certifying claims and returns under section 28 of the Act, acts as an agent of the Commission. In this capacity, whilst qualified to act as an independent external auditor, the appointed auditor acts as a professional accountant undertaking an assurance engagement governed by the Commission’s certification instruction arrangements;

**‘assurance engagement’** is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;

**‘auditor’** is a person carrying out the detailed checking of claims and returns on behalf of the appointed auditor, in accordance with the Commission’s and appointed auditor’s scheme of delegation;

**‘authorities’** means all bodies whose auditors are appointed under the Audit Commission Act 1998, which have requested the certification of claims and returns under section 28(1) of that Act;

**‘certification instructions’** (‘CIs’) are written instructions from the Commission to appointed auditors on the certification of claims and returns;

**‘certify’** means the completion of the certificate on a claim or return by the appointed auditor in accordance with arrangements made by the Commission;

**‘claims’** includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;

**‘Commission’** refers to either the Audit Commission or the Grants Team of the Audit Policy and Regulation Directorate of the Commission which is responsible for making certification arrangements and for all liaison with grant-paying bodies and auditors on certification issues;

**‘grant-paying bodies’** includes government departments, public authorities, directorates and related agencies, requiring authorities to complete claims and returns;

**‘returns’** are either:

- returns in respect of grant which do not constitute a claim, for example, statements of expenditure from which the grant-paying body may determine grant entitlement; or
- returns other than those in respect of grant, which must or may be certified by the appointed auditor, or under arrangements made by the Commission;

**‘Statement’** is the *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk);

**‘underlying records’** are the accounts, data and other working papers supporting entries on a claim or return.



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## **CORPORATE GOVERNANCE COMMITTEE**

**10 FEBRUARY 2014**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **EXTERNAL AUDITOR – SERVICE DELIVERY CENTRES**

##### **Purpose of the Report**

1. To provide information about the use of overseas Service Delivery Centres (SDC's) by PricewaterhouseCoopers LLP (PwC) when undertaking audit work.

##### **Background**

2. At the meeting of the Corporate Governance Committee held on 25 November 2013, members requested further information on the possible use of Service Delivery Centres outside the United Kingdom by the external auditor PwC in order to understand the ramifications and to consider the ethics of this possible arrangement. The Committee further requested that officers write to the Audit Commission to seek its views on the practice of off-shoring audit work. This information is now set out in the Appendices to this report for members' consideration.
3. A proposal was put to this meeting that the Committee should express its opinion that such work should not be off-shored outside the European Union (EU), but this did not receive the support of a majority of members.

##### **Use of Service Delivery Centres**

4. The Audit Commission appoint the external auditor for Leicestershire County Council and for 2014/15 they have appointed PwC LLP. All firms are required to comply with all statutory and professional requirements when carrying out their role as appointed auditor. The requirements on appointed auditors regarding their access to, and use of information, are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice, which is supported by the Statement of Responsibilities of Auditors and Audited Bodies, and the Commission's Standing Guidance for Auditors.
5. Where a firm wishes to process information overseas, they must in the first instance seek approval from the Audit Commission to do so. Consent is given by the Audit Commission, subject to five specific conditions (see Appendix 1). These conditions are specific to where the auditor is acting as data processor on behalf of the Audit Commission in its role as data controller.

6. The Audit Commission has reviewed the information assurance arrangements of PwC and is satisfied as to its arrangements for the appropriate handling of Audit Commission information, and it has given its consent to PwC to process information overseas, subject to the specific conditions.
7. A copy of the external auditor's report on its use of overseas SDC's is attached as Appendix 2. Matthew Elmer (Senior Manager) from PwC will attend the meeting in order to present their report.
8. PwC has stated that it will take into consideration the views of the Committee before making a decision on whether to use overseas SDC's.
9. The Audit fees for 2013/14 have been agreed and will not change whichever approach is taken.

### **Recommendation**

10. The Committee is asked:

(a) to note the position;

(b) to consider whether it wishes to express any views to PwC in relation to the possible use of overseas Service Delivery Centres.

### **Resource Implications**

None.

### **Equal Opportunities Implications**

None.

### **Circulation Under Local Issues Alert Procedure**

None.

### **Background Papers**

None.

### **Officers to Contact**

Brian Roberts, Director of Corporate Resources

Tel: 0116 305 7830

E-mail: [brian.roberts@leics.gov.uk](mailto:brian.roberts@leics.gov.uk)

Judith Spence, Head of Corporate Finance

Tel: 0116 305 5998

E-mail: [judith.spence@leics.gov.uk](mailto:judith.spence@leics.gov.uk)

**Appendices**

Appendix 1 – Audit Commission Guidance

Appendix 2 – PwC report on Service Delivery Centres

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### **Response from the Audit Commission**

All firms in our audit regime are required to comply with all statutory and professional requirements when carrying out their role as appointed auditor. The requirements on appointed auditors regarding their access to, and use of information, are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice, which is supported by the Statement of Responsibilities of Auditors and Audited Bodies, and the Commission's Standing Guidance for Auditors. It is important to note that Section 49 of the Audit Commission Act makes it a criminal offence for appointed auditors, or their staff, to disclose information obtained in the course of an audit to third parties save in specified circumstances. The provisions of Section 49 must be drawn to the attention of all audit staff.

The Audit Commission considers appointed auditors to be data controllers in their own right for information collected in the course of their audit. This is consistent with guidance from the Information Commissioner's Office and the European Commission. Commission guidance to auditors is clear that only information strictly necessary for the purposes of the audit should be recorded within audit files and those files must be kept securely.

Where a firm wishes to process information overseas, they must in the first instance seek approval from the Commission to do so. Consent is given by the Commission, subject to five specific conditions, as set out below:

1. Whilst acting as a data processor for the purposes of the Data Protection Act 1998, firms shall take appropriate technical and organisational measures designed to protect against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data. In particular, firms will process personal data only for the purposes contemplated in agreement with the Commission and act on our instructions only (given for such purposes);
2. Firms shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Act as if applicable to the firm directly. Firms shall answer the Commission's reasonable enquires to enable the Commission to monitor compliance with this and firms shall not sub-contract the processing of personal data (unless to firm Persons who are required to take equivalent measures when processing personal data) without the Commission's prior written consent;
3. No government protectively marked data (being marked in accordance with the Government Protective Marking System as Top Secret, Secret, Confidential, Restricted or Protected\*) will be involved;
4. No sensitive personal marked data (as defined by the Data Protection Act 1998) or protected personal data (as defined by the Cabinet Office Data Handling Review as 'any material that links an identifiable individual with information that, if released, would put them at a significant risk of harm or distress, or alternatively any source of information relating to 1000 or more

individuals is not considered likely to cause harm or distress') will be involved; and

5. Where relevant and appropriate the firm has notified audited bodies and relevant authorities.

*\*Please note this will change to "Top Secret, Secret or Protect: Sensitive" when the Government Protective Marking System changes, which is anticipated next year.*

The auditor of Leicestershire County Council is PwC LLP. You may find it helpful to know that the Commission has reviewed the information assurance arrangements of the firm and is satisfied as to its arrangements for the appropriate handling of Commission information, and also that the firm has received consent from the Commission to process information overseas, subject to the conditions set out above. You should be aware that these conditions are specific to where the auditor is acting as data processor on behalf of the Commission in its role as data controller. However, the Commission makes clear that it expects auditors to adopt the same standards when acting as data controller in their own right (e.g. when collecting data in the course of the audit).

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# ***Leicestershire County Council***

## **PwC Service Delivery Centre – summary of arrangements**

Government and Public  
Sector

February 2014





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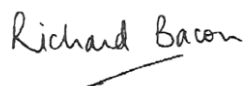
Members of the Corporate Governance Committee  
Leicestershire County Council  
County Hall  
Glenfield  
Leicester  
LE3 8HD

Ladies and Gentlemen,

At the previous meeting of the Corporate Governance Committee, members asked for more information regarding the arrangements for use of our Service Delivery Centres. In particular, you wanted assurance over the quality control and risk management arrangements we have in place. We have put together this short paper which responds to your queries.

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

Yours faithfully,



PricewaterhouseCoopers LLP

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*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](http://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.

# *Service Delivery Centres*

At the November Corporate Governance Committee, members raised some queries about our planned use of Service Delivery Centres (SDCs). We have summarised in this paper our control arrangements to provide you with assurance about the processes we undertake.

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. It is also a process already used widely by other audit firms who carry out Local Government audits, as well as in private sector organisations.

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 (SDCs) 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. We are already doing this with other organisations. It is a process which works well and delivers timely audit evidence of a high quality.



# *Quality of Work*

Activities at our SDCs are performed by qualified personnel who have training on the activities they perform. Work is typically performed by Process Specialists and Supervisors. We have a partner and managing director on-site supported by senior managers and managers who oversee daily operations. Regular checks for completeness and accuracy of work are undertaken by SDC supervisors.

Overseas, we have full-time on-site Assurance senior managers whose role is to oversee quality and service related to the activities being performed on behalf of UK engagement teams.

Work quality is of paramount importance. Each SDC has performance guidelines related to who should perform the work and the level of checking needed before sending the deliverable back to engagement teams. The SDC operations are also subject to periodic internal quality reviews of a representative sample of the deliverables to ensure quality. Quality is also being measured on the acceptance rates by engagement teams indicating quality of the work, as well as any feedback on how quickly the requests are assigned and completed within the SDC. For example, if they were processed within the allotted time and, importantly, if the Engagement Teams required deadline was met. We have ongoing performance reports in place to track these measures and use them to manage the operations of the SDCs.

While the SDC personnel will check the completeness and accuracy of the work performed under the standard user guide instructions and engagement team instructions, engagement teams are ultimately responsible for performing their own quality assurance review of work performed by the SDCs, including reviewing the sufficiency of and taking responsibility for the completed work.

If an engagement is selected for inspection by regulators, related work performed by the SDC will also be subject to inspection. Work performed by the SDCs will be subject to internal quality review procedures when performed in connection with an engagement that is selected for review.

**Ultimate responsibility remains with the engagement team for the quality of work performed.**



# *Independence and Security*

The SDCs are PwC Member Firms in their own right and are therefore subject to precisely the same IT infrastructure and data protection policies and procedures as any member firm in the PwC Network (including the UK). Their compliance to our Network Risk Management Policies and Standards are independently assessed by a quality review team. In addition, there is a separate Global IT inspection team that assesses data security and IT infrastructure arrangements.

SDC staff (consisting of process specialists, supervisors, and managers, or their equivalents) performing activities on behalf of engagement teams are required to be independent of those clients. The same independence rules apply to SDC staff as to your engagement team members.

The SDC processes have been designed to protect the security of client information. For example, engagement-related information is transmitted over PwC's secure network using a collaboration tool, Envoy, which provides document-level access security. Only PwC-provided solutions for the transmission and completion of PwC-related work are used.

Additionally, all SDC personnel are subject to the same security and confidentiality requirements required by the UK firm. For example, all SDC staff are required to complete the Safeguarding Information Training before beginning any work. This serves as a baseline of expectations to employees on how to operate within PwC, where staff may be exposed to client confidential information. SDCs are subject to Global Information Security Policy and to additional safeguards and physical security that have been put in place as a part of the program.

**Service Delivery Centres are subject to the same policies and procedures for the security of data as the UK firm.**





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.



## **CORPORATE GOVERNANCE COMMITTEE**

**10 FEBRAURY 2014**

### **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 (CRR);
  - Emerging Risks;
  - Internal Audit Review;
  - Key information on anti-fraud initiatives.





##### **Corporate Risk Register (CRR)**





2. 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.
3. The key changes since the CRR was last presented to the Committee in November, are:
4. *Risk 6 (Corporate Resources) – Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage* [Previous rating: 20 / Revised rating: 15]. Progress to date has impacted the likelihood of this risk occurring positively and this has been reflected in the current risk score.
5. Addition of Risk 17 which details risks to the Council associated with the Better Care Fund (previously known as Integration Transformation Fund). At its meeting on 25<sup>th</sup> November 2013, the Committee requested that a presentation be provided on the risks associated with the Better Care Fund and this will be undertaken as part of this agenda item.



6. As requested by the Committee at its last meeting and for monitoring purposes only, the addition of Risk 18, which details risks to the Council associated with the transfer of nine Elderly Persons Homes.
7. The latest assessment of the highest ranking risks is shown in the table below.

Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Progress on mitigating actions	Update	Direction of Travel
(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	There is minimal further action that can be taken to mitigate until more information is released	<p>The key risks and implications to LCC were identified and included for feedback to Department of Health through a consultation. The Government is due to publish results of this consultation in January 2014 - this will be reviewed and scoped into the MTFS as appropriate.</p> <p>The Care Bill will be approved by Parliament in April 2014, with consultation commencing in May 2014. Official regulations will remain unknown until October 2014.</p>	 Over the next 12 months the residual risk is expected to remain 'high/red'
(CE) Strategy, Partner- ships & Community	3	Partnerships failing to agree an integrated approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved.	20	Actions to further mitigate risk are on track	There is a need to further develop partnership working in relation to health and social care integration and other transformation. Leicestershire Together partnership arrangements to be reviewed.	 Over the next 12 months the residual risk is expected to remain 'high/red'
(C&F) Children & Families	4	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	Actions to further mitigate risk are on track	LCC has achieved 48% of the Payment by Results target within 18months of the programme. The allocations process is being developed in order to link direct work more robustly to identified families. Data processes for PBR have been further developed to include a wider range of data sources which is being utilised to identify families.	 Over the next 12 months the residual risk is expected to remain 'high/red'



Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Progress on mitigating actions	Update	Direction of Travel
(CR) Customer Service & Operations	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Actions to further mitigate risk are on track	The replacement SAN associated infrastructure gives both a more resilient infrastructure and a vastly improved position with regards to data recovery in the event of an outage. Resilient servers have also been split over two sites, so that a failure in any one location will not result in a total outage. Alongside this, a large number of servers have been virtualised so that they can be quickly brought back into service if there is an issue with the underlying hardware.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
(CR) Strategic Information & Technology	7	Continuing risk of failure of information security.	16	Actions to further mitigate risk are on track	The Council's application for compliance with the PSN Code of Connection was rejected to allow the Cabinet Office to seek additional clarification on how a small number of short-term risks will be managed, as well as assurance that the Council will implement a corporate Mobile Device Management solution to ensure its mobile devices will be centrally managed and patched.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
(E&T) Transportation	8	Impact of academy and secondary age conversion on home to school transport policy.	16	There is minimal further action that can be taken to mitigate until more information is known	Consultation with parents/guardians is running through January to March 2014 with careful consideration to the implications of the public sector equality duty. Equality Impact Assessments will be referred to in reports to the Scrutiny Commission and Cabinet. An 'all member' briefing is scheduled for 12th February.	 Over the next 12 months the residual risk is expected to remain 'high/red'
All	12	Challenges caused by the Welfare Reform Act.	25	Actions to further mitigate risk are on track	Work continues with service users, providing assistance to maximise income throughout the benefit changes.  Economic growth remains a	 Over the next 12 months the residual risk is

					key priority and an Economic Growth Board has been established to oversee delivery of City Deal as well initiatives to address worklessness. This Board consists of the seven Leaders from the District Council's, Leader of the County Council and the City Mayor.	expected to remain 'high/red'
Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Progress on mitigating actions	Update	Direction of Travel
All	13	Failure to ascertain and manage increased demand for services.	20	Actions to further mitigate risk are on track	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). A cross department review of BI and Data Management is also underway.	 Over the next 12 months the residual risk is expected to remain 'high/red'
(CR) Procurement	14	Ability to effectively contract manage devolved services through new service delivery models.	15	Actions to further mitigate risk are on track	To ensure that proactive contract management arrangements are in place, the Corporate Commissioning Contracts Board has been monitoring the performance of 23 of the Council's key contracts. Further works being initiated include identification of all key suppliers for business critical services (based on business continuity plans); and the roll-out of e-tendering (contract management module) to allow greater visibility of contract data.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
(CR) Strategic Information & Technology	15	Insufficient capacity to provide Information & Technology solutions.	16	Actions to further mitigate risk are on track	There is regular review of capacity versus demand, with further work to assess the impact on strategy of transformation activities.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
All	16	Risk around our ability to deliver	25	Actions to further	The provisional MTFS (2014/15-2017/18) was	

		savings and efficiencies through service redesign and transformation as required in the MTFS		mitigate risk are on track	presented to Cabinet in January 2014 for consultation and referral to the Overview & Scrutiny Commission with final approval in February 2014. Service reductions contained in the draft MTFS draw heavily on the budget consultation results. Work has begun on the transformation of services, which has included the development of a new vision, strategic imperatives and a Target Operating Model. Further work is underway, developing a transformation programme including governance and resourcing.	Over the next 12 months the residual risk is expected to remain 'high/red'
Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Progress on mitigating actions	Update	Direction of Travel
CE	17	Risk around achievement of funding for the Better Care Fund (previously referred to as the Integration Transformation Fund)	15	Actions to further mitigate risk are on track	Update provided through presentation to Committee	 Over the next 12 months the residual risk is expected to remain 'high/red'
A&C	18	Risk to the County Council surrounding transfer of nine Elderly Persons Homes	12	Actions to further mitigate risk are on track	In respect of the outstanding capital sum of £2.42m as a result of the transfer of nine Elderly Persons Homes to Leicestershire County Care Ltd, officers have continued to work with the provider to secure repayment of the deferred amount. All available options to secure payment have been explored, with a report being considered by the Council's Cabinet in February 2014 on the current and contingency options available to ensure repayment of the capital sum in full. Further details will follow once the Cabinet has considered this report.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'

8. 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).
9. 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 CRR 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 Risks**

#### **Integrated Adult System (IAS)**

10. IAS is the Adult Social Care client database and case management system that will be used by departmental staff. IAS will replace the current bespoke Social Services Information System (SSIS), which is inflexible, unsupportable and no longer fit for purpose. IAS will be implemented in March 2014 and offers an improved system that is flexible and easier to use.
11. The project team have focused their activity on 'business continuity' during this period and whilst extensive measures have been put in place to minimise disruption, a project of such scale could potentially cause some issues, affecting various service areas.
12. Services affected by the system changeover have been working to establish manual workaround plans. This could lead to weaker case management within the Community Care Finance, Localities and the Customer Service Centre. However, risks have been mitigated as much as possible as a result of the following:
  - Disruption limited to 5 working days;
  - Availability of 'read only' SSIS thereby retaining access to existing cases, records and shared folders;
  - Training completed for all staff allowing them to build the skills to use the system confidently, with refresher training 'post live';
  - IAS Project Team 'floor walking' to provide extra knowledge and support;
  - Introductory message on phone system for service users explaining system change;
  - Post live support via a triage service between the Project, ICT and the system suppliers.
13. A pre-implementation meeting will be held with stakeholders prior to changeover cover: step by step, day by day planned activity; actions to take in the event of error/failures; communications during the period; and overall responsibilities.

14. The Project Board has received regular reports, including risk logs and detailed analysis depicting current risk versus forecast risk. Review of the IAS Risk Register shows that all identified risks are being managed within the scope of the project, with no further escalation required to the CRR at this stage.

#### **Staff Resources**

15. Quarterly reviews have highlighted an increasing trend in service specific resource concerns being captured in departmental risk registers. Most departments are in the process of compiling their 2014/15 service plans and this process should take into account workforce planning. Once this has been completed, a further review will take place.
16. However, in considering the MTFS, there is confidence that plans are in place to achieve 2014/15 savings, with staffing changes and reductions taken into account, although there is awareness that 2015/16 reductions will have a significant impact on services.

#### **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 completed work on a consolidated risk management audit which focuses on framework design and associated governance.
18. Key points from the audit are as follows:
  - A comprehensive framework for managing risks has been developed;
  - The framework design and development involved consultations with a number of key stakeholders and also encompassed the use of recognised best practice from Association of Local Authority Risk Managers (ALARM);
  - The framework clearly explains the approach to risk management and includes standard documentation with examples;
  - The CRR has been refreshed with Member's involvement and now includes fewer consolidated risks;
  - There is coordination between the departmental and corporate risk management activities and this ensures that the CRR is produced in a structured manner.
19. Based on the answers provided during the audit and testing undertaken, substantial assurance was given that the internal controls in place to reduce exposure to those agreed risks currently material to the system's objectives are adequate and being managed effectively. A number of recommendations to bring about improvements have been made, but none of these have a 'high importance' rating.
20. For those areas audited where recommendations are being suggested to help improve controls, a management action plan has been agreed. Officers will consult with departmental risk representatives that make up the Corporate Risk

Management Group, on how best to implement the improvements suggested, alongside the annual review. Any actions agreed will compliment achievement of objectives within the revised Risk Management Strategy.

### **Anti Fraud Initiatives**

#### **Protecting the Public Purse 2013 (PPP 2013) – Fighting Fraud against Local Government**

21. In November 2013, the Audit Commission released PPP 2013, which focuses on the continuing progress by local government to protect taxpayers' money by fighting fraud through information gathered in their Annual Fraud Survey. Results published in PPP 2013 can be used to benchmark performance in detecting fraud and to identify strengths, trends and areas for improvement.
22. PPP reports are produced for those responsible for governance in local government, particularly councillors. It is intended to help them protect valuable and increasingly scarce public resources. PPP 2013 covers these important themes:
  - the scale and value of fraud detected by local government bodies in 2012/13;
  - whether fraud is in decline;
  - trends in housing tenancy (district level) and council tax discount fraud;
  - trends and threats in other significant fraud types;
  - national developments impacting on local government counter fraud.

The full report is available from the Audit Commission via the following link:  
[PPP 2013 Report](#)

23. Some key facts and figures from PPP 2013 are:
  - Fraud costs the UK public sector more than £20billion a year and local government more than £2billion;
  - Council Tax Discount and 'Other' fraud increased by 6% and 41% respectively;
  - The percentage of detected fraud in each region, broadly reflects the region's spend;
  - Of all detected fraud in local government (excluding housing tenancy fraud) in 2012/13 the total number of cases detected fell, whilst the average value per case rose to approximately £6,400 compared with £4,500 in 2011/12, highlighting an overall fluctuation between the last three financial years.
24. The table below shows the largest frauds categories that are most relevant to the County Council:

<b>Fraud Type</b>	<b>Cases 2012/13</b>	<b>Value 2012/13 (£million)</b>	<b>Value 2011/12 (£million)</b>	<b>Value 2010/11 (£million)</b>
Council Tax Discount	54,000	19.6	21.0	22.0
Business Rates	149	7.2	2.6	N/A
Abuse of Position	283	4.5	5.6	4.3
Social Care	200	4.0	2.2	2.2
Payroll, Pensions, Expenses	493	3.0	3.5	5.6
False Insurance Claims	74	3.0	2.1	3.7
Blue Badge	2901	1.5	2.4	1.5
Procurement	203	1.9	8.1	14.6

25. It is not possible to say whether the decline in some detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils', it may signal the effect of reduced investigatory resources.
26. At its meeting on 25<sup>th</sup> November 2013, the Committee was presented with a fraud risk assessment. Whilst the PPP outlines the main areas of fraud risk across local government, each authority's risk profile will be different. Therefore, this assessment took into account areas identified in The National Fraud Authority, Fighting Fraud Locally (FFL), PPP reports, information from the bi-annual National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases.
27. The results of PPP 2013 mirror the fraud risk assessment in that an analysis of the number and value of reported fraud cases at LCC over the last three years reveals relatively low numbers and values of fraud against the Council. PPP 2013 has been disseminated to relevant areas/officers that provided information for the risk assessment, for them to take on board recent developments and recommendations.
28. All PPP publications to date have included a checklist for the benefit of those 'responsible for governance' and within PPP 2013 this checklist has been revised and reproduced. The completed checklist detailing our progress in each area is attached as Appendix 2.
29. To provide robustness and independent assurance to the process, as part of its responsibility to evaluate the effectiveness of risk management processes, the Internal Audit Service will sample test some of the areas from the fraud risk assessment to confirm its accuracy and demonstrate compliance. This sense-check is designed to verify that the Council's self-assessment is both accurate and up to date.

#### Looking ahead

30. The Committee has been 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. Officers will continue to follow recommendations contained

within PPP 2013 and each of FFL themes, and a further update will be provided to the Committee in May 2014.

### **Recommendation**

31. 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, 3 February 2010

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 25 November 2013

### **Officers to Contact**

Chris Tambini, Head of Strategic Finance

Tel: 0116 305 6199

E-mail: [chris.tambini@leics.gov.uk](mailto:chris.tambini@leics.gov.uk)

Declan Keegan, Finance Manager

Tel : 0116 305 7668

Email : [declan.keegan@leics.gov.uk](mailto:declan.keegan@leics.gov.uk)



**Appendices**

Appendix 1 – Corporate Risk Register

Appendix 2 – PPP 2013 updated checklist

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Updated: Jan-14

Represents updates to column since Nov 2013

Corporate Risk Register

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

APPENDIX 1

		CRR				Current Risk Score			Residual Risk				
Department	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Impact	Likelihood	Risk Score	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
A&C	1	Risk removed											
A&C	2	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"><li>•Increase in LCC responsibilities and costs</li><li>•National eligibility criteria increases demand with no additional funding (reform under funded)</li><li>•All service users (existing and new) requiring a 'care account'</li><li>•Cap on total lifetime costs paid by individuals</li><li>•Leicestershire more affluent therefore more of the costs which are currently self funded will pass to tax payer</li><li>•Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care</li><li>•Uncertainty about formula used to allocate funding</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Double the number of service users eligible</li><li>•Concern on how well changes will be understood by service users/public</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>•Significant staffing and ICT resource implications</li><li>•Required additional staffing at a time where workforce planning to be reduced</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Major impact on substantial savings/efficiencies required</li><li>•Additional operating costs associated (increased assessment activity / care accounts)</li><li>•Significant reduction in income from charges</li><li>•More deferred payments for care costs</li></ul>	Mick Connell / Sandy McMillan	<ul style="list-style-type: none"><li>•Project Board (with senior sponsor) established to oversee development and delivery of an implementation plan</li><li>•Key risks and implications to LCC identified and included for feedback to DoH through consultation - approved by Cabinet</li><li>•Member Q&amp;A session</li></ul>	5	5	[R] 25	<ul style="list-style-type: none"><li>•Review of projects within A&amp;C efficiency programme</li><li>•Continue modelling exercise on scoping impact of Dilnot on service users, including obtaining best practice from other local authorities</li><li>•Careful planning to avoid potential risk of making staff redundant when future new recruitment may be required</li><li>•Review of risks as changes communicated</li></ul>	5	4	[R] 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 an integrated approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved.	<ul style="list-style-type: none"><li>•Partners disagree on targets, improvements and outcomes</li><li>•Service or agency interest is put ahead of the best service for Leicestershire people</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•LCC cannot meet statutory responsibilities</li><li>•Objectives of 'best possible outcomes' not achieved</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>•Vulnerable people at risk because service provision is inadequate</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>•Affected by incidents involving vulnerable people</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Budget reduction decision taken on an agency by agency/service by service basis with potential cost shunting</li></ul>	John Sinnott / Tom Purnell	<ul style="list-style-type: none"><li>•Leicestershire Together (LT) Executive support obtained</li><li>•First draft of the revised (LT) outcome framework circulated to partners</li><li>•Further discussion held to explore where further efficiencies and joint working could take place to achieve better outcomes at lower cost</li><li>•Review of partnership outcome priorities taken place</li></ul>	5	4	[R] 20	<ul style="list-style-type: none"><li>•Further testing of internal and external partner support through Corporate Management Team, Transformation Board and specific meetings</li></ul>	5	3	[R] 15
C&F	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"><li>•Supporting families services not effective</li><li>•Savings arising from SLF not agreed</li><li>•Data unavailable/immeasurable on some outcomes</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Reduction in families supported</li><li>•Increase in reactive service demand</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>•Families and individuals do not achieve their potential</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>•Loss of confidence in place based solutions</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Services unable to reduce budgets to make required reductions as a result of SLF</li></ul>	John Sinnott / Tom Purnell	<ul style="list-style-type: none"><li>•Data project underway to increase provision, quality and access</li><li>•Training for workers to achieve optimum outcomes with families at earliest opportunity</li><li>•Government announced a fourth year of funding into 2015/16</li></ul>	5	4	[R] 20	<ul style="list-style-type: none"><li>•Opportunities to nationally ring fence budgets to be discussed with partners/services</li><li>•Measuring outcomes to demonstrate reduced demand</li></ul>	5	3	[R] 15
CR	6	The County Council's services have a growing dependence on ICT systems and infrastructure. Hence maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage is vital.	<ul style="list-style-type: none"><li>•Business evolution and dependencies cause additional load on existing infrastructure, reducing resilience to failure</li><li>•Recovery plans are currently fragmented</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Unable to deliver critical services</li><li>•Disruption to day to day operations</li><li>•Loss of key information</li><li>•Loss of self service customer facing options / Public unable to use all access channels</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>•Alternate business continuity arrangements likely to result in backlogs of work</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>•Negative stories in press</li><li>•Key partners impacted may influence contract renewals</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Potential penalties</li><li>•Additional costs related to internal and external recovery</li></ul>	Brian Roberts / Roderick O'Connor	<ul style="list-style-type: none"><li>•New SAN in place that includes functions to rapidly restore services in the event of an outage</li><li>•Resilient servers split over two sites</li><li>•Servers have been virtualised so that they can be quickly brought back into service if there is an issue with the underlying hardware.</li><li>•Consultant review of existing resiliency completed and resiliency group setup to implement recommendations</li><li>•Provisions to ensure that ICT information is secure and recoverable</li></ul>	5	3	[R] 15	<ul style="list-style-type: none"><li>•Review of current datacentres to address risks identified by report</li><li>•Continue review of current plans to ascertain gaps, to put forward improvement proposals</li><li>•Notification of all planned changes that may impact infrastructure</li></ul>	4	3	[A] 12
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"><li>•Increased information sharing</li><li>•More hosted technology services</li><li>•Greater emphasis on publication of data and transparency</li><li>•Greater awareness of information rights by service users</li><li>•Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence.</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Diminished public trust in ability of Council to provide services</li><li>•Failure to comply with PSN Code of Connection standard would result in the Council being disconnected from PSN services, with possible impact on delivery of some vital services.</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>•Loss of confidential information compromising service user safety</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>•Damage to LCC reputation</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Financial penalties</li></ul>	Brian Roberts / Liz Clark	<ul style="list-style-type: none"><li>•Action plan to address issues linked to ICO MoU</li><li>•Info Security and related policy in place to ensure compliance</li><li>•PSN Board and Working Group established to coordinate future activity on PSN compliance</li></ul>	4	4	[R] 16	<ul style="list-style-type: none"><li>•Continued delivery of the Information Security programme of work</li><li>•Sign-off refreshed Acceptable Use Policy by Members</li><li>•PSN Code of Connection compliance</li><li>•PSN work programme dedicated project manager to take forward actions for 2014/15 compliance</li><li>•Corporate Mobile Device Management to control the impact of potential data loss from mobile devices</li></ul>	4	3	[A] 12

Department	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Current Risk Score			Further Actions / Additional Controls	Residual Risk		
							Impact	Likelihood	Risk Score		Residual Impact	Residual Likelihood	Residual Risk Score
E&T	8	Impact of academy conversion and secondary age range conversion on home to school transport policy	<ul style="list-style-type: none"> <li>Age range changes for compulsory secondary education</li> <li>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</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>No change to existing pattern of service delivery with current transport policy</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Parents do not understand eligibility and/or make school choices not fully understanding current policy</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Potential for conflict / legal challenge leading to negative media</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Continuing existing transport policy is cost neutral - any transport policy changes would need financial implications assessing</li> </ul>	Ian Drummond	<ul style="list-style-type: none"> <li>Engaging with Academies about to convert, explaining risks</li> <li>Members understand risks through SCG and Scrutiny briefings</li> <li>Cabinet Report (November) seeking approval to consult on new school transport policy</li> </ul>	4	4	[R] 16	<ul style="list-style-type: none"> <li>Consultation Jan-Mar 2014, for September 2015 effect</li> <li>Web and telephone help/guidance would need updating to assist parental queries as admission and age range changes take effect in academies</li> </ul>	4	4	[R] 16
All	12	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act	<ul style="list-style-type: none"> <li>Decreased income</li> <li>Continual economic climate</li> <li>High unemployment/Reduction in wage increases</li> <li>Changes in the benefit system</li> <li>Introduction of Universal Credit transfers responsibility to vulnerable people</li> <li>Inadequate information for business cases jeopardising robust decision making</li> <li>More demand for advice services</li> <li>No central funding for Local Welfare Provision post April 2015</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Families less able to maintain independence</li> <li>Difficulty in identifying and implementing effective preventative measures</li> <li>Hard to reach' groups slip through the net</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Cases of hardship / lack of support in media</li> <li>Potential inspection</li> <li>Public confused as to which Agency has responsibility</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>A&amp;C debt increases</li> <li>Demand led budgets under more pressure</li> <li>Risk of litigation / judicial review</li> </ul>	Mick Connell / Sandy McMillan / Tom Purnell	<ul style="list-style-type: none"> <li>Social Fund claims are lower due to more focused eligibility criteria</li> <li>A&amp;C finance team monitoring impact of benefit changes on departmental income and debt recovery</li> <li>Debt strategy plan approved and being implemented</li> <li>Information booklet on major WRA changes developed and circulated to all A&amp;C staff and shared with CYPS</li> <li>LCC agreed contribution towards the districts hardship funds to assist people in financial difficulty</li> <li>Additional contingency help for non collection of council tax</li> <li>Economic growth/development is key priority with focus in the City Deal on supporting those furthest from the labour market - 'Economic Growth Board' established and includes Leaders of the seven district councils, Leader of the Council and City Mayor</li> </ul>	5	5	[R] 25	<ul style="list-style-type: none"> <li>Maintain awareness of legislative changes and timing of WRA roll-out</li> </ul>	5	4	[R] 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"> <li>Insufficient business intelligence on customers and cost of service as a result of reduced IM/IT investment</li> <li>Demand influenced by unmanageable external environment</li> <li>Reduced research, performance and finance support for projects</li> <li>Inadequate data quality and data sharing</li> <li>Incorrect predictions for growth (and decline) For e.g. Waste</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Inadequate information for business cases</li> <li>Jeopardise importance of robust and effective decision making</li> <li>Service priorities not being met</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Difficulty in identifying and implementing effective preventative measures</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Potential inspection and reputation impact</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>Risk of litigation/judicial review</li> </ul>	Brian Roberts / Liz Clark / Chris Tambini / Tom Purnell	<ul style="list-style-type: none"> <li>Business Intelligence action plan, group and approach being developed</li> <li>Project controls in place for developing key systems</li> <li>Sharing of specialist knowledge</li> <li>Establishment and scoping of cross-organisation virtual team to focus on BI</li> <li>Cross department review of BI and Data Management underway</li> </ul>	5	4	[R] 20	<ul style="list-style-type: none"> <li>Regular review meetings to assess progress</li> <li>IT capacity and competency building</li> <li>Governance structures to oversee delivery of priority intelligence improvements</li> </ul>	5	3	[R] 15
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"> <li>Loss of direct control</li> <li>Robustness of supply chain - For e.g., Liquidation of insurer MMI</li> <li>Reduced funding and resources</li> <li>Staff turnover leading to lack of continuity</li> <li>Insufficient investment in contract management skills and competencies</li> </ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> <li>Business disruption due to cost and time to re-tender the contract</li> <li>Standards/quality not met</li> <li>Relationships with providers/suppliers deteriorate</li> </ul> <p><u>People</u></p> <ul style="list-style-type: none"> <li>Additional workload where disputes arise</li> </ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"> <li>Customer complaints</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>VFM/Efficiencies not achieved</li> <li>Increased costs as LCC has to pick up the service again</li> <li>Unfunded financial exposure (MMI)</li> </ul>	Brian Roberts / Chris Tambini	<ul style="list-style-type: none"> <li>The Corporate Commissioning &amp; Contracts Board (CCB) 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.</li> <li>Departmental and Corporate CCB ensure that sufficient consideration is given to contract and relationship management; and to managing liabilities at the outset of the procurement.</li> </ul>	5	3	[R] 15	<ul style="list-style-type: none"> <li>Supplier continuity (based on plans for business critical services) being initiated</li> <li>Roll out of e-tendering to help make contract KPI's and management more visible</li> </ul>	4	3	[A] 12

						Controls	Current Risk Score				Residual Risk		
Department	CRR Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Impact	Likelihood	Risk Score	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score
All	15	Insufficient capacity to provide Information & Technology solutions to support major change projects	<ul style="list-style-type: none"><li>•Imbalance of IT resources versus IT requirements</li><li>•Demand outweighs supply</li><li>•Loss of knowledge and lack of continuity as a result of staff turnover and/or inadequate investment in skills and competencies</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Departmental and corporate objectives not met or delayed</li><li>•Delays to project delivery</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Failure to support delivery of efficiency programme and ICT replacement projects</li></ul>	Brian Roberts / Liz Clark	<ul style="list-style-type: none"><li>•Forward planning for major projects</li><li>•Demand management for lower priority projects</li><li>•Workforce planning</li><li>•IT solutions that enable mobile and flexible working and improve access to information are being investigated and trialled.</li></ul>	4	4	[R] 16	<ul style="list-style-type: none"><li>•Additional work on IT Strategy</li><li>•Regular review of capacity versus demand</li><li>•Review of workforce plans and development of 3 month rolling plan</li><li>•Further work to assess impact of strategy and transformation activities</li></ul>	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"><li>•Local Government Finance Settlement significantly reduced</li><li>•Prolonged economic downturn restricts increases from funding sources</li><li>•Exceptional/Unforeseen increase in demand/costs</li><li>•Demand for the most vulnerable continues to increase: Adult Social Care / CYPS</li><li>•Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>•Negative impact on all services as further service cuts will be required to reduce deficit</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>•Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>•Loss of income</li></ul>	John Sinnott / CMT	<ul style="list-style-type: none"><li>•Resource review undertaken</li><li>•Public consultation undertaken</li><li>•Monitoring processes in place at both departmental and corporate level</li><li>•Settlement reviewed and MTFS updated</li></ul>	5	5	[R] 25	<ul style="list-style-type: none"><li>•MTFS approval and ongoing monitoring</li><li>•Increase focus on A&amp;C overspend</li><li>•Further work required to agree Transformation process, resources and governance</li><li>•Greater emphasis on commissioning, active communities and demand management</li><li>•Improved provision of management and performance information</li></ul>	5	3	[R] 15
CE	17	The Better Care Fund (previously referred to as the Integration Transformation Fund) was announced in the 2013 Spending Round. Failure in the delivery of plans and deployment of funds, could lead to the non-achievement of a number of national conditions and performance thresholds, leading to elements of the fund being withheld. The revised MTFS has been modelled on the assumption of these funds; with the potential for adverse repercussions on other services if not funds are reduced/not received.	<ul style="list-style-type: none"><li>• Uncoordinated working leading to inefficiencies</li><li>• Funding subject to national performance assessment with "payment by results"</li><li>• To access full allocation of the BCF by 2015/16, local government and NHS partners must ensure: a Better Care Fund Plan is developed and approved within a national timescale; Other national conditions are met; Achievement of the required performance level/progress against a combination of national and locally agreed measures by October 2015</li></ul>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>• Failure to meet Health and Social Care Integration objectives which are a key priority for both LCC and NHS</li><li>• Increased dependency on other health services directly impacting LCC budgetary pressures</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>• Limited early intervention or prevention due less planning 'around the individual'</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>• Loss of trust in partnership working</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>• If the plan does not deliver against metrics, some of the funding could be withheld (upto £10m)</li><li>•A proportion of the fund (£16m of £38m) is allocated to the protection of Social Care expenditure which is subject to agreement with the CCG's.</li></ul>	Cheryl Davenport	<ul style="list-style-type: none"><li>• County Council, the two County Clinical Commissioning Groups (CCGs) and the Health and Wellbeing Board working together to prepare and submit proposals through the Better Care Fund (BCF) over the next two financial years</li><li>• Initial modelling work includes financial assumptions to meet the national conditions which need to be addressed in the plan which includes an element of protection for social care services</li><li>• Work in progress across Leicester, Leicestershire and Rutland, known as the Better Care Together programme which provides an overarching strategic framework for each Council's BCF plan.</li></ul>	5	3	[R] 15	<ul style="list-style-type: none"><li>• The draft Better Care Fund will be submitted to the Health and Wellbeing Board for approval on 13th February.</li><li>• The final plan will be submitted to the Department of Health on 4th April once it has been approved by the Health and Wellbeing Board.</li><li>• Set conditions for operation of Pooled Budget</li></ul>	5	3	[R] 15
A&C	18	The County Council transferred nine Elderly Persons Homes (EPH's) as going concerns to Leicestershire County Care Ltd (LCCL) in September 2012. The County Council is still awaiting payment of the capital sum for the transfer.	<p>The existing deferred payment arrangement expires on 31 March 2014, leading to a need to review and consider the options available to ensure that full payment is received</p>	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"><li>• Adverse effect on smooth running of the EPH's</li></ul> <p><u>People</u></p> <ul style="list-style-type: none"><li>• Disruption and anxiety to residents</li></ul> <p><u>Reputation</u></p> <ul style="list-style-type: none"><li>• Negative media concerning treatment of elderly persons</li></ul> <p><u>Financial</u></p> <ul style="list-style-type: none"><li>• £2.42m outstanding debt</li></ul>	Mick Connell / Sandy McMillan	<ul style="list-style-type: none"><li>• LCC working closely with LCCL to ensure care priorities met and maintain high quality services</li><li>• LCC officer responsible for compliance</li><li>• LCCL made regular and timely payment of monthly instalments</li><li>• LCC diligently considering various options: current / contingency</li></ul>	4	3	[A] 12	<ul style="list-style-type: none"><li>• Cabinet approval of options presented (Feb)</li><li>• Officers continue to work closely with LCCL to finalise settlement of the account</li><li>• Further report to Cabinet</li></ul>	4	2	[A] 8

**Department**  
A&C = Adults & Communities  
CE = Chief Executives  
CR = Corporate Resources  
C&F = Children and Families

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

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(Completed January 2014)

**APPENDIX 2****PPP 2013 - Checklist for those responsible for governance**

<b>General</b>		<b>Yes</b>	<b>No</b>
<b>1</b>	Do we have a zero-tolerance policy towards fraud?	✓	
<p><b><u>Position Update:</u></b>  Historically, the County Council does not provide those services that have been considered to be at high risk of fraud, such as revenue and benefits. However it has been recognised that the change of emphasis from local government being a provider to a commissioner of services, changes the risk profile of fraud within LCC, as well as the control environment in which risk is managed.</p> <p>Therefore a thorough fraud risk assessment for LCC 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. Recognising fraud in this manner has incorporated 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.</p> <p>The Corporate Management Team (CMT) and Corporate Governance Committee support initiatives to improve the Councils acknowledgement, prevention and pursual of fraud, ensuring continuity towards zero tolerance.</p>			
<b>General</b>		<b>Yes</b>	<b>No</b>
<b>2</b>	Do we have the right approach and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	✓	
<p><b><u>Position Update:</u></b>  Over the past financial year, a significant amount of time has been invested in anti-fraud work, the aim being to align LCC with National Fraud Authority, Fighting Fraud Locally (FFL) – The Local Government Fraud Strategy.</p> <p>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 to direct future policy, strategy and plans – this has been completed and presented to the CMT and members of this Committee.</p> <p>Officers will continue to follow recommendations contained within each of FFL themes.</p>			

General		Yes	No
3	Do we have dedicated counter-fraud staff?		✓
<b>Previous action:</b>			
<p><b>Position Update:</b></p> <p>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, hence has never adopted a dedicated 'team'. However, there has always been a 'corporate' person responsible for the area as well Internal Audit dedicating resources, including those resources required to undertake the National Fraud Initiative exercise. Many Internal Audit staff has received training on fraud investigations throughout the years.</p> <p>Production of the fraud risk assessment involved a review of the organisation (listed in Q4 below). Whilst investigating within specific areas, it was evident that both staff and managers within these respective areas have considered the risks of fraud/bribery. To this effect there is a sufficient degree of responsibility being adopted at service/operational levels and adequate controls have been implemented.</p>			

General		Yes	No
4	Do counter-fraud staff review all the work of our organisation?	✓	
<p><b>Position Update:</b></p> <p>In producing the risk assessment, fraud areas identified in FFL, PPP, bi-annual National Fraud Initiative (NFI) exercise and Ministry of Justice Bribery guidance were researched. Within the County Council, this included the following areas, ensuring a thorough review of the organisation:</p> <p><u>Fraud</u> Local Council Tax Support; Personal Budgets; Procurement; Payroll; Mandate; Business rate; Social Fund / Local Welfare Assistance; Grant; Pension; Employee; Blue Badge; Concessionary Travel; Residential Care; Insurance; VAT; and other 'cash' receiving areas such as libraries, museums, Imprest Accounts and catering.</p> <p><u>Bribery</u> Sectoral; Transaction; Foreign Officials; Care Services; Fostering and Adoption; School Placements; Trading Standards; External Assessments; Investments.</p>			

General		Yes	No
5	Does a councillor have portfolio responsibility for fighting fraud across the council? (NEW)		✓
<p><b>Position Update:</b></p> <p>Councillor Rhodes is the Lead Member for Corporate Resources and within this</p>			



remit there is a responsibility to ensure that the County Council demonstrates value for money, which inherently includes fraud mitigation.

The Corporate Governance Committee provides assurance for the Authority that risk management is undertaken and effective by reviewing, scrutinising and challenging the performance of the Council's risk management framework; including progress against planned actions. A key element within the LCC risk management framework is the mitigation of fraud.

General		Yes	No
6	Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓	
<b>Position Update:</b> Updates on Anti-Fraud initiatives were presented to the Committee as appropriate during 2013/14. This has been further complimented by the inclusion of 'Risk of Fraud' within the 2013/14 External Audit Plan provided by PWC.			

General		Yes	No
7	Have we assessed our management of counter-fraud work against good practice?	✓	
<b>Position Update:</b> The Committee has been 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 and work has already begun to action this. The FFL Strategy is the key reference for best practice in local government.  The Council recognises that it is important to balance the cost of prevention against the likely impact of fraud and due consideration continues to be given to the cost/benefit of implementing and/or enhancing the Council's current fraud prevention procedures.			

General		Yes	No
8	Do we raise awareness of fraud risks with?		
a.	New staff (including agency staff)?	✓	
b.	Existing staff?	✓	
c.	Elected members?	✓	
d.	Our contractors?	✓	
<b>Position Update:</b> <b>A &amp; B:</b> All employees are inducted in to the organisation by their manager. As part of the induction Financial Regulations and the Council's Code of Conduct are covered, which refer to personal interests, registration of interests, register of gifts and hospitality, close personal relationships and Duty of Trust. If the employee is responsible for procurement, the manager will ensure that they			

undergo the relevant procurement training. Fraud Risks to the County Council are highlighted within the Fraud Awareness CIS pages and e-learning module so that all officers are made aware.

**C:**

'Risk Management' update reports presented to Corporate Governance Committee have informed members of current risk and anti fraud initiatives being carried out at the Council. Elected Members also have the opportunity to complete the Fraud Awareness E-Learning module. Members are also subject to their own code of conduct which covers, register of interests and gifts and hospitality register.

**D:**

The Council's Contract Procedure Rules (7b) mandate the inclusion of a 'Prevention of Corruption' clause in all contracts, which includes reference to the new Bribery Act 2010. There is also a 'Supplier Whistleblowing' condition that, like the 'Prevention of Corruption' condition is included within the Council's Terms and Conditions. The 'Supplier Whistleblowing' condition stipulates that the contractor "comply with the Council's Whistleblowing procedures which ensure that employees of the Contractor are able to bring to the attention of a relevant authority malpractice, fraud and breach of the law on the part of the Contractor or any sub-contractor, without the fear of disciplinary and other retribution of discriminatory action". It also requires the contractor to disseminate the Council's Supplier Whistleblowing Policy amongst its employees and sub-contractors.

The County Solicitor has commissioned a project team to review the Employee 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. The revised Code implicitly emphasises expectations of all employees with regards to fraud, corruption and bribery (areas not covered before). Once approved and communicated, this Code will contribute to overall fraud awareness amongst staff.

General		Yes	No
9	Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	✓	
<p><b><u>Position Update:</u></b></p> <p>In order to share risk management information and experiences, the Council has established networks with other authorities and agencies. Specifically, the Council is a member of the East Midlands Risk Managers' Group, East Midlands Insurance Officers Group and ALARM (Association of Local Authorities Risk Managers). Internal Audit is an active member of the Midland Counties' Chief Internal Auditors Fraud sub-group. This group meets twice yearly and any information arising of interest is again cascaded accordingly.</p>			

These groups, whose members include various local authorities from the midlands area, meet two/ three times a year to discuss risk management issues that are common to all authorities and to share examples of best practice.

The County Council also gains information about current fraud risks and issues through regular monitoring and reading of the new TIS online Fraud information stream and discussion forum.

General		Yes	No
10	Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓	
<p><b>Position Update:</b>  The Authority subscribes to the National Anti-Fraud Network (NAFN) and receives regular updates / bulletins. Where these bulletins contain information of interest, for example fraudulent creditor warnings, officers are proactive in cascading this information to relevant partners – for example, the Financial Shared Services Centre, external clients, schools and colleges.</p> <p>The Authority plays an active part in the Audit Commission's National fraud Initiative (NFI). This takes place every two years and participation is mandatory.</p> <p>Internal Audit has developed a protocol for raising issues of concern / possible fraud – the first port of call is now Trading Standards. This section will then share the information between others relevant areas (Finance Teams, Legal Services) where considered necessary.</p> <p>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 prevention on fraud.</p> <p>The Council has also worked with and contributed to District Council initiatives to tackle Council Tax fraud.</p>			

General		Yes	No
11	Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓	
<p><b>Position Update:</b>  The Head of Internal Audit Service (HoIAS) has a responsibility under the Public Sector Internal Audit Standards to both create a risk based audit plan and then conduct risk based audits. Because of improvements to the Authority's risk management processes, the HoIAS is placing more reliance on the content of</p>			

risk registers (department and corporate) to form the basis of the plan in addition to audits added at the professional discretion of the s151 Officer and the HoIAS.

Audits are mostly designed so that if it is identified there is a risk to service objectives being achieved; it has been evaluated by management to determine how the risk is to be managed. If management decide that controls should be implemented, the audit will evaluate firstly that the control management has designed is sufficient/adequate so that under normal circumstances it would mitigate the risk occurring, and secondly, that the control is actually being applied consistently (method and timing).

Where a system is in development, the auditor may 'consult' with management at early stages to give an opinion on how they're designing controls and then later once the system is embedded, test those controls still exist and are being applied. Recommendations are made either where there isn't a control, or the control design is weak or it isn't being applied consistently. The scale of the recommendation affects the auditor's opinion on that individual system's control environment. Collectively the results of all audits allow for an opinion to be reached on the Authority's overall internal control environment.

The HoIAS is exploring the extent and robustness of other assurance provided over risks.

General		Yes	No
12	Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	✓	
<b><u>Position Update:</u></b>			
<p>The last biennial exercise was carried out for financial year 2012/13 and was derived from data sets April to September 2012. Internal Audit receives a summary of all matches (high, medium or low) which is then filtered to 'recommendation on matches that should be investigated further'. The relevant reports are downloaded and sent to respective officer/service area.</p>			
<p>LCC received and disseminated 15 reports, totalling just over 10,000 recommendations – of this, almost 9000 were attributable to a combination of matches on Blue Badges and Concessionary Travel.</p>			
<p>Whilst the total numbers may seem high, it should be remembered that the NFI matches are derived from reports using old data and in almost every case, the match was proved to be unfruitful, at least from a 'recovery of monies' point of view. Generally, information from the NFI exercise has been out of date and/or inaccurate and therefore some sections (e.g. Pensions) choose not to examine the NFI output as they have access to more up to date information via a mortality tracking service – given the value of potential fraud, this is wholly</p>			

appropriate.

In conclusion, whilst participation in the NFI does not benefit LCC financially, some of the service areas find the information useful, and are somewhat reliant upon it, for updating records.

General		Yes	No
13	Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	✓	
<b><u>Position Update:</u></b>  The existing Policy will be revised in conjunction with the revisions to the Anti Fraud Strategy and Policy.			

General		Yes	No
14	Do we have effective arrangements for: <ul style="list-style-type: none"> <li>• Reporting fraud; and</li> <li>• Recording fraud;</li> </ul>	✓	
<b><u>Position Update:</u></b> Internal Audit Services keep a record of fraud/s within their investigation database, in correlation with their involvement of the case. The Head of Internal Audit Services reports fraud internally to the Corporate Governance Committee and externally to LCC appointed auditors, PricewaterhouseCoopers.  The Head of Internal Audit Services will also complete and submit the Annual Fraud Survey on behalf of the Authority. Improves to recording fraud will be considered as part of the refresh of the strategy.			

General		Yes	No
15	Do we have effective whistleblowing arrangements? In particular are staff: <ul style="list-style-type: none"> <li>• Aware of our whistleblowing arrangements?</li> <li>• Have confidence in the confidentiality of those arrangements?</li> <li>• Confident that any concerns raised will be addressed</li> </ul>	✓	
<b><u>Position Update:</u></b> The Council recognises that the best fraud fighters are the staff and clients of the local authority and to ensure they are supported to do the right thing, comprehensive and transparent Whistleblowing arrangements need to be in place. 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'. The updated Policy and Procedures will be in place later in the year.			

General		Yes	No
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16	Do we have effective fidelity insurance arrangements?	✓	
<b>Position Update:</b> All staff are covered with a limit of £10million subject to a £100,000 deductible, which is met from an internal fund.			

<b>Fighting fraud with reduced resources</b>		Yes	No
17	Have we reassessed our fraud risks since the change in the financial climate?	✓	
<b>Position Update:</b> At its meeting in November 2013, the Committee was presented with an Appendix that contained 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 incorporated 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, allow the Council to direct resources accordingly, as well as help prioritise areas of concern.  The assessment shows 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 LCC over the last three years reveals relatively low numbers and values of fraud against the Council.			

<b>Fighting fraud with reduced resources</b>		Yes	No
18	Have we amended our counter-fraud action plan as a result?	✓	
<b>Position Update:</b> As in Q17 above			

<b>Fighting fraud with reduced resources</b>		Yes	No
19	Have we reallocated staff as a result?	✓	
<b>Position Update:</b> As in Q3 above			

<b>Current risks and issues</b>	<b><u>Housing tenancy</u></b>	<b>Yes</b>	<b>No</b>
<b>20</b>	Do we take proper action to ensure that we only allocate social housing to those who are eligible?		
<b>Comments</b>  N/A			

<b>Current risks and issues</b>	<b><u>Housing tenancy</u></b>	<b>Yes</b>	<b>No</b>
<b>21</b>	Do we ensure that social housing is occupied by those to whom it is allocated?		
<b>Comments</b>  N/A			

<b>Current risks and issues</b>	<b><u>Procurement</u></b>	<b>Yes</b>	<b>No</b>
<b>22</b>	Are we satisfied our procurement controls are working as intended?	✓	
<p><b><u>Position Update:</u></b>          There are robust controls in place which are not limited to, but include:</p> <ul style="list-style-type: none"> <li>• Recently established e-Tendering solution (Due North) that will operate set standard procurement templates that cannot be deviated from without Commercial and Procurement Services management authorisation. Further, the Due North system will establish a full electronic audit trail;</li> <li>• The Contract Procedure rules have been updated (approved December 2013);</li> <li>• Specifications drafted as a result of consulting with users and the supply market;</li> <li>• Documented policies and procedures;</li> <li>• Equality of opportunity for all suppliers to submit tenders;</li> <li>• Management trail – documented evidence of how suppliers were selected;</li> <li>• Clear instructions in independently dispatched tender invitation documents;</li> <li>• Declaration of interests of evaluation panel members and bidders;</li> <li>• Monitoring of tender activities and market awareness;</li> <li>• The corporate Commissioning and Contracts Board (CCB) has been established by the CMT to oversee the contract letting and contract management processes within the Council for business critical contracts</li> </ul>			

valued in excess of £1m. The aim is to make sure that the Council gets the best out of its supply base and that there is a disciplined approach to sourcing practice and contract management;

- A Good Procurement Practice Framework and supporting checklists have been developed by the corporate Board and a panel of legal, procurement and finance staff are used to provide independent challenge at the pre-procurement and contract management stages
- Each department has also set up its own arrangements for a departmental Commissioning and Contracts Board to review lower value/risk procurement.

There have been very few challenges against the Authority which is evidence to good procurement controls.

Current risks and issues	<u>Procurement</u>	Yes	No
23	Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	✓	
<p><b><u>Position Update:</u></b> The Contract Procedure rules have been updated (approved December 2013) and extensive information and guidance is provided on the CIS regarding control measures to prevent such occurrences.</p>			

Current risks and issues	<u>Recruitment</u>	Yes	No
24	Are we satisfied our recruitment procedures:		
a.	Prevent us employing people working under false identities;	✓	
b.	Confirm employment references effectively;	✓	
c.	Ensure applicants are eligible to work in the UK;	✓	
d.	Require agencies supplying us with staff to undertake the checks that we require?	✓	
<p><b><u>2013/14 update:</u></b></p> <p><u>Internal</u> The County Council were visited by UK Border Agency in 2012 to discuss measures in place. As a result of this an audit of every employee record was conducted, which confirmed robust procedures are in place, with good practice being followed. Subsequently HR has developed and released a new policy 'Prevention of Illegal Working' – under this policy, a new starter cannot added to payroll until all documentation has been received and checked with final sign off by HR Business Partners. Completion of the Fraud Survey has shown nil amounts for recruitment fraud</p>			



and the exposure for LCC is low, especially given the revised checklist and procedures.

Agency

With the new MSTAR contract, more assurance can be given as Manpower directly employs agency workers therefore reducing LCC risk with employment legislation. In routine recruitment, there is a high level of focus on safeguarding issues, with significant control and management of panel vendors. For care roles, extra measures and checks are enforced (e.g. 5 year written reference). Using MSTAR allows LCC to insist on certain standards and ensure they are maintained and consistent application.

<b>Current risks and issues</b>	<b><u>Personal budgets</u></b>	<b>Yes</b>	<b>No</b>
<b>25</b>	Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	✓	

Position Update:

Whilst there is agreement that councils' should tackle personal budget fraud, PPP acknowledges the need for councils to adopt a balanced approach and introduce proportionate measures that do not reduce the choice and control that direct payments (as part of personal budgets) aims to bring.

The Council has produced guidance for service users who receive and manage their own Cash Payments as well as additional guidance for people acting as a "Suitable Person". All users receiving a direct payment sign up a 'cash agreement' which clearly states expectations and consequences of misuse.

Any misuse of personal budgets would normally be identified by at the 'review' stage which is conducted by trained social workers, with an additional worksheet for workers which prompts what anomalies to look for, what would constitute a minor and major breach, and what to do.

The 'Simplifying Customer Journey' project being run by the department, together with the implementation of IAS will add more robustness to both the awarding and review stage of the personal budget process.

<b>Current risks and issues</b>	<b><u>Personal budgets</u></b>	<b>Yes</b>	<b>No</b>
<b>26</b>	Have we updated our Whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	✓	

Position Update:

The Council's Whistleblowing arrangements are being revised (see Q15 above). The revised Policy is intended to cover concerns that fall outside the scope of other existing Council procedures and to that effect, does not replace Adult

Social Care Safeguarding Reporting or Adult Social Care Complaints Procedures under which the above would be covered.

<b>Current risks and issues</b>	<b><u>Council tax discount</u></b>	<b>Yes</b>	<b>No</b>
<b>27</b>	Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	✓	
<b><u>Position Update:</u></b> LCC does not collect Council Tax directly, but via the 7 district councils. Given that LCC receives 70% of the collections, in the past there has been little incentive for districts to investigate; but given the potential financial loss (in times of austerity) it has been recognised that more could be done. LCC has contributed towards a 'review of Single Person Discounts', a scheme provided by an external provider that involves data matching and investigation.			

<b>Current risks and issues</b>	<b><u>Housing and council tax benefits</u></b>	<b>Yes</b>	<b>No</b>
<b>28</b>	When we tackle housing and council tax benefit fraud do we make full use of:		
<b>a.</b>	National Fraud Initiative;		
<b>b.</b>	Department for Work and Pensions;		
<b>c.</b>	Housing benefit matching service;		
<b>c.</b>	Internal data matching;		
<b>d.</b>	Private sector data matching;		
<b><u>Position Update:</u></b> N/A			

<b>Emerging Fraud Risks</b>		<b>Yes</b>	<b>No</b>
<b>29</b>	Do we appropriate and proportionate defences against emerging fraud risks:		
<b>a.</b>	Business rates;		
<b>b.</b>	Right to Buy;		
<b>c.</b>	Social Fund and Local Welfare Assistance;		
<b>d.</b>	Council Tax reduction;		
<b>e.</b>	Schools; and		
<b>f.</b>	Grants		
<b><u>Position Update:</u></b> <b><u>A – Business Rates</u></b>			

The Government introduced the Business Rates Retention system from April 2013. Like Council Tax, business rates are collected by the districts with the majority retained by them and Central Government and there is currently no contribution paid towards tackling potential fraud. During 2014/15 discussion will be had with Districts Councils with regards to adopting a proactive approach, similar to the council tax scheme, where due consideration will be given to contributing funding, proportionate to income receivable.

#### **B – Right to Buy**

Not applicable

#### **C- Social Fund and Local Welfare Assistance**

From 1<sup>st</sup> April 2013, the former DWP Social Fund devolved to local authorities but was not ring fenced. The County Council has modelled the scheme on the DWP process and it is administered through an external organisation, Northgate.

The current process involves an assessment of needs against strict eligibility criteria, which is followed by data checking, confirming personal details and alerts if already receiving any other type of benefits. Northgate use 'Family Fund Trading' to administer some of the help available (white goods, furniture etc) which tends to be allocated via a prepaid card, activated with a security code and limited to a specified product and value.

Robust eligibility criteria with a scoring and filter process contribute to fraud mitigation and other controls include a maximum allowance per individual of £1500 (very rare that the full amount is awarded) and entitlements being limited to one claim in 12 months. Furthermore, the Council has restricted levels of 'cash' payments, an area highly susceptible to fraud.

#### **D- Council Tax Reduction**

From April 2013 the government replaced Council Tax benefit with Local Council Tax support. Within this, councils were given the freedom to devise their own local support schemes, including how much support they give to particular groups. Within Leicestershire, a Discretionary Discount Scheme (DDS) has been implemented which gives people a discount in the short term dependent on whether they meet the eligibility criteria, assessed by the Housing & Benefits teams at district level. The County Council has agreed funding to support the DDS and receives updates from districts on the latest financial position. There is currently an under spend (possible indication of low fraud), although the new 'point' in the billing cycle may trigger the number of claims.

#### **E – Schools**

Most schools have adopted local policies to suit their operational environment. With a significant number of schools within Leicestershire converting to academy status, there are fewer requirements within LCC to rigorously monitor schools procedures. However, the Internal Audit Service continues routine auditing of

maintained schools, where internal controls to prevent fraud are tested.

### **F – Grants**

The County Council awards a variety of grants, each attracting its own criteria and conditions. However, all grant fund applications go through an established process where fundamental principles are followed to ensure protection of these funds. Most organisations applying are known to LCC thereby reducing any suspicion from a very early (application) stage. Where an application is made and the organisation is previously unknown, an LCC officer will visit the site as a pre condition of the assessment.

Certain grants are subject to an independent ‘panel review’ to how the fund is awarded - decisions are not taken lightly with rigorous checks to ascertain if the applying organisation is able to appropriately deal with that level of funding etc. Other conditions include (but are not limited to): Matching objectives of project against those identified in a Parish Plan; Applicants needing to have a bank account, with at least two signatories; Applicants requesting more than £1,000 from the should be a formally constituted voluntary or community group or registered charity. All applications are assessed by giving due consideration to the evidence of need and proposed project outcomes demonstrated, in line with the eligibility criteria defined.

Grant payments will normally be released on completion of the project/activity for which funding has been approved, and on receipt of invoices. Successful applicants are also expected to provide feedback/evidence of spend (e.g. letter, short report, photograph, visit from funder) to confirm the project activities have taken place. Completion of the Fraud Survey has shown nil amounts for Grant fraud and the exposure for LCC is low, given the established robust procedures in place.



## **CORPORATE GOVERNANCE COMMITTEE**

**10 FEBRUARY 2014**

### **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 31<sup>st</sup> December 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 December quarter was higher than the 0.8% experienced in the September quarter. It also appears that the recovery is broadening away from reliance on consumer spending into construction, manufacturing, business investment and exporting. Unemployment is falling much more quickly than expected towards the 7% threshold set by the Governor of the Bank of England before he said base rate increases would be considered.
5. Markets are now expecting a first increase in base rates in early 2015, although recent comments by Monetary Policy Committee (MPC) members have emphasised that they would want to see strong growth well established, and an increase in real income, before they would consider raising rates. For the first time in many years, there now appears to be differences of opinion between economists about the timing and extent of base rate increases.

6. The UK has been unusual in recent years in that its inflation level has been above the official target and the level of Consumer Price Inflation (CPI) has been stubbornly high – many other countries are fighting a battle against deflation. However, the level of CPI has recently fallen quite sharply and the December figure was exactly in line with the target at 2%. Most commentators expect inflation to stay in a tight range around the inflation target for many months to come.
7. In December the US Federal Reserve felt sufficiently confident that strong growth had been established in America that it announced that it would taper its asset purchase activity by \$10bn per month from January, although it will still remain at \$75bn per month. Markets took this announcement in their stride, which was a contrast to the sell-off that occurred in June 2013, when the possibility of future tapering was first raised by the Fed's Chairman. It does appear that investors are becoming more confident that economic growth is becoming self-sustainable.

#### **Action Taken during December Quarter**

8. The balance of the investment portfolio decreased to £179.6m at the end of September 2013, from £150.5m at the end of the previous quarter. This decrease in balances is quite normal, especially given the front-loading of many Central Government grants early in the financial year.
9. During the December quarter a £5m loan to Barclays at a rate of 3.03% matured and was not renewed, as they are no longer an acceptable counterparty. A £5m loan with Lloyds Banking Group at a rate of 1.9% matured and was replaced with a new 1 year loan to the same counterparty at a rate of 0.98%, but the most notable action was the placing of a number of loans with other Local Authorities at rates that are attractive, relative to both the expected level of base rates and also the alternative option for investment (which would be to invest in Money Market Funds, at rates no higher than 0.4%). Of the loans to Local Authorities, £30m is for a 1 year period, £5m is for 9 months, £10m is for 6 months, £10m is for 3 months and £3m was for a two week period. There were 10 different loans to 10 different counterparties, totalling £58m at an average rate of 0.57%.
10. Local Authorities have been active borrowers within markets for some time, but the rates that they were willing to pay have been unattractive to us as a lender. There appears to have been a tightening of supply to them and, as a result the rates that we could achieve, became attractive. It is thought that most of the authorities are borrowing to finance the funding gap caused by their decision to repay long term debt a number of years ago and whether there continues to be an active Local Authority market that is attractive to lenders such as ourselves remains to be seen.
11. The average rate of interest rate of the investments at the end of December was exactly the same as it had been at the end of the previous quarter at 0.67%, despite the maturity of two £5m loans that were at very attractive rates. Although these two loans were for a relatively small part of the

portfolio, their impact onto the average rate was significant. Maintaining the same average rate was a function of both the reduction in the portfolio balance and also the loans that were made to Local Authorities – the level of balance held in Money Market Funds (at an average rate of c.0.4%) decreased by £79.5m.

12. The loan portfolio at the end of September was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	58.0
Money Market Funds	<u>27.5</u>
	<u>150.5</u>

13. 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)

14. There are also four further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS). These do not form part of the treasury management portfolio, but are listed below for completeness:

- 5 year loan for £2m, commenced 5<sup>th</sup> September 2012 at 2.72%
- 5 year loan for £1.4m, commenced 27<sup>th</sup> November 2012 at 2.19%
- 5 year loan for £2m, commenced 12<sup>th</sup> February 2013 at 2.24%
- 5 year loan for £2m, commenced 1<sup>st</sup> August 2013 at 2.31%

15. In mid-December 2013 the 'Leicestershire Local Enterprise Fund' was launched, which makes financing available to small and medium-sized Leicestershire companies via an association with Funding Circle. There are a number of hurdles that companies must be clear before being able to access this funding, and any loans made will be classed as 'service investments'. As such, these loans are not covered within the Treasury Management Policy, but summary information (number of loans made, total amount, average interest rate) will be included in each quarterly treasury management report. No loans had been made by the end of December.

### **Resource Implications**

16. 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**

17. There are no discernable equal opportunity implications.

**Recommendation**

18. 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****10 FEBRUARY 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL  
INVESTMENT STRATEGY 2014/15****Purpose of the Report**

1. To allow the Corporate Governance Committee the opportunity to review the draft Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15, in accordance with the reporting arrangements agreed by the Council.

**Background**

2. In line with the Treasury Management in the Public Services Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Corporate Governance Committee has been given responsibility for reviewing the Treasury Management Strategy Statement and Annual Investment Strategy prior to it being considered by the County Council. The Appendix to this report is the draft version of the document, which will form part of the Medium Term Financial Strategy to be considered by the County Council at its meeting on 19<sup>th</sup> February 2014.

**Resource Implications**

3. The interest earned on revenue balances and the interest paid on external debt (which link directly into the Treasury Management Strategy Statement and Annual Investment Strategy) will impact onto the resources available to the Council.

**Equal Opportunities Implications**

4. There are no discernable equal opportunity implications.

**Recommendation**

5. The Committee is asked to comment on 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

**Appendices**

Appendix – Treasury Management Strategy Statement and Annual  
Investment Strategy

**APPENDIX****TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL  
INVESTMENT STRATEGY 2014/15**

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee considered the contents of Treasury Management Strategy Statement and Annual Investment Strategy at its meeting held on 10<sup>th</sup> February 2014. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:-

<b>Area of Responsibility</b>	<b>Council/Committee/Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly treasury management updates	Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end
Treasury Management Practices	Director of Corporate Resources	
Review of Treasury Management Strategy/Annual Investment Strategy	Corporate Governance Committee	Annually before start of financial year and before consideration by full Council
Review of Treasury Management Performance	Corporate Governance Committee	Annually by end of September following year end

### Treasury Management Strategy 2014/15

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (as required by Investment Guidance issued subsequent to the Act) and this is included as paragraphs 24 – 36 of this strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2014/15 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services (formerly called Sector Treasury Services).

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

### Balanced Budget Requirement

3. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increase in charges to revenue from:-
  - i) increase in interest charges caused by increased borrowing to finance additional capital expenditure, and
  - ii) Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

### Treasury Limits for 2014/15 to 2017/18

4. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit” the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in annex 2 of this report.

### Current Portfolio Position

5. The Council’s treasury portfolio position at 31<sup>st</sup> December 2013 was:

		Principal £m	Average Rate %
Fixed Rate Funding	PWLB	188.10	6.168
	Market	95.50	4.492
Variable Rate Funding	Market	10.00	3.990
Other Long Term Liabilities		<u>0.00</u>	
		293.60	5.549
Total Investments		<u>150.50</u>	0.668
Net debt		<u>143.10</u>	

The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, we have the option of accepting the new rate or repaying the loan. Where the first opportunity for the lender to do this has already passed the loan has been classed as ‘fixed rate’ even though, in theory, the rate could change in the future. Where the first option to increase the rate has not yet passed, the funding has been classified as ‘variable rate’.

### Borrowing Requirement

6. It is not currently anticipated that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2014/15 – 2017/18), and it is also expected that maturing loans will not be replaced. There are a number of reasons that no new net borrowing is expected, including the current position of having internal indebtedness (at 31<sup>st</sup> March 2014 £24.4m of historical capital spending will be financed through internal cash resources), a change by the Government to switch capital approvals to grants as opposed to borrowing

approvals, no unsupported borrowing included in the MTFS and the level of Minimum Revenue Provision (See Annex 1) that will be generated over the period.

7. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt is expected to marginally exceed the Capital Financing Requirement towards the end of the MTFS period, the amount is minimal and if there is a cost-effective opportunity (most probably the early repayment of existing debt) to stop this happening it will be considered.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
<b>Opening Capital Financing Requirement</b>	<b>321,047</b>	<b>302,973</b>	<b>283,803</b>	<b>272,380</b>
New Borrowing	0	0	0	0
Minimum Revenue Provision	(18,074)	(19,170)	(11,423)	(10,985)
<b>Closing Capital Financing Requirement</b>	<b>302,973</b>	<b>283,803</b>	<b>272,380</b>	<b>261,395</b>
<b>Opening external debt</b>	<b>293,600</b>	<b>285,600</b>	<b>275,100</b>	<b>274,600</b>
Loans maturing	(8,000)	(10,500)	(500)	(10,000)
<b>Closing external debt</b>	<b>285,600</b>	<b>275,100</b>	<b>274,600</b>	<b>264,600</b>
<b>Underborrowed/(borrowing requirement)</b>	<b>17,373</b>	<b>8,703</b>	<b>(2,220)</b>	<b>(3,205)</b>

#### Prudential and Treasury Indicators for 2014/15 – 2017/18

8. Prudential and Treasury Indicators (as set out in the tables in annex 2 to this report) are relevant for the purpose of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management, and this was adopted in February 2010.

#### Prospects for Interest Rates

9. It appears highly unlikely that there will be any increase in UK bank base rates during 2014 and the consensus economic forecast is that there will also be no increase during 2015. The timing and extent of increases from this level is highly dependent on economic growth in not just the UK, but also the rest of the developed world. The general consensus is that base rates will remain below what was previously considered a normal range (4% - 6%) for a significant period of time.
10. The range of forecasts produced by economists is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 – 3 years. There is, of course, a possibility of economic growth accelerating more than is currently predicted and if any acceleration gains traction, base rate rises may happen more quickly and more aggressively than is currently predicted. The new Governor of the Bank of England has issued 'forward guidance' which suggests that base rate rises will not happen until 2016, although there are various caveats that would allow rates to increase before this date.

### Borrowing Strategy

11. The outlook for borrowing rates - which are linked to Government bond (gilt) yields – is difficult to predict. The last 12 – 18 months has seen an increase in the yields on UK Government bond yields, albeit from multi-generational lows. Supply of gilts is likely to be meaningful for a number of years and quantitative easing (which has seen the Bank of England purchase sizeable amounts of gilts) will eventually end so the demand/supply dynamic appears to point to higher gilt yields, and hence higher borrowing rates. Any setback in economic growth may, however, cause investors to reassess the outlook for returns from other assets and a period of stable, or even falling, gilt yields can not be ruled out.
12. Although borrowing from the Public Works Loans Board (PWLB) is still generally the most attractive available to the authority, the sizeable margin of loans above gilt yields does not make the borrowing as attractive as it has been historically. The use of internal borrowing using available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.
13. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out. Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

### External v. Internal Borrowing

14. The Council currently has significant cash balances invested, and at the end of December 2013 these stood at £150.5m. These balances relate to a number of different items – reserves and provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them – but only a small amount of the balances relate to the General County Fund Reserves.
15. The Council has, since January 2009, repaid £74.2m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme over this period, and internal borrowing is expected to stand at £27.4m at the end of the current financial year. This internal borrowing is, effectively, being financed through the loss of interest that would otherwise have been earned by lending the money, which is currently below 0.5%. This internal borrowing has been extremely cost-effective, but the cost of it will increase broadly in line with base rates in the years ahead.
16. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

### Policy on borrowing in advance of need

17. The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. If value for money can be demonstrated by borrowing in advance this option may be taken, but only if it is felt that the money can be invested securely until the cash is required.

18. In determining whether borrowing will be taken in advance of the need the Council will;
- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need.
  - ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered
  - evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
  - consider the merits (or otherwise) of other forms of funding
  - consider a range of periods and repayment profiles for the borrowing.
19. The current position in respect of the significant level of internal borrowing and a move by Central Government to replace borrowing approvals for capital projects with grants makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.

#### Debt Rescheduling/Premature Debt Repayment

20. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously.
21. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is not overly focussed into a single year will be avoided. Changes in recent years to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.
22. If there is a continuation of the increases in medium and long-term premature repayment rates that have occurred over the last 12 – 18 months, there is a possibility that premature repayment of existing debt (without any replacement) might become attractive. This type of action would involve an increase in internal debt from its current levels, and would only be carried out if it was considered likely to be beneficial in the medium term.
23. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.



## **Annual Investment Strategy**

### **Investment Policy**

24. The Council will have regard to the CLG's Guidance on Local Authority Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-
- the security of capital and
  - the liquidity of its investments
25. The Council will aim to achieve the optimum return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. Borrowing money purely to invest or on-lend is unlawful and this Council will not engage in such activity.
26. The investment instruments identified for use in the financial year are listed below, split between 'Specified' and 'Non-Specified', and counterparties and their limits will be set in line with the criteria shown in annex 3. A 'Specified' investment can be generally categorised as one which is liquid (i.e. less than 1 year in maturity) and is lent to a counterparty with a high credit rating. A 'Non-Specified' investment does not satisfy at least one of these criteria, but in this Council's case the relaxation relates to the loan period and not the credit rating – counterparty risk will not be compromised. It is worth noting that although the policy allows for investments of over 1 year, there is only one counterparty (HSBC) which currently has a sufficiently strong credit rating to allow lending for over 1 year to take place.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum (1)
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100
UK Government Treasury Bills	Yes	Government-Backed	1 year	100
Term deposits with credit-rated institutions with maturities up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100
Money Market Funds	Yes	At least as high as acceptable credit – rated banks	Dependent on cash flow requirements	£125m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA's do not have credit ratings, but high security	1 year	50
* Term Deposits with credit-rated institutions	No	Varied acceptable	3 years <sup>Ø</sup>	25†

where borrower has option of extending repayment date beyond 1 year (commonly referred to as 'callables')		credit ratings, but high security		
* Term Deposits with credit – rated institutions with fixed maturity period of between 1 and 2 years.	No	Varied acceptable credit ratings, but high security	2 years <sup>ø</sup>	20†
* Term Deposits with credit –rated institutions with fixed maturity period of between 2 and 3 years.	No	Varied acceptable credit ratings, but high security	3 years <sup>ø</sup>	10†

(1) As the value of the investment portfolio is variable, limit applies at time of agreeing investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.

\* Non-specified investments

† Total maximum of investments greater than 1 year will be limited to 40% of the portfolio.

<sup>ø</sup> For the sake of clarity, if a forward deal (one where the start of the investment is at some future date) is agreed, the maximum period commences on the first date of investment.

#### Local Authority Mortgage Scheme

Under this scheme the Council will place funds of up to £10m, for a period of up to 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

#### Leicestershire Local Enterprise Fund

Up to £1m has been made available for loans to small and medium-sized Leicestershire businesses via this Fund, which is administered by Funding Circle. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

#### Creditworthiness policy

27. The Council has set its own criteria in respect of what credit ratings are required for a counterparty to be classed as acceptable. These criteria (which are included in annex 3) use both Fitch and Moody's ratings as the central plank of the decision on which counterparties are acceptable, but also rely on a number of other factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). News stories will also be taken into account as long as there appears to be some verifiable basis of fact in them.
28. Through its Treasury Management advisor, Capita Asset Services (formerly known as Sector Treasury Services), the Council receives weekly information in respect of credit ratings and the level of Credit Default Swaps, plus any rating changes or changes to outlook as and when these happen. These reports are monitored within a

short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical.

### Country Limits

29. The current criteria include a requirement for the country of domicile for any counterparty to be AAA-rated, with the exception of the UK. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford this. There are also limits on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk. Due to downgrades in sovereign credit ratings over the last few years, there are now relatively few AAA-rated countries.
30. For the avoidance of doubt, UK-domiciled financial institutions will not be excluded despite the fact that the UK no longer has an AAA rating, as long as their own credit rating meets the required criteria.

### Investment Strategy

31. The investment strategy shall be to only invest in those institutions which are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.

### Policy on the use of external service providers

32. External investment managers will not be used, except to the extent that a Money Market Fund can be considered an external manager.
33. The Council uses Capita Asset Services as its external treasury management advisers, but recognises that responsibility for treasury management decisions remains with the organisation at all times. Undue reliance on our external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

### Scheme of Delegation

34.
  - (i) Full Council
    - Approval of annual strategy
    - Other matters where full Council approval is required under guidance or statutory requirement
  - (ii) Cabinet
    - Approval of updates or revisions to strategy during the year
    - Approval of Annual Treasury Outturn report
  - (iii) Corporate Governance Committee
    - Mid-year treasury management updates (usually quarterly)
    - Review of treasury management policy and procedures, including making recommendations to responsible body
    - Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

- (iv) Director of Corporate Resources
  - Day-to-day management of treasury management, within agreed policy
  - Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

35. The Section 151 Officer is the Director of Corporate Resources, who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

36. This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1<sup>st</sup> January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1<sup>st</sup> April 2010 will comply with the requirements of SI 2009 No 393.

**ANNEX 1****ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)**

Statutory regulations introduced in 2008 require local authorities to make prudent provision for the repayment of debt raised to finance capital expenditure. In addition a statement of the level of MRP has to be submitted to the County Council for approval before the start of the next financial year.

**Prudent Provision.**

The definition of what is prudent provision is now to be determined by each local authority based on guidance rather than statutory regulation

**It is proposed that provision is made on the following basis:**Government supported borrowing (through the formula grant system):

Retention of the pre 2003 arrangements whereby provision for repayment is based on 4% of outstanding debt (i.e. repayment over approximately 25 years) including an optional adjustment used in the transition to the new system in 2004 to avoid debt repayment being higher than under the previous system.

Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 1<sup>st</sup> April 2008:

Provision to be based on the estimated life of the asset to be financed by that borrowing, with repayment by equal annual instalments.

The County Council will also look to take opportunities to use general underspends and one off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs. During 2013, the Cabinet agreed to use the balance of in year underspends to make additional revenue provision in 2013/14, an estimate of £5m is included as at January 2014. The MTFS 2014-18 includes a further contribution of £12.2m (2014/15 £5.2m, 2015/16 £7m).

**Financial Implications**

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2014/15 totals £18.1m. This comprises £17.7m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

The extent of unsupported borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 25 years has been taken as proxy for the average life of assets contained within the discretionary component of the Capital Programme.

**ANNEX 2****PRUDENTIAL AND TREASURY INDICATORS**

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	<u>2012/13</u> <u>Actual</u>	<u>2013/14</u> <u>Estimate</u>	<u>2014/15</u> <u>Estimate</u>	<u>2015/16</u> <u>Estimate</u>	<u>2016/17</u> <u>Estimate</u>	<u>2017/18</u> <u>Estimate</u>
Capital Expenditure	£61.4m	£69.8m	£64.3m	£70.9m	£60.7m	£31.9m
Capital financing requirement	£340m	£321m	£303m	£284m	£272m	£261m
Ratio of financing costs to net revenue stream	6.51%	7.33%	7.24%	7.92%	5.73%	5.60%
Impact on Band D Council Tax	£1.56	£1.55	£1.52	£2.13	£2.15	£2.18

The projected level of capital expenditure shown above, differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional resources that may become available to the authority during the course of a year, typically further developer contributions arising from housing development. Capital expenditure for 2017/18 is less than previous years as government funding for CYPS has not been allocated.

The capital financing requirement measures the authorities need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties e.g. developer contributions. The decreasing balance in the capital financing requirement reflects the change in government resources from supported borrowing allocations to capital grant and the recognition in the Capital Strategy for no or limited unsupported borrowing.

The prudential code includes the following as a key indicator of prudence:

‘In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years’. It is anticipated this requirement will be met having taken into account current commitments, existing plans, and the proposals in the budget report.

The key indicator of affordability is the impact of capital expenditure on Council Tax. This is relatively stable over the periods shown and reflects the scheduling of decisions for no or limited unsupported borrowing.

In respect of external debt, it is recommended that the Council approves the following limits for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Corporate Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

#### Operational boundary for external debt

	<u>2014/15</u> <u>£m</u>	<u>2015/16</u> <u>£m</u>	<u>2016/17</u> <u>£m</u>	<u>2017/18</u> <u>£m</u>
Borrowing	309.0	290.1	280.8	270.9
Other long term liabilities	1.5	1.4	1.3	1.2
<b>TOTAL</b>	<b>310.5</b>	<b>291.5</b>	<b>282.1</b>	<b>272.1</b>

#### Authorised limit for external debt

	<u>2014/15</u> <u>£m</u>	<u>2015/16</u> <u>£m</u>	<u>2016/17</u> <u>£m</u>	<u>2017/18</u> <u>£m</u>
Borrowing	319.0	300.1	290.8	280.9
Other long term liabilities	1.5	1.4	1.3	1.2
<b>TOTAL</b>	<b>320.5</b>	<b>301.5</b>	<b>292.1</b>	<b>282.1</b>

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2014/15 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

#### Comparison of original 2013/14 indicators with the latest forecast

In February 2013 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	<u>Prudential Indicator Set 2013/14</u>	<u>Latest Projection 14/01/14</u>
Actual Capital Financing Costs as a % of Net Revenue Stream	6.55%	7.33%
Capital Expenditure	£74.4m	£69.8m
Operational Boundary for External Debt	£347.7m	£325.6m
Authorised Limit for External Debt	£357.7m	£335.6m
Interest Rate Exposure – Fixed	50-100%	93%
Interest Rate Exposure – Variable	0-50%	7%
Capital Financing Requirement	£336m	£321m

The latest forecast of external debt, £293.6m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2013/14. The maturity structure of debt is within the indicators set. The latest projection for the Capital Financing Requirement includes voluntary additional provision of £5m in 2013/14 (funded from 2013/14 revenue underspends – see MRP strategy). This has led to the increase in the latest projection of actual capital financing costs, to 7.33% compared with the original indicator of 6.55%.

### Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:

- a) Upper limits on fixed interest and variable rate external borrowing.
- b) Upper and lower limits for the maturity structure of borrowings.
- c) Upper limit for principal sums invested for periods longer than 364 days.

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:

- a) An upper limit on fixed interest rate exposures for 2014/15 to 2017/18 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2014/15 to 2017/18 of 50% of its net outstanding principal sums.
- b) Upper and lower limits for the maturity structure of its borrowings as follows:  
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	<u>Upper Limit %</u>	<u>Lower Limit%</u>
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- c) An upper limit for principal sums invested for periods longer than 364 days is 40% of the portfolio.

The County Council has adopted the CIPFA code of Practice for Treasury Management in the Public Services.



**ANNEX 3****POLICY ON APPROVED ORGANISATIONS FOR LENDING****APPROVED ORGANISATIONS FOR LENDING**

<u>Institution</u>	<u>Maximum Sum Outstanding/Period of Loan</u>
UK Clearing Banks and UK Building Societies	£25m/24 months up to £50m/36 months (subject to acceptable credit rating – see table below)
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Foreign Banks	£5m/12 months up to £10m/12 months depending on credit rating (subject to acceptable credit ratings – see table below)
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months

Institutions will be removed from the list where there are doubts about their security. Any institution whose Credit Default Swaps (CDS) rating is shown as 'Out of Range' by Sector Treasury Services shall be removed from the list.

**5. MATRICES FOR ACCEPTABLE CREDIT RATINGS**

UK Banks and Building Societies (note: The UK does not have to maintain an AAA rating)

Maximum Sum Outstanding	£50m	£40m	£25m
Maximum Loan Period	3 years	3 years	2 years
Minimum Fitch Ratings	Short-term F1+ Long-term AA Support 1 Viability a+	Short-term F1+ Long-term AA- Support 1 Viability a+	Short-term F1+ Long-term AA- Support 1 Viability a
Minimum Moody's Ratings	Short-term P-1 Long-term Aa2 Financial Strength C+	Short-term P-1 Long-term Aa3 Financial Strength C+	Short-term P-1 Long-term Aa3 Financial Strength C

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).

Overseas Banks (must be domiciled within a country with an AAA rating by Fitch, Aaa with Moody's and AAA with S & P)

Maximum Sum Outstanding	£10m	£5m
Maximum Loan Period	1 year	1 year
Minimum Fitch Ratings	Short-term F1+ Long-term AA+ Support 1 Viability aa-	Short-term F1+ Long-term AA Support 1 Viability aa-
Minimum Moody's Ratings	Short-term P-1 Long-term Aa1 Financial Strength B	Short-term P-1 Long-term Aa2 Financial Strength B

A maximum of £15m can be invested with all banks domiciled within a single country.

All institutions must satisfy BOTH the Fitch and Moody's rating requirements. In effect it is the lower of the ratings of these two agencies which will dictate acceptability and maximum period/amount.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Corporate Resources will make recommendations to Cabinet and/or Corporate Governance Committee in respect of what action to take. It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

**TREASURY MANAGEMENT POLICY STATEMENT (TMPS)**

1. This organisation defines its treasury management activities as:  
  
“ The management of the authority’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”
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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## **CORPORATE GOVERNANCE COMMITTEE**

**10 FEBRUARY 2014**

### **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 Nottingham City Council's Internal Audit progress against the Internal Audit Plan 2013-14 for East Midlands Shared Service;
  - (c) 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;
  - (d) Provide an update on the annual internal audit planning process;
  - (e) Provide an update on the adoption of the Public Service Internal Audit Standards (2013) and how these affect the Corporate Governance Committee's annual work programme.

##### **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 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 against the Internal Audit Plan 2013-14**

4. This report covers audits finalised during the period 1 November 2013 to 19 January 2014.
5. The overall opinions reached on maintained 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](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).

<b>Opinion given</b>	<b>Number</b>
Far exceeds	0
Well above	1
Above	3
Reaches	0
Generally reaches, however....	0
Below	0
<b>Total</b>	<b>4</b>

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: -
  - a. No new HI recommendations have been added
  - b. One HI recommendation has been closed (Information Governance)
  - c. Implementation dates for six HI recommendations were further 'extended' to allow for: -
    - i. further audit testing (Integrated Adults System and Capital Maintenance Programme);
    - ii. an unforeseen change in arrangements (Partnership Risk)
    - iii. Stabilisation or progression of arrangements involving EMSS/ORACLE (Pension Fund Contribution Banding (2) and Employee Annual Leave Recording)

**Update on Nottingham City Council Internal Audit progress against the 2013-14 internal audit plan for East Midlands Shared Service**

9. Nottingham City Council Internal Audit (NCCIA) is responsible for the internal audit of East Midlands Shared Service (EMSS). On 13 February 2013, the Head of NCCIA (Mr Shail Shah) presented to the Corporate Governance Committee a plan of audits covering the transition to go-live of EMSS, operational audits thereafter and 'final accounts' audits required by the two Authorities external auditors. NCCIA works closely with LCCIAS, as well as both Authorities' external auditors. NCCIA invites comments on draft Terms of Engagement for audits and shares draft reports when appropriate. The two internal audit functions have scheduled quarterly meetings to discuss progress against the Plan and any issues that need further understanding or discussion. A protocol is being devised to outline responsibilities, the mechanism for escalation of any issues to EMSS partners and arrangements for reporting planning progress and any issues to the respective 'audit committees'.
10. At a recent meeting, NCCIA confirmed that it had concluded operational audits of BACS, performance and contract management for external hosting and the work of the Systems Administration Team (draft). Also, progress has been made in the final accounts work required for PricewaterhouseCoopers LLP (PwC) on payroll, payables and receivables.
11. The Head of NCCIA will present an annual report on the audits of EMSS and a plan for audits in 2014-15 to a future Corporate Governance Committee meeting.

**Update on the County Solicitor's report on investigation into allegations concerning a former Member's conduct**

12. At the Committee meeting held on 25 November 2013, members were informed by the County Solicitor that Mr Parsons had not accepted liability for the debt owed by him following the independent investigator's conclusion that he had used the official car and chauffeur inappropriately. However, negotiations were on-going to reach a settlement and bring the matter to a conclusion.
13. Settlement was agreed at £2,385.93. The amount is scheduled to be paid off in one sum of £285.93 to be paid by 1 February 2014 and seven equal instalments of £300.00 to be paid on the first day of each month between 1 March and 1 September 2014.
14. The Committee will be informed if there is any significant variation to the scheduled repayment.

**Update on the annual internal audit planning process**

15. Prior to the construction of the 2013-14 annual Internal Audit Plan, members had traditionally received at the February Committee meeting a refresh of the internally designed 'audit risk model' (MILE) which was populated by the Head of the Internal Audit Service (HoIAS) following his own research and evidence gathering. MILE was a strategic four year planning model which prioritised areas to create an annual plan of internal audits.
16. At the 14 June 2013 Committee meeting, the HoIAS set out how the Internal Audit Plan for 2013-14 had been constructed. In particular, because of noticeable improvements as identified in specific audits, more reliance had been placed on the contents of both departmental risk registers and the Corporate Risk Register. Nevertheless, in the opinion of the HoIAS, the developments to the risk management framework required further time to be embedded and so there was still some need to rely on MILE. Also, there would remain scope to add audits to the plan at the professional discretion of the Director of Corporate Resources and the HoIAS.
17. Specific detailed audits of the Authority's risk management processes during 2013-14 have shown a continued strengthening of corporate direction, guidance and monitoring of compliance. Further improvement work will continue at department level, hence risk registers will, in the main, be used to inform the Plan for 2014-15. This will increase the emphasis on what has been identified as a risk by departments and how that risk has been escalated to be monitored corporately. Departments are currently updating their risk registers in line with finalising their service plans objectives and priorities.
18. In addition to the continuing development of risk management, the HoIAS is seeking to identify the depth and robustness of other types of assurance providers within departments, corporately and externally. The intention is to



work towards a basic assurance matrix that would identify potential 'duplications', but also any gaps where LCCIAS assurance is likely to be required. The annual exercise on collating evidence to evaluate to what extent good governance is being applied, is just about to commence in readiness for compiling the Annual Governance Statement. This exercise will be strengthened to identify where and to what extent other assurances are gained.

19. The combined information obtained from department and corporate risk registers, evaluation of other assurance provided and the addition of any audits added at the professional discretion of the Director of Corporate Resources and the HoIAS, will form the Internal Audit Plan for 2014-15. This Plan will be agreed with the Director of Corporate Resources in March and presented to the Corporate Governance Committee in May.

**Update on the adoption of the Public Service Internal Audit Standards (2013) and the effect on the Corporate Governance Committee annual work programme**

20. The Committee was informed at its meetings on 26 November 2012 and 13 February 2013 about the proposed implementation of the Public Service Internal Audit Standards (PSIAS) from April 2013. Whilst these new standards applied from 1<sup>st</sup> April 2013, advice on how they specifically applied to Local Government was not available until mid-April. The application of the PSIAS and, in particular, proving conformance to them, led to some concerns being raised nationally by Heads of Internal Audit. This resulted in further clarifications being sought and training events being provided.
21. In this Authority, we took the view that it would be prudent to await full advice and to reflect on others' experiences before designing and implementing the PSIAS. Consideration will be given to the terms of an internal audit 'charter' (formally Terms and Objectives) that will define LCCIAS purpose, authority, responsibilities and activity consistent with the requirements of the new standards. The charter will be presented to the Corporate Governance Committee for approval at a future meeting.
22. The HoIAS has, on an annual basis, presented a report to the Committee on the 'Effectiveness of the System of Internal Audit'. However, the new standards require a Quality Assurance and Improvement Programme to be developed that should facilitate an assessment of the efficiency and effectiveness of all internal audit activity and identify opportunities for improvement.
23. This should enable conformance (or any specific non-conformance) with all aspects of the PSIAS to be evaluated. Should there be any significant deviations (as yet to be defined) from the standards, consideration will be given to the need to disclose them within the Annual Governance Statement.

24. The results and progress against any improvement plans will be reported in the Internal Audit Annual Members' Report which will be presented to the Committee in May 2014.

### **Resource Implications**

25. None.

### **Equal Opportunities Implications**

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

### **Recommendation**

27. That the contents of the report be noted.

### **Background Papers**

The Constitution of Leicestershire County Council

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

Report to the Corporate Governance Committee on 13 February 2013 – East Midlands Shared Service Internal Audit Plan Update

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, 23 September and 25 November 2013 – Investigation into allegations concerning Members' conduct

Report to the Corporate Governance Committee on 26 November 2012 – Annual Review of Effectiveness of the System of Internal Audit and 13 February 2013 – Internal Audit Service Progress Report

### **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](mailto:neil.jones@leics.gov.uk)

**Appendices**

- Appendix 1 - Summary of Final Internal Audit Reports issued during the period 1 November 2013 to 19 January 2014
- Appendix 2 - High Importance Recommendations

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Appendix 1 Summary of Final Internal Audit Reports Issued 01.11.2013 - 19.01.2014

<u>Company</u>	<u>Sub-Function</u>	<u>Name</u>	<u>Final Issue</u>	<u>Audit Opinion</u>	<u>HI Recommendation</u>
Children & Young Peoples Service	Governance	Excellent Education in Leicestershire	04-Dec-13	Substantial	No
Consolidated Risk	Governance	Risk management - Framework design & governance	12-Dec-13	Substantial	No
Consolidated Risk	Governance	Traded Services - Framework design & governance	16-Jan-14	Substantial	No
Consolidated Risk	Operational	Project management - Framework design & governance	07-Jan-14	Substantial	No
Corporate Effects	Procurement	Commissioning and Contract Boards	14-Jan-14	Substantial	No
Corporate Resources	Governance	Teachers Pension Scheme - EMSS control functions	26-Nov-13	Substantial	No
Corporate Resources	Governance	Trading Income Operational Delivery - Central Print	16-Jan-14	Substantial	No
Corporate Resources	Financial Liabilities	Young Peoples Learning Agency - Schools' use of funds	12-Nov-13	Substantial	No
Corporate Resources	Payroll	Teachers Pension Scheme - End of Year Certificate	13-Nov-13	Partial	No
Environment & Transport	Operational	Risk Management - Operational delivery	11-Dec-13	Substantial	No
Environment & Transport	Operational	Notice Processing Unit	06-Jan-14	Substantial	No
Environment & Transport	Operational	SEN and Adult Social Care Transport	10-Jan-14	Substantial	No
Environment & Transport	Operational	Vehicle & Equipment Safety Checks	06-Nov-13	Other Complete	No
Environment & Transport	Procurement	Concessionary Travel - Smart Cards	12-Nov-13	Substantial	No
Environment & Transport	Precepts	Bus Operators' Grant (Apr 13' - Sept 13')	20-Dec-13	Substantial	No
Environment & Transport	Advice	Waste Trac System Replacement	11-Dec-13	Substantial	No
Public Health	Developments	Transition to County Council systems	16-Dec-13	Substantial	No

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**High Importance Recommendations**

<b><u>Audit Title (Director)</u></b>	<b><u>Summary of Finding and Recommendation</u></b>	<b><u>Management Response</u></b>	<b><u>Action Date:</u></b>	<b><u>Confirmed Implemented</u></b>
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> <ol style="list-style-type: none"> <li>1. Migration of data from the current management information system to the new one</li> <li>2. Shortage of time to conduct full tests</li> <li>3. The interfaces between IAS and both the Corporate Financial and Electronic Data Records Management Systems</li> </ol> <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	<p><b>Original Action Date: December 2013</b></p> <p><b>Recommendations relating to issues 2 and 3 have been changed from HI to an amber risk as a result of a Project Board decision to delay go-live of the system. This has allowed additional time to address system testing and interface issues.</b></p> <p><b>Issue 1 is progressing but is still outstanding.</b></p> <p><b>Extend from December 2013 to March 2014.</b></p>	Yes for 2 & 3

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	<p><b>Still awaiting a new contract to start before proof control is embedded.</b></p> <p><b>Extend from December 2013 to March 2014.</b></p>	
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"> <li>• A very low percentage of staff had completed the mandatory Information Security E Learning course</li> <li>• There was a high number of examples of staff failing to adequately secure confidential/sensitive data both within the office and in transit</li> </ul> <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&amp;C Management Team.</p> <p>Internal Audit Service is currently undertaking further testing to assess whether there has been improvements.</p> <p>Extend from October to December 2013</p>	<b>Yes</b>



Pension Fund contribution 'bands' (Pension Fund)	<p>Each year the Department for Communities &amp; 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: -</p> <ol style="list-style-type: none"> <li>1. that the report should be reconfigured</li> <li>2. a framework for sample testing should be agreed and implemented to cover future pension banding changes.</li> </ol>	A	<p><b>September 2013</b></p> <ol style="list-style-type: none"> <li>1. <b>A meeting to co-ordinate re-implementing the new business reporting mechanism (OBIEE) for EMSS and its partners is due early February. This particular report requirement will be escalated.</b></li> <li>2. <b>A framework has been designed but the current temporary arrangements for EMSS management has delayed implementation</b></li> </ol> <p><b>Extend from December 2013 to March 2014</b></p>	
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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><b>Joint change requests have been formulated and submitted requesting changes to the system from April 2014, but these will still need to be considered against other priority system developments.</b></p> <p><b>Extend from January to March 2014</b></p>	
Reported September 2012				
Partnerships Risks (CG)	<p>Considerable time &amp; 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.</p> <p><b>However, a planned review of Leicestershire Together partnerships has been announced which will affect level of embedding.</b></p> <p><b>Extend from January to March 2014</b></p>	

**‘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"> <li>1. Monitoring income and expenditure to project time-spans and purpose intended</li> <li>2. validating the accuracy of individual record content as it was migrated onto the new database</li> <li>3. department 'links officers' reporting to a central coordinator</li> </ol>	A	<p>March 2012</p> <p>Agreed to extend to April 2013</p> <p><b>Suspended June 2013</b></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><b>Suspended June 2013</b></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><b>Suspended June 2013</b></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/Feb 14/Appendix 2 HI Progress Report

Last Revised 28/1/2014

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**CORPORATE GOVERNANCE COMMITTEE****10 FEBRUARY 2014****REPORT OF THE COUNTY SOLICITOR****REGULATION OF INVESTIGATORY POWERS ACT 2000****Purpose of the Report**

1. The purpose of this report is to provide the Committee with a quarterly report on the use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

**Background**

2. At its meeting on 25 November 2013, the Committee agreed to receive quarterly reports on the use of RIPA powers. The relevant RIPA Code of Practice suggests that quarterly reports should be made to members as a means of ensuring that RIPA has been used consistently and the policy remains fit for purpose. The Code specifically states that elected members should not be involved in making decisions on specific authorisations.

**Use of RIPA**

3. For the period from 1 October 2013 to the end of December 2013, authorising officers in the Chief Executive's Department received the following:-
  - 4 applications for directed surveillance;
  - 4 applications to use a covert human intelligence source.
4. Magistrates approved all eight authorisations and were satisfied that the County Council's submissions met all the necessity and proportionately requirements. These surveillance authorisations were required to enable the Trading Standards Service to:
  - Gather evidence relating to a rogue trader suspected of extracting payments from older people for shoddy or unnecessary home repairs;
  - To establish the identify and gather evidence relating to persons engaged in the distribution of counterfeit products;
  - To undertake age restricted test purchases of alcohol and tobacco products from retailers within the County;
  - To carry out covert test purchasing of suspected unsafe consumer goods.

**Recommendation**

5. The Committee is recommended to note the contents of this report and the use of RIPA powers for the period from 1 October to 31 December 2012.

**Equal Opportunities Implications**

6. None.

**Background papers**

Report to the Corporate Governance Committee on 25 November 2013

Report to the Cabinet on 13th December 2013– Regulation of Investigatory Powers Act 2000 (RIPA).

**Circulation under the local issues alert procedure**

None.

**Officer to contact**

David Morgan, County Solicitor

Tel: 0116 305 6007

E-mail: [david.morgan@leics.gov.uk](mailto:david.morgan@leics.gov.uk)