



Meeting: Corporate Governance Committee

Date/Time: Monday, 24 November 2014 at 10.00 am

Location: Guthalxton Committee Room, County Hall, Glenfield

Contact: Mrs R. Palmer (tel: 0116 305 6098)

Email: rosemary.palmer@leics.gov.uk

Membership

Mr. E. D. Snartt CC (Chairman)

Mr. S. L. Bray CC Mr. K. W. P. Lynch CC
Mr. G. A. Hart CC Mr. S. D. Sheahan CC
Mr. P. G. Lewis CC Mr. R. J. Shepherd CC

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 23 September 2014.		(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. Annual Audit Letter 2013/2014.	Director of Corporate Resources	(Pages 11 - 22)
7. External Audit Plan - Progress Report 2014/2015.	Director of Corporate Resources	(Pages 23 - 32)



- | | | | |
|-----|---|---------------------------------------|-------------------|
| 8. | Risk Management Update.
<i>A presentation on the risks associated with the transition of Health Visiting from NHS England to local authorities, as detailed in the Corporate Risk Register, will be provided as part of this item.</i> | Director of
Corporate
Resources | (Pages 33 - 62) |
| 9. | Regulation of Investigatory Powers Act 2000 (RIPA). | County Solicitor | (Pages 63 - 70) |
| 10. | Quarterly Treasury Management Report. | Director of
Corporate
Resources | (Pages 71 - 74) |
| 11. | Recommended Change to Treasury Management Policy in Respect of the Lending of Surplus Balances. | Director of
Corporate
Resources | (Pages 75 - 86) |
| 12. | Quarterly Internal Audit Service Progress Report. | Director of
Corporate
Resources | (Pages 87 - 100) |
| 13. | The Internal Audit Charter. | Director of
Corporate
Resources | (Pages 101 - 158) |
| 14. | Annual Governance Statement 2014 - Update Against Key Improvement Areas. | Director of
Corporate
Resources | (Pages 159 - 166) |
| 15. | Dates of future meetings.
<i>Friday 20 February 2015 at 10.00 am</i>
<i>Friday 12 June 2015 at 10.00 am</i>
<i>Friday 25 September 2015 at 10.00 am</i>
<i>Friday 27 November 2015 at 10.00 am</i> | | |
| 16. | 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 Tuesday, 23 September 2014.

PRESENT

Mr. S. L. Bray CC
Mr. G. A. Hart CC
Mr. P. G. Lewis CC
Mr. K. W. P. Lynch CC

Mr. S. D. Sheahan CC
Mr. R. J. Shepherd CC
Mr. E. D. Snartt CC

1. Election of Chairman.

That Mr. E. D. Snartt CC be elected Chairman for the period ending with the Annual Meeting of the County Council in May 2015.

Mr. Snartt in the Chair

2. Appointment of Vice Chairman.

That Mr R. J. Shepherd CC be appointed Deputy Chairman for the period ending with the date of the Annual Meeting of the County Council in 2015.

3. Minutes.

The minutes of the meeting held on 21 May 2014 were taken as read, confirmed and signed.

4. Question Time.

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

5. Questions asked by members under Standing Order 7(3) and 7(5).

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

6. Urgent Items.

There were no urgent items for consideration.

7. Declarations of interest.

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

Mr Shepherd declared a personal interest in agenda item 8 'External Audit of the 2013/14 Statement of Accounts and Annual Governance Statement' as a member of the teachers' pension scheme.

All members of the Committee declared a personal interest in agenda item 9, 'Risk Management update', and 13, 'Annual Report on the Operation of the Members' Code of Conduct 2013/14', as they were also district councillors.

8. External Audit of the 2013/14 Statement of Accounts and the Annual Governance Statement.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to report the key findings from the external audit of the 2013/14 financial statements. 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.

Arising from discussion, the following points were noted:

- (i) No material weaknesses had been identified and it was anticipated that an unqualified audit opinion would be issued. There had been one misstatement which had not been adjusted in the accounts as it was based on a projected sampling methodology. On the basis that this would not affect the unqualified audit opinion which PwC expected to issue, the Committee agreed it would not be appropriate that the accounts were adjusted to correct this;
- (ii) Members noted the need for the County Council to gain greater assurance on the operation of the East Midlands Shared Service (EMSS) to satisfy itself and its auditors, PwC, that its processes were robust. It was acknowledged that this was the first full year of operation for the new Service and that arrangements had been put in place to improve processes for the following year. An update on progress against the EMSS Audit Plan would be presented to the Committee at a future meeting;
- (iii) The additional savings to be made by the County Council as identified this year would be considered by PwC as part of its annual review of the County Council's Medium Term Financial Strategy which would be reported to the Committee in May 2015.

RESOLVED:

- (a) That the External Audit of the Financial Statements be approved;
- (b) That it be agreed that the one unadjusted item in the accounts relating to an unrecorded liability remain unadjusted;
- (c) That it be agreed that PwC's conclusion on its independence and objectivity, as contained on page 14 of the Appendix to the report (page 29 of the agenda), be agreed;
- (d) That it be confirmed to PwC, as requested on page 18 of the Appendix to the report (page 33 of the agenda), that there have been no changes to the

Committee's view of fraud risk and that no additional matters have been brought to its attention which should be notified to PwC.

9. 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 and counter fraud initiatives. A copy of the report is filed with these minutes.

The Committee also received a presentation on the risk associated with an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply (Risk 13 on the Corporate Risk Register). A copy of the presentation slides is filed with these minutes.

Presentation – Increase in unplanned and speculative local developments

Arising from the presentation, the following points were raised:

- (i) The risk had been escalated from the Environment and Transport Department's Risk Register due to the potential impact this could have on workload and resources within the Department and on the transport network;
- (ii) Government guidance on responding to planning applications required the Highway Authority to consider each application on its own merits. It was therefore difficult for it to directly consider the cumulative impact of several small applications in a particular area, especially when there was no development plan in place. The Authority could ask a developer to consider a joint transport assessment, but it was unable to insist on it. To do this a change in the law would be required. However, the County Council was developing ways to look at the potential long term transport challenges faced in those areas where developer growth was being seen to try and pre-empt the problems that might arise and work to mitigate these as far as possible;
- (iii) Some members raised concerns that whilst the Government prioritised increasing the housing supply, it did not provide Highway Authorities with sufficient powers to enable it to ensure the necessary infrastructure could be put in place to support this;
- (iv) There were a lot of public concerns around this issue and it would be important for them to be made aware of the legislative restraints within which the County Council, as the Highway Authority, had to operate and the challenges it therefore faced;

The Risk Register

Arising from discussion, the following points were noted:

- (v) Members welcomed the work undertaken with District Councils to review the single persons discount scheme applied across Leicestershire. Members noted that this exercise had been undertaken previously with similar results being achieved;

- (vi) Members noted the new Risk 6 relating to the transition of health visiting from NHS England to local authorities and requested that a presentation on this issue be provided at its next meeting.

RESOLVED:

- (a) That the contents of the report and the presentation be noted;
- (b) That it be noted that the Head of Internal Audit Service now had responsibility for monitoring adherence to, reporting on and developing the Authority's risk management process;
- (c) That the current status of the strategic risks and emerging risks facing the Council, as detailed in the report and the Corporate Risk Register, be noted;
- (d) That a presentation be provided at the next meeting of the Committee on the risks associated with the transition of Health Visiting from NHS England to local authorities, as detailed in the Corporate Risk Register (new Risk 6);
- (e) That the updated Corporate Risk Register be approved.

10. Proposed Changes to the Contract Procedure Rules.

The Committee considered a report of the Director of Corporate Resources and the County Solicitor, the purpose of which was to report on the operation of the Contract Procedure Rules between 1 July 2013 and 30 June 2014, to bring to the Committee's attention actions being taken to continue to ensure compliance and to recommend revisions to the Rules. A copy of the report is filed with these minutes.

From discussion, the following points arose:

- (i) Members welcomed the action taken against two former employees of the Council who had been found guilty of offences of fraud and which had resulted in custodial sentences. Members also acknowledged the actions taken to prevent a re-occurrence in the future;
- (ii) Approximately 40% of the County Council's total procurement spend was with a local supplier (i.e. those suppliers which had a payment address in the County). Approximately 50% of total procurement spend was also with small to medium sized enterprises (SMEs), although these were not necessarily based locally;
- (iii) The County Council had not been challenged in respect of any the approved exceptions.

RESOLVED:

- (a) That the contents of the report on the operation of the Contract Procedure Rules between July 2013 and June 2014 be noted;
- (b) That the County Council be recommended to approve the proposed amendments to the Contract Procedure Rules, as set out in Appendix B to the report;

- (c) That the proposals to conduct a substantial review of the Contract Procedure Rules in early 2015 be noted.

11. Ombudsman Annual Review 2013-14 and Corporate Complaint Handling.

The Committee considered a report of the County Solicitor, the purpose of which was to inform Members of the Ombudsman Annual Review letter for the Authority for 2013/14 and to provide Members with an update on improvements to the Corporate Complaints Procedures and effective complaints handling. A copy of the report is filed with these minutes.

Arising from discussion, the following points were noted:

- (i) Although the number of complaints received by the Ombudsman had increased, there had been a reduction in the number of findings of maladministration when compared to the previous year;
- (ii) The Ombudsman Review of Local Government Complaints 2013-14 (Appendix B) provided a National overview of areas where improvements could be made and this would be used to identify local controls and procedures which could be assessed for possible improvement;
- (iii) Details of complaints received were submitted to the Scrutiny Commission and the Adults and Communities Overview and Scrutiny Committee for consideration. It was suggested that it might also be useful for relevant complaints to be presented to the Children and Families Overview and Scrutiny Committee in the future;
- (iv) There was no statutory duty for the Authority to signpost residents to the Ombudsman except in respect of Children Social Care Services. However, this was best practice and the County Council worked to ensure residents were made aware either through the relevant Department handling the complaint or through the Corporate Complaints Service.

Members requested that a copy of the ombudsman Review of Local Government Complaints 2013-14, together with a copy of the covering report be circulated to all members of the County Council for information.

RESOLVED:

- (a) That the contents of the report be noted;
- (b) That a copy of the report and Appendix B to the report be circulated to all members of the County Council for information.

12. Whistleblowing Policy.

The Committee considered a report of the County Solicitor and the Director of Corporate Resources, the purpose of which was to seek the views of the Committee on the proposed revised Whistleblowing Policy attached to the report as Appendix A. A copy of the report is filed with these minutes.

RSOLVED:

- (a) That the contents of the report be noted;
- (b) That the adoption and implementation of the revised Whistleblowing Policy be agreed.

13. Annual Report on the Operation of Members' Code of Conduct 2013/2014.

The Committee considered a report of the County Solicitor, the purpose of which was to advise members on the operation of the Members' Code of Conduct since the last annual report to the Committee in September 2013. The report also highlighted amendments required to relevant procedures and emerging trends. A copy of the report is filed with these minutes.

In response to questions raised, the County Solicitor provided the following information regarding the operation of the Members' Code of Conduct and members of more than one public body (i.e. "dual hatted" members):

- (i) The role of the member at each authority would be highly relevant when considering what action might be appropriate and what, if any, interest a member should declare;
- (ii) Each case would have to be considered on its individual circumstances. As there was no longer a model Code of Conduct adopted by all local authorities, this could give rise to inconsistencies in approach;
- (iii) Members and Monitoring Officers of different authorities would inevitably have different views of what interest a dual hatted member might have and what might be regarded as so significant as to give rise to an interest that should prevent a member from taking part in a debate and decision on a particular matter. Monitoring Officers would provide advice, however, ultimately it would be a matter for the individual member to decide, taking account of what a reasonable member of the public might think;
- (iv) A briefing note on this issue would be circulated by the Monitoring Officer to all members of the County Council to provide further assistance.

RESOLVED:

- (a) That the actions taken by the Monitoring Officer in discharging his responsibilities under the Procedure for dealing with allegations of a breach of the Members' Code of Conduct be noted;
- (b) That it be agreed that paragraph 3.4 of the Procedure for dealing with allegations of a breach of the Members' code of Conduct be amended to read "*The Monitoring Officer may seek the views of one of the Independent Persons appointed by the County Council on any complaint received*".

14. Covert Surveillance and Regulation of Investigatory Powers Act 2000 Quarterly Update.

The Committee considered a report of the County Solicitor the purpose of which was to provide the Committee with a quarterly update on the use of powers under the Regulation of Investigatory Powers Act 2000. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

15. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, which provided an update on the actions taken in respect of treasury management in the quarter ended 30 June 2014. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

16. Internal Audit Service Annual Report 2013-14.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an annual report on work conducted by the Internal Audit Service. A copy of the report is filed with these minutes.

RESOLVED:

- (a) That the Internal Audit Service Annual Members' Report for 2013/14 be noted;
- (b) That the disclosure of non-conformance to the Public Sector Internal Audit Standards and amendments to the Annual Governance Statement for 2013-14 be noted;
- (c) That a copy of the Internal Audit Service Annual Members' Report for 2013/14 be circulated to all members of the County Council for information.

17. 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 audit work undertaken by Nottingham City Council in respect of the East Midlands Shared Service, the recovery of outstanding costs owed by the former Leader of the County Council, Mr David Parsons, and on the adoption of the Public Sector Internal Audit Standards. A copy of the report is filed with these minutes.

Arising from discussion, the following points arose:

- (i) The high importance recommendations made by the Internal Audit Service (IAS) in respect of developer contributions (s106) had not been confirmed as having been implemented. However, these had been deferred whilst the new IT system was put

in place, as reported to the Committee at its last meeting. Once this had bedded in, specific re-testing would be undertaken;

- (i) A rigorous process was adopted by the IAS to monitor the implementation of high importance recommendations and the reasons for any delay were reported to the Committee. It was acknowledged, however, that if members considered that such delay was unreasonable, it could request officers to attend the meeting to respond to questions and further challenge;
- (ii) In response to questions raised, the County Solicitor confirmed that payments due from Mr Parsons, the former Leader of the County Council, had not been made for the last 5 months and therefore, in accordance with the County Council's debt recovery processes, on 11 September he had given instructions for proceedings to be issued. Proceedings had been filed with the relevant court on 12 September and confirmation was expected shortly that proceedings had been formerly issued. The County Solicitor further confirmed that Mr Parson's had been notified that he would be expected to pay the County Council's costs of issuing such proceedings.

RESOLVED:

That the contents of the report and the information now provided be noted.

18. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on Monday 24 November at 10am.

10.30 am - 12.20 pm
23 September 2014

CHAIRMAN

**CORPORATE GOVERNANCE COMMITTEE****24 NOVEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****ANNUAL AUDIT LETTER 2013/14****Purpose of Report**

1. To present the Annual Audit Letter for 2013/4 for approval.

Background

2. A copy of the Annual Audit Letter for 2013/14 is appended to this report. A partner from the County Council's external auditors, PricewaterhouseCoopers (PwC), will attend the meeting in order to present the Letter and answer any questions.

Recommendation

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

Equality and Human Rights Implications

4. None arising from this report.

Circulation Under the Local Issues Alert Procedure

5. None.

Background Papers

6. None.

Appendix

Annual Audit Letter for 2013/14

Officers to Contact

Chris Tambini, Assistant Director - Strategic Finance and Property
Tel: 0116 305 6199 E-mail: chris.tambini@leics.gov.uk

Judith Spence, Head of Corporate Finance
Tel : 0116 305 5998 Email : judith.spence@leics.gov.uk

This page is intentionally left blank

Leicestershire County Council

Annual Audit Letter

2013/14

Government and
Public Sector

October 2014

pwc

Contents

Introduction	1
Audit Findings	3
Final Fees	6

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

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

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

Introduction

The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

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

- Annual Audit Plan;
- Audit opinion for the 2013/14 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260);
- Annual Certification Report (to those charged with governance); and
- Medium Term Financial Strategy Report.

The matters reported here are the most significant for the Authority

Scope of Work

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

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the Leicestershire Pension Fund.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in November 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts[and pension fund accounting statements] in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	<p>We reported our findings to the Corporate Governance Committee on 23 September 2014 in our 2013/14 Report to those charged with governance (ISA (UK&I) 260).</p> <p>On 29 September 2014 we issued an unqualified audit opinion.</p>
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	<p>We reported our findings to the National Audit Office on 29 September 2014.</p> <p>We identified no significant issues as part of this work.</p>

Audit Responsibility	Results
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	There were no issues to report in this regard.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There were no issues to report in this regard.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	There were no issues to report in this regard.

Audit Responsibility	Results
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	<p>We have not been able to issue our audit certificate because the Leicestershire Pension Fund Annual Report is not required to be completed until December 2014.</p> <p>When this is done we will be in a position to issue our completion certificate.</p>
Issue an opinion on the pension fund annual report (where required)	The Leicestershire Pension Fund Annual Report is not required to be completed until December 2014.

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and **issued an unqualified audit opinion on 29 September 2014.**

We identified the following:

Valuation of Property, Plant and Equipment

The final accounts include property, plant and equipment with a net book value of £794 million, largely made up of land and buildings (£465.2 million) and infrastructure assets (£302.6 million). The total value of land and buildings has increased slightly from £769.7 million in the prior year to £794 million. This is primarily due to new capital additions and upwards re-valuations of existing assets, offset by the conversion of a number of schools to Academy status.

The Authority has to keep the values of land and buildings up to date. The Authority's accounting policy is to include land and buildings in the balance sheet at open market value for existing use or at depreciated replacement cost for specialised assets where there is no market. The top 20 assets are re-valued every year, plus a fifth of other assets every year and on completion of a capital scheme above £100,000. The work is completed internally to the Authority.

We engaged an internal PwC valuation specialist to review the work of the Authority's internal valuation team. We considered the applicable professional requirements and industry standard indices used to revalue specialised assets, and the steps taken by the Authority to account for the full impact of these indices across all of its specialised assets. **There were no areas of concern to report in this context.**

Leicestershire County Council

Pension liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Leicestershire pension fund. The net pension liability at 31 March 2014 was £603.3 million (2013 - £497.6 million).

We utilised the work of PwC actuarial experts to assess the assumptions applied by the Authority. We also validated the data supplied to the actuary on which to base their calculations.

We utilised the work of the PwC Pensions Team over the Leicestershire Pension Fund to gain assurance over the valuation of pension fund assets. The work undertaken included obtaining confirmation letters directly from the managers of relevant investment funds.

There were no areas of concern to report in this context.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements.

As reported, within our Report to those charged with Governance (ISA (UK&I) 260), **overall we found the significant judgements and accounting estimates to be reasonable.**

Misstatements and significant audit adjustments

Our work only identified one uncorrected misstatement above the agreed reporting level of £100,000.

There were no corrected misstatements that we felt significant to report within our Report to those charged with Governance (ISA (UK&I) 260).

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in the use of the Authority's resources.

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

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Medium Term Financial Strategy

Our audit plan highlighted specific value for money risk in relation to the Authority's savings requirement and financial plans over the next few years. We agreed in the audit plan that we would review the Medium Term Financial Strategy (MTFS), comparing it to benchmark information and the plans of other Councils. We also reviewed the governance arrangements which are in place.

In summary:

- The Authority has demonstrated in the past that it has robust programme management arrangements in place, and that agreed savings targets are achieved. However, the scale of the challenge in the medium term, particularly during 2015/16, is more significant than faced to date. This is recognised through the establishment of the Transformation Board and the additional resources which have been put in place;
- Prudent assumptions were applied in setting the MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help the Authority to meet manage the financial risks which exist over the plan period;
- The Audit Commission value for money profile, whilst backwards looking, continues to show a number of key areas where the Authority is providing services which can demonstrate value for money when compared with other County Councils; and
- A significant level of earmarked reserves has been set aside, alongside a level of contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that the Authority has taken a prudent approach. These reserves will be required to effectively deliver the transformation and savings required.

Given the scale of the changes planned, there are inevitably a range of risks which are largely unchanged since we last reported:

- **Slippage:** the Authority may not be able to identify or achieve savings from service reductions or efficiencies.
- **Timing:** The timing of savings, service reductions and funding announcements will impact how plans are delivered.

- **Assumptions:** We have assessed the assumptions applied in the MTFS. If these assumptions turn out to be false, this would have a significant impact on the ability of the Authority to deliver a balanced budget over 4 years.
- **Policy:** Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

We reviewed the MTFS and the assumptions which lie behind it. We have compared the Authority with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. Funding announcements have shown that there is likely to be a real-terms reduction in the amount available to spend in the medium term. This will make it increasingly challenging to identify and deliver savings which do not result in service reductions.

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. **We found no areas of concern to report in this context.**

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 29 September 2014. **We found no areas of concern to report in this context.**

Electors' questions and objections

We did not receive any electors' questions or objections regarding the 2013/14 financial statements.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified one claim and one return worth £29.7 million. **Both were amended following the certification work undertaken and one claim also required a qualification letter to set out issues arising from the certification of the claim.** These details were also set out in our Annual Certification Report for 2012/13. We will issue the Annual Certification Report for 2013/14 in February 2015.

Summary of Recommendations

Our audit identified no significant recommendations that we wish to highlight in this Audit Letter.

There were observations that we drew to the attention of the Authority's Corporate Governance Committee, within our Report to those charged with Governance (ISA (UK&I) 260), regarding the governance and communications between relevant stakeholders (management, internal and external auditors) in East Midlands Shared Services (EMSS).

Final Fees

Final Fees for 2013/14

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

Our fees charged were therefore:

	2013/14 outturn	2013/14 fee proposal	2012/13 final outturn
Audit work performed under the Code of Audit Practice	112,600	112,600	112,600
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Certification of Claims and Returns	Note 1	Note 1	14,676
Pension Fund Audit	27,637	27,637	27,637
Non Audit Work	27,500	27,500	41,000
TOTAL	167,737	167,737	195,913

Note 1

Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in February 2015 within the 2013/14 Annual Certification Report. The 2012/13 fee is taken from our 2012/13 report.

Non Audit Work

We performed some work which fell outside of the Code of Audit Practice requirements. Our actual fees for these services were £27,500. More details are included in our ISA 260 report (including our considerations around independence). This report was presented to the Corporate Governance Committee in September 2014.



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

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

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

130610-142627-JA-UK

This page is intentionally left blank

**CORPORATE GOVERNANCE COMMITTEE – 24 NOVEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****EXTERNAL AUDIT PLAN – PROGRESS REPORT 2014/15****Purpose of the Report**

1. To present a progress report on the external Audit Plan 2014/15 for information.

Background

2. A copy of the progress report on the annual Audit Plan for 2014/15 is appended to this report. The final Audit Plan will be presented to the next meeting of the Committee. A partner from the County Council's external auditors, PricewaterhouseCoopers (PwC), will attend the meeting in order to present the progress report and answer any questions.

Recommendation

3. The Committee is asked to note the update provided by PwC.

Equality and Human Rights Implications

4. None arising from this report.

Circulation Under the Local Issues Alert Procedure

5. None.

Background Papers

6. None.

Appendix

External Audit 2014/15 Progress Report

Officers to Contact

Chris Tambini, Assistant Director, Strategic Finance and Property, Corporate Resources Department

Tel: 0116 305 6199

Email: Chris.Tambini@leics.gov.uk

Judith Spence, Head of Corporate Finance, Corporate Resources Department

Tel: 0116 305 5998

Email: Judith.Spence@leics.gov.uk

This page is intentionally left blank

Leicestershire County Council

November 2014

External Audit 2014/15 Progress Report



Table of Contents

External audit update	3
Appendix 1 - Other sector updates	5
Appendix 2 – PwC publications	6

External audit update

2013/14 External Audit

We reported in detail in our report to those charged with governance (*ISA (UK&I) 260*), our findings on the 2013/14 financial statements to the Corporate Governance Committee on 23 September 2014 and gave an update on the outstanding matters from the financial statements audit.

We present alongside this update report our Annual Audit Letter for 2013/14, which summarises our work for 2013/14. The only outstanding item is in relation to your pension fund annual report, once we receive your pension fund annual report we will be able to issue our completion certificate for 2013/14 and we will have completed our audit responsibilities for the 2013/14 financial year.

2014/15 External Audit

We are pleased to confirm that the audit team will remain unchanged for the 2014/15 audit. Richard Bacon will continue to be your Engagement Leader supported by Matthew Elmer and Edward Cooke as senior manager and manager respectively supported by Jodie Stead as Team Leader who will be responsible for the day to day and onsite liaison with the main finance team.

We see that continuity is essential as we have built up good working relationships with the Council and have developed a solid understanding of your systems and processes.

We have commenced our planning phase of the 2014/15 audit in October and will continue over the next couple of months. The key aspects of our planning phase will include:

- Regular meetings with management to keep up to date with key developments;
- Liaison with internal audit to understand the work carried out;
- Updating our understanding of the overall control environment and control activities;
- Identification and assessment of audit risks; and
- Development of our audit strategy.

Our planning work will contribute to the development of our Audit Plan which we look forward to presenting to you at the next Corporate Governance Committee.

2014/15 Fees

In May 2014 we issued our 2014/15 planning letter confirming the fees proposed for the 2014/15 programme of audit work as published by the Audit Commission. At the time of writing we are not aware of any changes to these proposals and the total indicative fee for the 2014/15 audit is £102,600 for the financial statements audit and £27,637 for the pension fund audit (excluding VAT).

2014/15 Risks

We will present our detailed risk assessment and planned response as part of our annual plan. At this stage we anticipate the following significant risks for the 2014/15 audit plan.

Financial statement risks:

Fraud and Management Override of Controls

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Recognition of income and expenditure

Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.

There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.

Value for money conclusion risks:

Medium Term Financial Strategy

The Authority has made significant strides over the past few years to identify savings and deliver more efficient services. Given the size and current uncertainties given the upcoming general elections it is anticipated that your MTFs, the assumptions on which it is based and proposed savings plans as part of your transformation agenda is critical to your ability to secure and deliver economy, efficiency and effectiveness.

Other areas of focus for 2014/15

We have kept up to date with your progress in implementing the East Midlands Shared Services (EMSS) project through discussions with management and review of relevant working papers. The 'go-live' date was at the start of the 2013/14 financial year. We will continue to discuss your progress with management and will consider the work of Internal Audit around the ongoing governance and operational progress within EMSS.

Earlier closedown of your accounts

With changes to the audit regulations and the overall timetable being brought earlier for both preparation of the draft statement of accounts and publication of your audited statement of accounts, we are working with management to explore an earlier close of your draft statement of accounts and an earlier audit timetable, so that you can develop an appropriate timetable and processes for when the regulations take effect.

Independence

We are required to follow ISA 260, Communication of audit matters with those charged with governance, and Ethical Standard 1, Integrity, objectivity and independence, issued by the Auditing Practices Board. We must communicate at least annually with you regarding all relationships between PwC in the UK and other PwC firms and associated entities ('the Firm') and the Council, its directors and senior management that, in our professional judgment, may reasonably be thought to bear on our independence and objectivity.

Based on the enquiries performed to date, we are not aware of any independence related matters that we believe should be brought to your attention at this point.

We will monitor this throughout the audit. As part of our full audit plan and the year-end report to the Corporate Governance Committee, we will reconfirm our independence and detail any non-audit services provided.

Recent PwC Publications

As part of our regular reporting to you, we keep you up to date with the emerging thought leadership we publish that may be of interest to you. We draw from our Public Sector Research Centre (PSRC) see appendix 2 of this progress report for further details.

Appendix 1 - Other sector updates

Better Care Fund (BCF)

The Department of Health and Department for Communities and Local Government have announced the results of their review of the first set of local plans for the BCF. The BCF is a shared budget of £3.8 billion available from April 2015 and aims to improve out of hospital care for the elderly and vulnerable, consequently reducing the number of admissions to hospital. Health and wellbeing boards will be able to set their own performance pot (cumulative value of £1 billion) with a guideline reduction in admissions of 3.5% with the balance of the performance allocation being spent on NHS-commissioned community services.

Fundamental standards of care

The government has announced new fundamental standards of care that, subject to parliamentary approval will become law in April 2015. The new fundamental standards are:

- care and treatment must be appropriate and reflect service users' needs and preferences
- service users must be treated with dignity and respect
- care and treatment must only be provided with consent
- care and treatment must be provided in a safe way
- service users must be protected from abuse
- service users' nutritional and hydration needs must be met
- all premises and equipment used must be clean, secure, suitable and used properly
- complaints must be appropriately investigated and appropriate action taken in response
- sufficient numbers of suitably qualified, competent, skilled and experienced staff must be deployed
- persons employed must be of good character, have the necessary qualifications, skills and experience, and be able to perform the work for which they are employed
- registered persons must be open and transparent with service users about their care and treatment (the duty of candour)

As part of the fundamental standards, a new duty of candour and fit and proper persons requirement for directors will be introduced for NHS providers from October 2014, and will be extended to all providers by April 2015, subject to parliamentary approval.

Consultation on the new Code of Audit Practice

As part of the closure of the Audit Commission, the National Audit Office (NAO), on behalf of the Controller and Auditor General, will take on setting the Code of Audit Practice from 2015/16. This new Code of Audit Practice will cover much of the public sector, including NHS foundation trusts.

A copy of the consultation is available at <http://www.nao.org.uk/keep-in-touch/our-surveys/consultation-code-audit-practice/> and the deadline for response is 31 October 2014. In practise it is unlikely that audited bodies will see a significant change in the approach taken by their auditors as part of the new Code of Audit Practice.

Appendix 2 – PwC publications

Public Sector Research Centre (PSRC)

The Public Centre Research Centre – UK, features insightful research from UK and similar countries on the issues and the challenges faced by public sector and government officials while providing a roadmap of the future of government.

Productivity in the public sector - what makes a good job? August 2014.

This new Talking Points publication from PwC and Demos explores what can be done to lift productivity and how the public sector can play its part.

The UK as a whole has a productivity problem. Its workers produce less per hour than their counterparts in France, Germany and the US, with the gap widening since the onset of the financial crisis. The question of how to improve productivity is where debates on growth, living standards and deficit reduction come together. And the public sector has a key role to play in finding the answer.

By creating the right environment for business through their policies, government at all levels can help places build on their strengths and attract the talent and investment that companies need to succeed. And the public sector - as a huge employer - has the potential to make a unique impact to this issue.

In this Talking Points publication from PwC and Demos, we examine the issue of low productivity and the challenges ahead for the public sector, consider the role of the workforce as a partner in solving these dilemmas and draw together discussions over a series of three roundtables on 'good jobs', to present some potential responses including:

- Job design for high productivity working
- Learning and development for an adaptable public sector workforce
- Pay and rewards and their links to productivity

<http://www.pwc.com/gx/en/psrc/united-kingdom/productivity-public-sector.jhtml>

Who's accountable now? The public's view on decentralisation. August 2014.

Decentralisation is firmly in the sights of politicians nationally and locally in the UK, but is it really possible for government to 'let go' in such a centralised political culture?

As part of our work with IPPR on the 'Decentralisation Decade' we have refreshed our 2009 research exploring who the public hold accountable for public services and for the economy.

Our new research reinforces our 2009 findings: if real powers are transferred to highly accountable bodies then public perceptions of responsibility will change. The public tends to have a relatively good awareness of whether particular bodies have the powers to act in a particular area. But real accountability depends on fully aligning decision-making, budgets and delivery when decentralising.

Key implications

There are three important implications for those seeking to decentralise:

- Politicians need to hold their nerve: for at least a period of time 'the centre' will still be blamed for failures, either being seen as responsible for the act of devolution or because the public didn't notice or understand that devolution has occurred.
- The public usually needs time to get used to understanding who is responsible for exercising newly decentralised powers. As such, a route map to decentralisation spanning years, not months, is needed to rise to the challenge of letting go of power in our centralised political culture.
- Decentralisation needs to be a two-way process between central government and local bodies: in particular, local government needs to be focussed when negotiating for additional powers and ensure it has the capacity to make best use of them, as shown in the City Deals process.

- If perceptions of accountability are to shift, communications and engagement are essential. Building the case for change and engaging the public in the debate on accountability is, therefore, an essential step if we are to deliver a Decentralisation Decade.

<http://www.pwc.com/gx/en/psrc/united-kingdom/whos-accountable-now.jhtml>

Decentralisation Decade report: a plan for economic prosperity, public service transformation and democratic renewal. September 2014.

Decentralisation is firmly in the sights of politicians nationally and locally, but is the tide in favour of decentralisation strong enough to make change substantial and irreversible?

IPPR's report 'The Decentralisation Decade', which we have supported, sets out the prospects and priorities for decentralisation in England over the next 10 years.

Decentralisation Decade sets out five broad principles for decentralisation in England:

- **Decentralisation must be for a broad and clear purpose.** Decentralisation is not an end in itself, but a means to achieve improved outcomes in terms of good growth and public services.
- **Decentralisation must be joined-up.** A coherent and co-ordinated approach is needed across different departments, at different spatial scales and between a wide range of public, private and voluntary actors and enthusiastic citizens too.
- **Decentralisation needs to be asymmetrical.** A multi-speed approach to decentralisation is the way ahead, driven by those areas with the appetite to take on additional powers and responsibilities. Meanwhile government at the centre needs to do more to enable ground-up localisation: the focus should be on enabling a more organic approach to collaboration at local and, where appropriate, regional levels.
- **Decentralisation needs time.** A decade of decentralisation is needed to make the adaptations necessary, develop local capacity and embed a culture of decentralisation.
- **Decentralisation needs cross-party support.** To make a genuine shift in power from the central to the local level requires engagement from across the political spectrum, with national and local governments work in unison rather than in conflict over the long term.

<http://www.pwc.com/gx/en/psrc/united-kingdom/decentralization-decade-report-ippr.jhtml>

'This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.'

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.



CORPORATE GOVERNANCE COMMITTEE
24 NOVEMBER 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 necessary, as well as highlight risks that may need to be given further consideration. It covers:
 - a) The Corporate Risk Register (CRR);
 - b) Emerging Risks (on this occasion the one emerging risk around Ebola virus is covered in the section on business continuity) ;
 - c) Business Continuity, Insurance, Counter-fraud initiatives.




Corporate Risk Register




2. The Council maintains a CRR and departmental risk registers. These registers contain the most significant mitigated risks which the Council is managing and are owned by Directors and Assistant Directors.
3. The key changes since the CRR was last presented to the Committee in September are:
 - i. Addition of new risks:
 - Risk 12 – Integrated Adults System (IAS) Project Phase 2 -There are risks (both operational and potentially non-compliance with the requirements of the Care Act) if the Council's systems are not kept up to date in a timely manner with the scheduled software releases from the suppliers.
 - Risk 13 – Retention of children's case files beyond DPA requirements
 - Risk 20 – Reduced recycling performance
 - ii Removal of risk:
 - Risk 14 – Impact of academy and secondary age conversion on home to school transport policy. Risks that the revised policy was anti-competitive for academies, and that costs would increase due to multi eligibility, have been removed. Transitional arrangements





agreed as part of the consideration of the new policy will provide education continuity.





4. At its meeting on 23 September 2014, the Committee requested that a presentation be provided on the risks associated with the transition of Health Visiting from NHS England to local authorities, as detailed in the Corporate Risk Register (new Risk 6). This will be undertaken as part of this agenda.
5. The latest assessment of the highest ranking risks is shown in the table below. Where a change has taken place to the current risk score a note is included.




Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update	Direction of Travel (Residual Risk over the next 12 months)
Medium Term Financial Strategy (MTFS)					
All	1	Risk around the ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS.	25	New Transformation Unit structure in place (with vacancies). Risks remain around delivery of some projects (both phasing and overall achievement)	 Expected to remain 'high/red'
C&FS	2	Cost of school sponsorship to LCC prior to conversion	16	Note: no change to previous reported position.	 Expected to remain 'high/red'
Health & Social Care Integration					
A&C	3	Proposals in the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council. (see Risk 4 for BCF)	25	Progress has been made in modelling the financial implications. The lack of accessible data continues to be a significant problem. The national costing model has been withdrawn and work is continuing using the Lincolnshire costing model with assistance from East Midlands Finance Group. The financial allocations risks identified in the August update remain. In order to mitigate them, a centrally managed contingency fund has been agreed with Corporate Finance.	 Expected to remain 'high/red'

CE	4	Risk to Health and Care Partners failing to deliver integrated care to the local population (including via the Better Care Fund (BCF) plan	12 (*) (Reduced from 15)	<p>The BCF plan was resubmitted by the deadline of 19th September to NHS England, and was 'approved with support' (have to supply additional evidence). Delivery continues through the production and approval of individual business cases for key elements of the BCF programme.</p> <p>Delivery highlights include:</p> <ul style="list-style-type: none"> • 1st September Night Nursing Service Go Live • 1st October Older Person's Unit Go Live • The performance dashboard provides a comprehensive overview of progress. An element of the funding is based on payment by results. • Alignment has been achieved with the Better Care Together 5 year plan, and a Strategic Outline Case is currently being developed for November 2014. <p>(*) The Programme risk register was considered by the partners and Clinical Commissioning Groups and the risk has been downgraded. This position was reflected within the BCF re-submission and is reviewed by the Integration Executive monthly. The Better Care Together Programme Risk Register is being developed.</p>	 Expected to remain medium/amber
All	5	Challenges caused by the Welfare Reform Act.	25	The longer term risk remains significant with the Government continuing with its intention to make very large reductions in the welfare budget	 expected to remain 'high/red'
PH	6	The transition of Health Visiting (from NHS England) to Local authorities	20	Note: no change to previous reported position.	 Expected to remain 'high/red'

ICT, Information Security					
CR	7	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Disaster Recovery test strategy and plan signed off. First planned test completed successfully	 Expected to move to medium/amber
CR	8	Continuing risk of failure of information security.	16	<p>The annual PSN submission for 2015 has been submitted. Other local authorities have reported long delays in receiving a response from the Cabinet Office.</p> <p>The new Information Security and Acceptable Use policy will be launched in mid-November in tandem with revised HR terms and conditions. The launch has been delayed to coincide with the release of the November 'Staff Matters' publication.</p>	 Expected to move to medium/amber
All	9	Failure by LCC to ascertain, understand and manage increased demand for services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme.	15	Development of the Data & Business Intelligence governance framework and Target Operating Model is underway, the work programme has been signed-off and work has commenced.	 Expected to remain 'high/red'

CR	10	Insufficient capacity to provide Information & Technology solutions.	16	<p>Significant improvements to the Strategic Information & Technology (SI &T) work programme and process is underway.</p> <p>Implementation of the SI&T staff action plan will reposition staff to better respond to high demand</p>	 Expected to remain 'high/red'
CE	11	Failure by Members to comply with the new Information Security Policy	16 (reduced from 20 – increased controls)	<p>Members have been notified of their responsibilities and a training session for all members took place on 23rd September.</p> <p>Roll out of Members ICT provision under way. Once roll out completed auto forwarding will cease</p>	 Expected to move to medium/amber
A & C	12	IAS Phase 2 Project. There are risks to operational business as usual and compliance with reporting requirements of the Care Act 2014	15 (New)	An internal audit identified some high importance recommendations which are being progressed as priority by management. Project is progressing to schedule with the Roadmap Releases.	 Expected to move to medium/amber
C&FS	13	Retention of children's case files beyond Data Protection Act (DPA) requirements	16 (New)	Children & Family Services (C&FS) Management Team has accepted advice from Legal Services to retain all data recorded on the former case management system (SSIS). Case by case decisions on retention has not possible due to the limited availability of experienced resources.	 Expected to remain 'high/red'
Transportation					
E&T	14	Impact of academy and secondary age conversion on home to school transport policy.	16 Decreased from 20 (reduced impact)	Risk Removed – This will be managed within the Environment and Transport departmental risk register	N/A

E&T	15	Impact of an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply which could have an adverse impact on the functioning of the transport network.	15	Note: no change to previous reported position.	 Expected to move to amber
Partnership Working					
C&FS	16	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	Note: no change to previous reported position.	 Expected to remain 'high/red'
CE & C&FS	17	Partnership relationships - Community Safety are not effective due to the difficulties of maintaining a working relationship with the Police and Crime Commissioner (PCC)	15	LCC Officer recently elected as Chair of SPB Executive. New strategic Police role developed to work between PCC and Police and Partners to develop partnership working	 Expected to remain 'high/red'
E&T	18	LLEP- insufficient funding for transport schemes to deliver economic growth and LTP3 / Strategic Plan. Risk regarding match funding requirement for the Council	20	Ongoing discussions taking place through budget process to mitigate this risk and discuss possible options.	 Expected to remain red

Commissioning & Procurement					
CR	19	The ability of Leicestershire County Council to effectively contract manage devolved services through new service delivery models	15	Note: no change to previous reported position.	 Expected to move to 'medium/amber'
Environment					
E & T	20	Reduced recycling performance	16 (New)	Regular monitoring of local and national trends in waste arisings and performance. Ongoing engagement with relevant groups to ensure awareness of upcoming changes in guidance or methods of calculating performance. A robust communication plan is in place.	 Expected to remain red
Speciific Update - EPH					
A&C	21	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	By the end of October 2014, Leicestershire County Care Limited (LCCL) has made capital payments totalling £1,545m against the outstanding sum of £3,245m. The balance outstanding is £1.7m. LCCL continues to comply with the terms of the new financial agreement, making timely interest payments at a rate of 7.5% (current Bank of England Base Rate, plus 7%). Interest received up to the end of October 2014 amounted to £341,000.	 Expected to remain 'medium / amber'

6. This register is designed to capture strategic risk, which by its nature has a long time span. Risk owners are engaged and have demonstrated a good level of awareness regarding their risks. The full CRR is attached as Appendix A.
7. 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 reflected within the relevant departmental risk register.

Business Continuity (BC)

8. The Business Continuity Team facilitated an initial workshop involving C&FS, Insurance and Property to plan for closure of a school, irrespective of whether it is LA or Academy. Work will continue into 2015, the objective being to produce a framework for such an incident, where the council has an obligation to ensure children continue to be educated.

Supplier BC Assurance

9. A successful pilot has been completed of the new Supplier BC Assurance process, which aims to seek solid evidence that suppliers could manage and survive serious disruption from a major incident. A list of critical suppliers who will be subject to the new process will be compiled by December 2014.

Work Area Recovery

10. Activity continues to manage the displacement of staff from all, or part of, County Hall Campus. Critical staff requiring rapid access to desk, phone, systems etc. has been confirmed and 'Recovery Zones' within County Hall have been identified, i.e. areas where less critical staff can be moved out (to home working or locality offices) to make space for displaced critical teams.

Particular focus is being given to Eastern Annex teams, due to the fragility of the building, demonstrated by a 'near miss' potential electrical issue during August which led to work area recovery preparations being made.

Incident Monitoring and Exercises

11. The Ebola situation is being monitored, but is not considered a major risk to the UK at the moment (based on advice from Public Health).
12. Several Business Continuity exercises are planned to take place in the next 3 months, involving various teams and different types of exercise – including a displacement exercise for key teams in the Eastern Annex, and a Call Cascade (*communications test*) within Adults and Communities.
13. Several internal audits have been carried out during 2014 on the council's Business Continuity capability, covering both governance and operational aspects. A few recommendations were made, but all of the audits rated BC as "substantial assurance".

Insurance

Tender for the Main Insurance Programme

14. In the risk management update to Committee on 12 May 2014, it was reported that market conditions for local authority insurance were deteriorating and that there was a lack of competition generally. A risk was identified that the County Council's insurance premium could rise significantly for a second successive year.

In advance of renewal of the policy on 1st October the holding insurer, Travelers Ins. Co. Ltd., indicated that it intended to break the long term price agreement for the second year running on the liability class of business only. As a result a decision was taken to carry out a marketing procurement exercise. Only two insurers responded to the main package of business and the holding insurer was completely uncompetitive.

As a result of the tender procurement exercise the total cost of insurance has increased, but by an acceptable amount with all classes placed with a new insurer. The decision has also been made to increase the County Council's self-insured retention in respect of the liability risk from £150,000 to £250,000 as it is financially advantageous to do so. The previous limit had been in place since 1998.

Municipal Mutual Insurance

15. Leicestershire County Council was insured by Municipal Mutual Insurance (MMI) between 1969 and 1992. MMI entered into administration in 1992 and since this time has been the subject of a Scheme of Arrangement with its creditors. In November 2012 the County Council was notified that there would not be a solvent run off of claims, due to high numbers of historic abuse, noise induced hearing loss and mesothelioma claims.

In order to restore the company's balance sheet the Scheme Administrator imposed a 15% levy on all claims paid to date and on all claims yet to be settled. The County Council has now made a payment of £2.2 million in respect of all claims settled at the levy date and continues to meet the 15% liability for claims currently being dealt with.

MMI's recently released accounts show a significantly worsening position with actual claims exceeding the forecast made by MMI's actuaries. At the moment the Scheme Administrator is of the view that it is too early in the development of the claims pattern to increase the levy, but there is a significant possibility that this will be necessary at some future point in time. The County Council holds an uninsured loss fund to pay for future levies.

Fraud Prevention Initiatives

16. At the Committee on 23 September 2014, Members were informed that the County Council is in the process of revising its existing anti-fraud framework to align with best practice outlined in: -
 - Fighting Fraud Locally (FFL) – The Local Government Fraud Strategy (2011) and
 - The CIPFA Code of Practice on Counter Fraud (2014)
17. Following the disbanding of the National Fraud Authority (NFA), CIPFA, through its Counter Fraud Centre (CCFC) has taken on the lead for the national counter fraud and anti-corruption strategy for local government 'Fighting Fraud Locally' (FFL) and will develop new tools and services for the public sector on counter fraud and anti-corruption as well as providing thought leadership and horizon

scanning. The CCFC will develop over the forthcoming months to become established as the UK's national centre of excellence on counter fraud.

18. The underlying principle of the FFL strategy is one of partnership between local and central government and a strategic approach to fraud. It advocates that local government should '*...use its knowledge, flair and determination to tackle the serious problem of fraud*'. An example of this is the comprehensive review of the single person discount scheme applied across six Leicestershire District Councils in conjunction with a third party, which was reported to the 23 September 2014 Committee. It advises that the role of central government is to create the right conditions for local authorities to take the necessary initiatives including creating incentives to reward councils that reduce fraud; exploring removal of barriers to appropriate information sharing; and exploring options for providing professional staff with access to the necessary investigative powers.
19. The CIPFA Code of Practice on Counter Fraud 2014 (the Code) was published on 16 October 2014. The Code will support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption. It is a voluntary code that can be applied in any public service organisation. It is brief and clearly sets out the importance of top level support from the governing body and leadership team. Where an organisation chooses to make a statement in its annual governance report about its adherence to the Code, one of two statements should be approved according to whether the organisation conforms to the Code or needs to take further action. In its last report in the 'Protecting the Public Purse' (PPP) series before it closes in March 2015, the Audit Commission recognised that the six key components of effective stewardship of public funds are incorporated within the Code and recommends that all public bodies, including local authorities, to assess themselves against the Code.
20. The Code is organised around five key principles:
 - **Acknowledge** the responsibility of the governing body for countering fraud and corruption;
 - **Identify** the fraud and corruption risks;
 - **Develop** an appropriate counter fraud and corruption strategy;
 - **Provide** resources to implement the strategy;
 - **Take action** in response to fraud and corruption.

A copy of the Code is at Appendix B.

21. The starting point of a strategic approach is to acknowledge the first principle of the Code i.e. that fraud does exist within organisations, and that the governing body (elected members and senior management) has a responsibility for countering fraud and corruption. Corporate Management Team (CMT) has already agreed to adopt the principles of the Code and to include a statement of either conformance or further action required in the Council's annual governance report, and there is a recommendation that this Committee adds its support to this.

22. The second principle of the Code is to identify fraud and corruption risks by performing a fraud risk assessment and using the results to direct anti-fraud resources and strategies accordingly. The County Council does not provide those services that have historically been considered to be at high risk of fraud, such as revenue and benefits. However, the change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More 'at arm's length' delivery of services by third parties, for example, the voluntary/not for profit sector and personal control of social care budgets, means that more public money is entrusted externally, which may impact on the wider control environment. All of these changes are happening against a backdrop of continued depressed economic activity in which the general fraud risk (both external and internal) tends to increase.
23. Whilst FFL outlines the main areas of fraud risk across local government, each authority's risk profile will be different. Therefore a thorough fraud risk assessment for the County Council has been conducted taking into account areas identified in FFL, as well as the Audit Commission's Protecting the Public Purse publication, reports from the biennial National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases.
24. Appendix C contains a summary level of the fraud risk assessment, with a corresponding risk score for each, based on the Council's overall potential exposure (impact on service delivery, finance and reputation) and actual reported frauds of this kind. Scoring has been derived through discussions with individual service leads and the results of the assessment have been benchmarked for *reasonableness* through the Midland Counties' Chief Internal Auditors network. Recognising fraud in this manner ensures there is a comprehensive understanding and knowledge about where potential fraud and bribery problems are more likely to occur and the scale of potential losses. This in turn will direct the Council's overall Anti-Fraud and Corruption Strategy and further allow the Council to direct counter-fraud resources accordingly. This in turn influences the internal audit annual planning process.
25. The Council's Anti-Fraud and Corruption Strategy is currently under review and will be re-launched in spring 2015. It will be aligned to the Code.

Recommendation

26. That the Committee:
 - (a) Notes that the current status of the strategic risks and the addition of new risks facing the Council and makes recommendations on any areas which might benefit from further examination;
 - (b) Identifies a risk area for presentation at its next meeting;
 - (c) Approves the updated Corporate Risk Register attached as Appendix A to this report;

- (d) Adopts the principles of the CIPFA Code of Practice on Counter Fraud (2014) to include a statement of either conformance or further action required, in support of the Council's initiatives to improve further the prevention and pursuit of fraud.

Resources Implications

27. None.

Equality and Human Rights Implications

28. None arising from this report.

Circulation under the Local Issues Alert Procedure

A Members News in Brief item covering the agreement reached with Leicestershire County Care Limited regarding payment has been circulated to all members of the County Council.

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, 2 September 2013

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

Report of the Director of Corporate Resources – 'Risk Management Update' – Corporate Governance Committee, 10 February 2014

Officers to Contact

Chris Tambini, Assistant Director Strategic Finance and Property

Tel: 0116 305 6199

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

Neil Jones, Head of Internal Audit Service

Tel : 0116 305 7629

Email: neil.jones@leics.gov.uk

Appendices

Appendix A – Corporate Risk Register

Appendix B - CIPFA Code of Practice on managing the risk of fraud and corruption

Appendix C - Fraud Risk Assessment

Updated: Sep-14

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 A

							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
All	1	The County Council is unable to deliver savings and contain growth through Service Redesign/Transformation as required in the MTFS.	<ul style="list-style-type: none">• Chancellor Budget 2014 projected austerity beyond 2017/18, requiring LCC to find additional estimated savings (increase of £27.5m on current position)• Budget statement did not contain any reference to costs of Care Bill reforms to Adult Social Care which could significantly impact savings gap• Increased demand for the most vulnerable continues to increase: Adult Social Care / CYPS• Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings	<u>Service Delivery</u> <ul style="list-style-type: none">• Negative impact on all services as further service cuts will be required to reduce deficit <u>Reputation</u> <ul style="list-style-type: none">• Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted <u>Financial</u> <ul style="list-style-type: none">• Loss of income• Restricted funding from other sources	John Sinnott / CMT	<ul style="list-style-type: none">• Resource review undertaken• Public consultation undertaken• Monitoring processes in place at both departmental and corporate level• Settlement reviewed and MTFS updated• Progress with savings monitored and reported to Scrutiny Commission regularly during 2014/15• Assistant Director Transformation in post• Financial position was reported to Cabinet in September	5	5	[R] 25	<ul style="list-style-type: none">• Update MTFS early 2015 to be considered by Scrutiny Commission, Cabinet and County Council. This will include additional savings• Increase focus on A&C and C&F overspends• Further work required to agree Transformation process, resources and governance• Greater emphasis on commissioning, active communities and demand management• Improved provision of management and performance information	5	5	[R] 25
C&FS	2	Local Authority schools that fail Ofsted/consistently under perform are directed to become a Sponsored Academy by the DfE. Under this arrangement and prior to conversion, there is a legal requirement for LCC to absorb deficit budgets, as well as potentially incur additional high costs towards building repairs.	<ul style="list-style-type: none">• Sponsors are seeking building repairs/updates before agreeing to sponsor schools• Central agenda/strategy pushes for more conversion• Deficit budgets return to the Local Authority at the point of conversion.• No identified funding source to support sponsorship projects	<u>Service Delivery</u> <ul style="list-style-type: none">• Local academy strategy objectives unachievable• If sponsorship projects are approved Capital programme slippage and delays to other major schemes <u>People</u> <ul style="list-style-type: none">• Displaced children needing to be relocated if school closes• Stress/pressure on pupils, parents, teachers <u>Reputation</u> <ul style="list-style-type: none">• Sponsor schools walk away from arrangements unless demands met• If the school continues to sustain underperformance (and no sponsor found) then the DfE could direct LCC to close the school. <u>Financial</u> <ul style="list-style-type: none">• Demand on limited Dedicated School Grant (revenue) resources• Diversion of capital funding from other schools• If schools closes there will be a negative impact on the transport budget as the LA will have to transport children to other schools.	Lesley Hagger / Gill Weston	<ul style="list-style-type: none">• £2.5 million held in Dedicated Schools Grant reserves (Revenue).• On-going negotiations with sponsors and the Department for Education.• Updated conditions surveys prepared• Corporate School group to monitor• Property to ensure capital program delivers priority 1 and 2.• Notice of Concern is served on each school giving the LA greater influence over decision making.• Audit concluded on the management of sponsorships	4	4	[R] 16	Further develop a robust criteria to use to determine the priority on the demands on capital budget .	4	4	[R] 16

45

						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	3	Inability to establish long term delivery strategies as a result of the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council	<ul style="list-style-type: none">•Increase in LCC responsibilities and costs•National eligibility criteria increases demand with no additional funding (reform under funded)•All service users (existing and new) requiring a 'care account'•Cap on total lifetime costs paid by individuals•Leicestershire more affluent therefore more of the costs which are currently self funded will pass to tax payer•Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care•Uncertainty about formula used to allocate funding	<u>Service Delivery</u> <ul style="list-style-type: none">•Double the number of service users eligible•Concern on how well changes will be understood by service users/public <u>People</u> <ul style="list-style-type: none">•Significant staffing and ICT resource implications•Required additional staffing at a time where workforce planning to be reduced <u>Financial</u> <ul style="list-style-type: none">•Major impact on substantial savings/efficiencies required•Additional operating costs associated (increased assessment activity / care accounts)•Significant reduction in income from charges•More deferred payments for care costs	Mick Connell / Tony Dailide	<ul style="list-style-type: none">•Project Board (with senior sponsor) established to oversee development and delivery of an implementation plan•Department is in the process of engaging with emerging national and regional support programme for the Bill	5	5	[R] 25	<ul style="list-style-type: none">•Continue modelling exercise on scoping impact of Dilnot on service users, including obtaining best practice from other local authorities•Careful planning to avoid potential risk of making staff redundant when future new recruitment may be required•Review of risks as changes communicated•Preparation for detailed analysis of new guidance/ regulation to plan for implementation	5	5	[R] 25
CE	4	Risk to health and care partners failing to deliver integrated care to the local population, including the Better Care Fund (BCF). This could lead to the non-achievement of a number of national conditions and performance thresholds, leading to elements of the fund being withheld.	<ul style="list-style-type: none">• Uncoordinated working leading to inefficiencies and a reduction in the quality of integrated care to end users• Funding subject to national performance assessment with "payment by results" for at least one metric• 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	<u>Service Delivery</u> <ul style="list-style-type: none">• Failure to meet Health and Social Care Integration objectives which are a key priority for both LCC, CCG and the NHS• Increased dependency on other health services directly impacting LCC budgetary pressures <u>People</u> <ul style="list-style-type: none">• Limited early intervention or prevention due less planning 'around the individual ' leading to higher costs of care within the system <u>Reputation</u> <ul style="list-style-type: none">• Loss of trust in partnership working, lack of public confidence in integrated care solutions, commissioners viewed as uncoordinated/fragmented/wasting public resources <u>Financial</u> <ul style="list-style-type: none">• If the plan does not deliver against metrics, some of the funding could be withheld (up to £10m)•A proportion of the fund (£16m of £38m) is allocated to the protection of Social Care expenditure soak loss of income into the fund could impact on this allocation. Conversely delays and policy changes affecting how BCF plans are to be developed and delivered may affect the ability of the fund to be allocated, leading to underspends within the BCF plan.	CCG MD's / Mick Connell / Cheryl Davenport	<ul style="list-style-type: none">• Following approval, the County Council, the two County Clinical Commissioning Groups (CCGs) and the Health and Wellbeing Board finalised and submitted the BCF Plan to NHS England on 4th April 2014 (CCG MD's & CD)•An Integration Executive was established to oversee delivery of the BCF Plan and the associated pooled budget and has been meeting monthly since March 2014 (CCG MD's & CD)•A BCF programme plan, performance dashboard and risk register has been developed, showing the milestones, metrics and financial requirements that partners need to achieve within the BCF Plan (CD)• Due to changes in national arrangements for BCF plans all areas are required to resubmit their plans by the 19th September. In the meantime delivery continues through the production and approval of individual business cases for key elements of the BCF. (CCG MD's & CD)	4	3	[A] 12	<ul style="list-style-type: none">•The BCF Plan is an important element of the overall strategy to transform health and care services across Leicester, Leicestershire and Rutland over the next 5 years . The directional 5 year strategy was published for review and discussion with all local partners at the end of June and is expected to be finalised in November 2014, along with the production of a Strategic Outline case (CCG MD's & CD)•Project Plans continue to be refined in line with the BCF resubmission. (GW)	4	3	[A] 12
All	5	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">•Decreased income•Continual economic climate•High unemployment/Reduction in wage increases•Changes in the benefit system•Introduction of Universal Credit transfers responsibility to vulnerable people•Inadequate information for business cases jeopardising robust decision making•More demand for advice services•No central funding for Local Welfare Provision post April 2015	<u>Service Delivery</u> <ul style="list-style-type: none">•Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies <u>People</u> <ul style="list-style-type: none">•Families less able to maintain independence•Difficulty in identifying and implementing effective preventative measures•'Hard to reach' groups slip through the net <u>Reputation</u> <ul style="list-style-type: none">•Cases of hardship / lack of support in media•Potential inspection•Public confused as to which Agency has responsibility <u>Financial</u> <ul style="list-style-type: none">•A&C debt increases•Demand led budgets under more pressure•Risk of litigation / judicial review	Mick Connell / Sandy McMillan / Tom Purnell	<ul style="list-style-type: none">•Social Fund claims are lower due to more focused eligibility criteria•A&C finance team monitoring impact of benefit changes on departmental income and debt recovery•Debt strategy plan approved and being implemented•Information booklet on major WRA changes developed and circulated to all A&C staff and shared with CYPS•LCC agreed contribution towards the districts hardship funds to assist people in financial difficulty•Additional contingency help for non collection of council tax	5	5	[R] 25	<ul style="list-style-type: none">•Options to mitigate loss of Local Welfare Fund being explored•Maintain awareness of legislative changes and timing of WRA roll-out	5	4	[R] 20

						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
PH	6	Prepare for transition of Health Visiting to LA's	<ul style="list-style-type: none">• Preparedness of new authorised bodies including LCC to commission Health Visiting services from October 2015.• Insufficient funding to comply to National Service Specification.• Ability to retain and continue to recruit staff to sustain the Call to Action levels after transition.• Potentially the Call to Action target for numbers of Health Visitors will be missed by the end of March 2015 deadline	<u>Service Delivery</u> <ul style="list-style-type: none">• Negative impact on children & families & inability to deliver the Healthy Child Programme <u>People</u> <ul style="list-style-type: none">• Vulnerable Families at risk because service provision is inadequate with negative health and safeguarding outcomes <u>Reputation</u> <ul style="list-style-type: none">• Negative stories in press• Key partners impacted - in particular primary care and children's social care <u>Financial</u> <ul style="list-style-type: none">• Disproportionate allocation of finances for commissioning of the contract• Potential Loss of Future finance if service not delivered adequately	Mike Sandys /Rob Howard	<ul style="list-style-type: none">• The Health Visiting Assurance Board will become a HV Transition Board from April 2014 to ensure the smooth transition of responsibility from NHS England to LCC.• The Board will continue to monitor progress towards the Call to Action targets.	5	4	[R] 20	<ul style="list-style-type: none">• Improved performance management.• Improved Monitoring of progress towards Call to Action targets to ensure targets are met.	5	3	[R] 15
CR	7	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">• Business evolution and dependencies cause additional load on existing infrastructure, reducing resilience to failure• Recovery plans are currently fragmented	<u>Service Delivery</u> <ul style="list-style-type: none">• Unable to deliver critical services• Disruption to day to day operations• Loss of key information• Loss of self service customer facing options / Public unable to use all access channels <u>People</u> <ul style="list-style-type: none">• Alternate business continuity arrangements likely to result in backlogs of work <u>Reputation</u> <ul style="list-style-type: none">• Negative stories in press• Key partners impacted may influence contract renewals <u>Financial</u> <ul style="list-style-type: none">• Potential penalties• Additional costs related to internal and external recovery	Liz Clark / Roderick O'Connor	<ul style="list-style-type: none">• New SAN in place that includes functions to rapidly restore services in the event of an outage• Resilient servers split over two sites• Servers have been virtualised so that they can be quickly brought back into service if there is an issue with the underlying hardware.• Consultant review of existing resiliency completed and resiliency group setup to implement recommendations• Provisions to ensure that ICT information is secure and recoverable	5	3	[R] 15	<ul style="list-style-type: none">• Review of current datacentres to address risks identified by the NCC report• Continue review of current plans to ascertain gaps, to put forward improvement proposals• Notification of all planned changes that may impact infrastructure	4	3	[A] 12
CR	8	The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security.	<ul style="list-style-type: none">• Increased information sharing• Increased demand for flexible working increases vulnerability of personal, sensitive data taken offsite.• More hosted technology services• Greater emphasis on publication of data and transparency• Greater awareness of information rights by service users• Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence.	<u>Service Delivery</u> <ul style="list-style-type: none">• Diminished public trust in ability of Council to provide services• Failure to comply with Public Service Network(PSN) Code of Connection standard would result in the Council being disconnected from PSN services, with possible impact on delivery of some vital services. <u>People</u> <ul style="list-style-type: none">• Loss of confidential information compromising service user safety <u>Reputation</u> <ul style="list-style-type: none">• Damage to LCC reputation <u>Financial</u> <ul style="list-style-type: none">• Financial penalties	Brian Roberts / Liz Clark	<ul style="list-style-type: none">• New, simplified Information Security and Acceptable Use policy signed off• PSN compliance achieved and Project Board overseeing embedding of PSN compliance into business as usual• New governance model for information security being established• Use of 2 level anti-virus software on internet and email with further control on webmail• Regular penetration testing and enhanced IT health check as part of PSN complianceInternal & External penetration testing took place during June 14MDM roll out to existing mobile devices underway	4	4	[R] 16	<ul style="list-style-type: none">• Continued delivery of the Information Security programme of work• Improved staff guidance developed and awareness sessions planned for launch and implementation of refreshed Information Security & Acceptable Use policy• Personal responsibility for information security will be included in new staff terms and conditions.• Secure data transfer is a planned early deliverable for the Information & Technology Transformation Enabler.• A Corporate Mobile Device Management will help control the impact of potential data loss from mobile devices - Roll out currently due to complete qtr 3 2014• Ensure actions from penetration testing report are either implemented or programmed before next PSN submission	4	3	[A] 12

						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
All	9	Failure by LCC to ascertain, understand and manage increased demand for services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme	<ul style="list-style-type: none">•No clearly defined corporate Business Intelligence (BI) function•Insufficient BI on customers and cost of services• Reduced research, performance and finance support for projects•Inadequate data quality and data sharing•Demand influenced by unmanageable external environment•Range of cultural, Information Management, technology and skills issues•Incorrect predictions for growth (and decline) For e.g. Waste	<u>Service Delivery</u> <ul style="list-style-type: none">•Inadequate information for business cases•Jeopardise importance of robust and effective evidence based decision making•Transformation priorities not being met <u>People</u> <ul style="list-style-type: none">•Difficulty in identifying and implementing effective preventative measures•Less productivity through duplication of work <u>Reputation</u> <ul style="list-style-type: none">•Inaccurate returns to central government•Unable to comply with increasing number of data sets required under the Transparency Agenda <u>Financial</u> <ul style="list-style-type: none">•Risk of litigation/judicial review	Liz Clark / Tom Purnell	<ul style="list-style-type: none">•Cross department review of BI and Data Management•Business Intelligence Board established and action plan, focusing on 4 key work streams has been prepared•Development of governance framework and TOM is underway• Work has commenced on data and BI work programme	5	3	[R] 15	<ul style="list-style-type: none">• Data Management options and delivery methods to be explored	5	3	[R] 15
All	10	Insufficient capacity to provide Information & Technology solutions to support major change projects	<ul style="list-style-type: none">•Imbalance of IT resources versus IT requirements•Demand outweighs supply•Loss of knowledge and lack of continuity as a result of staff turnover and/or inadequate investment in skills and competencies	<u>Service Delivery</u> <ul style="list-style-type: none">•Departmental and corporate objectives not met or delayed•Delays to project delivery <u>Financial</u> <ul style="list-style-type: none">•Failure to support delivery of efficiency programme and ICT replacement projects	Brian Roberts / Liz Clark	<ul style="list-style-type: none">• Work is underway to make significant improvements to the SI&T workprogramme and process. The planned changes will improve prioritisation and demand management.• SI&T staff action plan being implemented to reposition staff to better respond to high demand for information and technology solutions.•Workforce planning•IT solutions that enable mobile and flexible working and improve access to information are being investigated and trialled.	4	4	[R] 16	<ul style="list-style-type: none">•Regular review of capacity versus demand•Review of workforce plans and development of 3 month rolling plan•Further work to assess impact of strategy and transformation activities•Review of all SI&T work programme actviities against transformation projects and enablers•Corporate prioritisation scoring applied to all new work•Implementation of new prioritised SI&T work programme from Sept 14	4	4	[R] 16
CE	11	Failure by Members to comply with the new Information Security Policy	Members forwarding County Council emails to personal email accounts. Members do not manage personal and sensitive information in accordance with policy	Reputational Damage to LCC Breach of Data Protection legislattion which could lead to LCC being fined by Information Commisisoner	David Morgan/ Graeme Wardle	Members being informed of their responsibilities via letter from Monitoring Officer SCG and Group Leaders briefed All Members briefing took place 23rd September	4	4	[R] 16	Automatic forwarding of emails to cease once roll out of ICT hardware for members is completed - technical controls will be put in place	4	3	[A] 12
A & C	12	IAS Phase 2 Project- There is a risk to BAU Operations and compliance with the Care Act 2014 if LCC's IAS systems (notably LAS and ContrOCC) are not kept up to date in a timely manner with the scheduled software releases from the suppliers and any additional modules/functionality required cannot be delivered and integrated successfully	<ol style="list-style-type: none">1. Resources not being available to carry out the required tasks at the allotted time2. Software not being available when stated3. Funding not being available to finance the work required4. Key staff leaving, on long term sickness, being assigned to other work etc5. Staff not available from A&C for user acceptance testing and/or any training when required6. Staff not available from ICT or other Corporate Teams when required	<ol style="list-style-type: none">1. Non compliance with legislation2. Need for extra BAU resources to operate workaround processes3. Delays in handling cases4. Delays in processing Payments and Charges	Sandy McMillian	<ol style="list-style-type: none">1. Standard Project Gateway Controls2. Project and Resource Plans (via PID)3. Active Risk and Issue Log4. Project Governance through dedicated Project Board5. Updates to dependant project boards	5	3	[R] 15	None Identified	4	2	[A] 8

						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
C & FS	13	Breach of Data Protection Act - retention of files longer than required	Decommissioning of Adult Case management System (SSIS) C&F Management Team has accepted advice from Legal Services to retain all data recorded on the former case management system (SSIS), as it is not practical to physically go through thousands of children's records on the system and make a judgement on what should or should not be retained, given the limited resource of staff that are 'qualified' to make such decisions.	Service Delivery • Service delivery adversely affected by out of dat data People •Details of Vulnerable people at risk of disclosure Reputation •Potential adverse media attention and public lack of confidence Financial • Potential financial penalties	Lesley Hagger/Walter Mc Culloch	Legal Services' view is that any fines for not retaining data when it should be retained for example in litigation, would be greater than if data is kept securely for longer than legally required. Data securely held	4	4	[R] 16	Review policy annually to see if position has changed	4	4	[R] 16
E&T Risk Removed	** 14	Impact of academy conversion and secondary age range conversion on home to school transport policy	•Age range changes for compulsory secondary education •Changing academy admissions arrangements from previous LA determined catchments which conflict with long standing transport arrangements not reflected in the home to school transport policy	People •Parents do not understand eligibility and/or make school choices not fully understanding current policy Reputation •Potential for conflict / legal challenge leading to negative media	Phil Crossland	•Engaging with Academies about to convert, explaining risks •Members understand risks through Scrutiny Commissioner briefings •Cabinet and Consultation Jan-March 2014 ▶ Further round of consultation undertaken (28th April - 15th June) ▶ Report to Scrutiny 11th July and Cabinet 15th July ▶ Policy published September 2014 ▶ Issued additional guidance in Croft, Syston and Thurmaston where concerns around local understanding were flagged	4	4	[R] 16		4	4	[R] 16
E&T	15	Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply which could have an adverse impact on the functioning of the transport network.	•National and local housing shortage Government impetus to build new homes •Lack of 5 year housing supply •District level plans not in place •Pressure on districts for early determination of planning applications •Increased developer 'know-how' •Shortage of expert resources	Service Delivery •Significant increase in both the number and complexity of planning applications received •Increase in the number of appeals •Negative impact on other core LCC strategies (LTP3) People •Undue pressure on staff as expert and specific knowledge required •Safety issues/congestion/accidents for residents if schemes not properly planned and approved Reputation •Difficulties to maintain reputation of being a quality and fair Highways Authority •Developments in the wrong location Financial •Increase in legal costs •Loss of developer contribution •Public funds needed to address impact of developers	Phil Crossland	•Working with district councils to help identify, prioritise and program work to establish housing plans •Additional expertise resource recruited •Analysing different options for the phasing, funding and delivery of transport infrastructure •Monitoring number of applications and structuring team to ensure they can be turned around as efficiently as possible, however there is still a minimum amount of time that a transport assessment takes.	3	5	[R] 15	•Continue to assist districts in formulation of planning documents to predict county wide housing requirements •Identify pinch points on transport network early to begin design work on potential schemes so that they can be later funded by developers' in appropriate circumstances	3	4	[A] 12

						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
C&FS	16	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond its 2015/16	•Supporting families services not effective •Savings arising from SLF not agreed •Data unavailable/immeasurable on some outcomes	<u>Service Delivery</u> •Reduction in families supported •Increase in reactive service demand <u>People</u> •Families and individuals do not achieve their potential <u>Reputation</u> •Loss of confidence in place based solutions <u>Financial</u> •Related services unable to reduce budgets if demand not decreased	Lesley Hagger/Walter McCulloch/Jane Moore	•Data project underway to increase provision, quality and access and cost benefit work on track to report on first cohort in October 2014 •Training for workers to achieve optimum outcomes with families at earliest opportunity •Government announced a fourth year of PBR funding into 2015/16.Leicestershire has now completed phase one of PBR and pulled down additional funding into the pooled budget SLF Service is now fully up and running and merged into C&F Services Whole family working is being rolled out across a range of Services	5	4	[R] 20	•Opportunities to nationally ring fence budgets to be discussed with partners/services •Measuring outcomes to demonstrate reduced demand.Cost benefits analysis to be shared with partners to progress further conversation around future funding Leicestershire to enter PBR phase two early therefore enabling us to draw down additional money into the pooled budget	5	3	[R] 15
CE & C&FS	17	Partnership relationships regarding Community Safety are not effective	Difficulties of maintaining a working relationship with the Police and Crime Commissioner	<u>Service Delivery</u> , <u>Reputation</u> etc *Disjointed, inconsistent and conflicting approaches in service delivery * Lack of stakeholder engagement in Police and Crime Plan Relationships between community safety partners breakdown	John Sinnott/ David Morgan/Jane Moore	SPB, SPB Executive and associated groups, PCC engagement in Leicestershire Community Safety Strategy Board, Police and Crime Panel	3	5	[R] 15	LCC contribution to review of SPB	3	5	[R] 15
E & T	18	Insufficient/unknown funding for transport schemes to deliver economic growth and LTP3/Strategic Plan & availability of match funding.	►Changes to local and national funding streams (i.e. SEP) ►Lack of available match funding	Service Delivery, People and Reputation ►A transport system that does not support population and economic growth, LTP3/Strategic Plan Financial ►Major impact on funding sources ►Unkown funding for development of future schemes	Phil Crossland	►Fed into MTFS / LLEP / SEP processes	5	4	[R] 20	►Provide resources to work up business cases for transport schemes so we can influence future spending programmes. ►Engage with centre and LLEP to develop more coherent working relationships ►Working with Housing Planning and Infrastructure, Leicester and Leicestershire Transport Advisory Group and Leicester City to increase the prominence of transport investment in delivery of economic benefits. ►Understand future DfT funding models in order to optimise opportunities available ►Continue to develop future plan ►Development of Enabling growth action plan	5	3	[R] 15

						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
All	19	The ability of LCC to effectively contract manage devolved services as a result of an increasing amount of expenditure through new service delivery models (E.g. outsourcing / externally commissioned)	<ul style="list-style-type: none">•Loss of direct control•Robustness of supply chain - For e.g., Liquidation of insurer MMI•Reduced funding and resources•Staff turnover leading to lack of continuity•Insufficient investment in contract management skills and competencies	<u>Service Delivery</u> <ul style="list-style-type: none">•Business disruption due to cost and time to re-tender the contract•Standards/quality not met•Relationships with providers/suppliers deteriorate <u>People</u> <ul style="list-style-type: none">•Additional workload where disputes arise <u>Reputation</u> <ul style="list-style-type: none">•Customer complaints <u>Financial</u> <ul style="list-style-type: none">•VfM/Efficiencies not achieved•Increased costs as LCC has to pick up the service again•Unfunded financial exposure (MMI)	Brian Roberts / Gordon McFarlane	<ul style="list-style-type: none">•The Corporate Commissioning & 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.•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.	5	3	[R] 15	<ul style="list-style-type: none">•Supplier continuity (based on plans for business critical services) being piloted. Contract Management Toolkit to be developed as part of the Effective Commissioning Enabler (Transformation Programme)•Roll out of e-tendering to help make contract KPI's and management more visible	4	3	[A] 12

						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
E & T	20	Reduced recycling performance	<p>► Reductions in recycling services (at county or district level) casued by drive for efficiency savings</p> <p>► Decreased communication & marketing activity</p> <p>► Increased residual waste</p> <p>► Decreased material price for recyclables</p> <p>► changes in guidance / definition of recycling</p>	<p><u>Service Delivery</u></p> <p>► Reduced customer satisfaction</p> <p><u>Reputation</u></p> <p>► Drop in reputation & adverse publicity</p> <p><u>Financial</u></p> <p>► Costs increase (or income decrease) leads to budget overspend</p>	Phil Crossland/ Holly Field	<p>► 2014/15 savings & efficiencies are identified with view to minimise impacts on performance.</p> <p>► Monthly 'Waste Management Information' report produced and circulated to management team.</p> <p>► Adoption by all Partner authorities of the updated LMWMS</p> <p>► Plans prepared with the central communications team to ensure waste messages remain high profile.</p> <p>► RHWS contracts take material risk and gain</p> <p>► continuing dialogue with contractors and WCAs</p> <p>► attend WDF user group, NAWDO etc to understand proposed changes to recycling calculations</p>	4	4	[R] 16	<p>► Monitor impact of collection changes.</p> <p>► Communicate potential impacts clearly to partners once they are apparent to aid the decision making process</p> <p>► Establish business case for service changes</p> <p>► Develop robust communications plan for planned service changes</p> <p>► Introduction of Improved monitoring and evaluation mechanisms for waste initiatives</p> <p>► continue to engage with WDF user group, NAWDO etc to keep up to date with planned changes to recycling calculation method</p>	4	4	[R] 16
A&C	21	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 awaiting full payment of the capital sum for the transfer.	LCCL has been unable to pay the full balance due under the full deferred payment by March 2014.	<p><u>Service Delivery</u></p> <p>• Adverse effect on smooth running of the EPH's</p> <p><u>People</u></p> <p>• Disruption and anxiety to residents</p> <p><u>Reputation</u></p> <p>• Negative media concerning treatment of elderly persons</p> <p><u>Financial</u></p> <p>• £1.72m outstanding debt</p>	Mick Connell / Sandy McMillan	<p>• New agreement in place with greater restrictions and guarantees</p> <p>•LCC working closely with LCCL to ensure care priorities met and maintain high quality services</p> <p>• LCC officer responsible for compliance</p> <p>• LCCL made regular and timely payment of monthly instalments</p> <p>• LCC diligently considering various options: current / contingency</p> <p>•Cabinet approval of options presented (Feb)</p>	4	3	[A] 12	<p>• Officers continue to work closely with LCCL to finalise settlement of the account. Strategic Finance (Corporate Resources) continue to monitor financial activity of LCCL to ensure ongoing performance against the new agreement</p>	4	3	[A] 12

** E&T Risk 14 has now been removed

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

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

Code of practice on

managing the risk of fraud and corruption



CIPFA COUNTER
FRAUD CENTRE

Code of practice on managing the risk of fraud and corruption

Published by:

CIPFA \ The Chartered Institute of Public Finance and Accountancy

3 Robert Street, London WC2N 6RL

020 7543 5600 \ www.cipfa.org

© 2014 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

From 1 January 2015, CIPFA will be at 77 Mansell St, London E1 8AN. There will be no change to CIPFA phone numbers, email and web addresses.

Code of practice principles

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

The five key principles of the code are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

A Acknowledge responsibility

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specific steps should include:

- A1** The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- A2** The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- A3** The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- A4** The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

B Identify risks

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

Specific steps should include:

- B1** Fraud risks are routinely considered as part of the organisation's risk management arrangements.
- B2** The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.
- B3** The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.
- B4** The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

C Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

Specific steps should include:

- C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.
- C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.
- C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

Proactive

- Developing a counter-fraud culture to increase resilience to fraud.
- Preventing fraud through the implementation of appropriate and robust internal controls and security measures.
- Using techniques such as data matching to validate data.
- Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

Responsive

- Detecting fraud through data and intelligence analysis.
 - Implementing effective whistleblowing arrangements.
 - Investigating fraud referrals.
 - Applying sanctions, including internal disciplinary, regulatory and criminal.
 - Seeking redress, including the recovery of assets and money where possible.
- C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

D Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

Specific steps should include:

- D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.
- D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.
- D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.
- D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

E Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
 - Counter fraud policy
 - Whistleblowing policy
 - Anti-money laundering policy
 - Anti-bribery policy
 - Anti-corruption policy
 - Gifts and hospitality policy and register
 - Pecuniary interest and conflicts of interest policies and register
 - Codes of conduct and ethics
 - Information security policy
 - Cyber security policy.
- E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- E4 Providing for independent assurance over fraud risk management, strategy and activities.
- E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action.

The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report¹.

Statement 1

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

Statement 2

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:

¹ Guidance notes on the implementation of the code to support evaluation are available at www.cipfa.org.

Glossary

As the code can apply to a wide range of organisations generic terms are used to describe governance and leadership responsibilities.

Governing body:

The person(s) or group with primary responsibility for overseeing the strategic direction, operations and accountability of the organisation. Examples include, the Board, Council.

The organisation's leadership team:

Leadership team: comprises the governing body and management team.

Examples or relevant roles include, cabinet members, chair of board, accounting officer, chief executive, executive directors, vice-chancellor, principal, headteacher.



Registered office:

3 Robert Street, London WC2N 6RL

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

CIPFA Business Limited, the trading arm of CIPFA that provides a range of services to public sector clients. Registered in England and Wales no. 2376684.

From 1 January 2015:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

Appendix C - Fraud Risk Assessment

Under the 'Identify risks' principle of the CIPFA Code of Practice on Counter Fraud (2014) there are recommendations that fraud risks are routinely considered as part of the organisation's risk management arrangements and that the organisation identifies the risks of bribery and corruption and the importance of behaving with integrity in its governance framework.

Area	#	Impact	Likelihood	Risk Score
COMMON FRAUD AREAS (EXCLUDING NFI)				
Members' Allowances / Expenses	1	2	2	4
Council Tax Discount / Local Council Tax Support	2	5	2	10
Business Rate Fraud	3	5	2	10
Procurement - General	4	5	2	10
Procurement Cards	5	2	3	6
Grant Fraud	6	2	1	2
Employee Fraud - Allowances & Expenses	7	4	3	12
Employee Fraud - Recruitment	8	2	2	4
Mandate Fraud	9	5	2	10
Leicestershire Welfare Provision	10	1	4	4
Schools - LA Maintained	11	4	3	12
Personal Budgets - direct payments	12	2	3	6
NATIONAL FRAUD INITIATIVE (NFI)				
Pension Fraud - died but still being paid - <i>NFI Report 52</i>	13	3	2	6
Pension Fraud - pensioner reemployed - <i>NFI Reports 54, 55, 78</i>	14	1	1	1
Employee Fraud - abuse / misuse of time and resources - <i>NFI Reports 65, 66, 68</i>	15	1	1	1
Employee Fraud - no entitlement to work in the UK - <i>NFI Reports 70, 73</i>	16	3	2	6
Employee Fraud - improper employee / supplier relationship - <i>NFI Reports 80, 81</i>	17	2	2	4
Blue Badge Misuse - <i>NFI Reports 170, 172</i>	18	2	2	4
Concessionary Travel <i>NFI Report 172</i>	19	2	3	6
Residential Care - <i>NFI Report 173</i>	20	1	2	2
Insurance Claimants - <i>NFI Report 180</i>	21	5	1	5
Creditors - duplicate payments - <i>NFI Reports 700-708, 710-713</i>	22	3	2	6
VAT Overpayment - <i>NFI Report 709</i>	23	1	1	1
FRAUD - OTHER - CASH				
Foodcourt	24	1	3	3
Libraries	25	1	3	3
Museums	26	1	3	3
Imprest Accounts	27	1	3	3
Money Laundering Activity	28	2	2	4
BRIBERY & CORRUPTION				
From a prospective contractor to influence the outcome of a procurement exercise	29	5	1	5
From a member of the public in return for providing them with care services to which they are not entitled	30	2	3	6
From a member of the public in return for priority over fostering and adoption approvals and placement of children	31	4	1	4
From a business in return for not investigating trading standards complaints	32	3	1	3
From a parent in return to the allocation of a school place which they would otherwise not be entitled to	33	3	1	3
Bribing an external assessment agency (e.g. Ofsted, HMRC, CQC) to issue a positive report when this otherwise wouldn't be the case	34	4	1	4
Bribing an investment expert in respect of gaining 'insider' information to aid treasury management investment decisions	35	4	1	4
Bribing an elected member, e.g. development & planning decisions	36	4	2	8

This page is intentionally left blank



CORPORATE GOVERNANCE COMMITTEE

24 NOVEMBER 2014

REPORT OF THE COUNTY SOLICITOR

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

Purpose of Report

1. The purpose of this report is:
 - (i) to advise the Committee on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period from 1 October 2013 to 30 September 2014;
 - (ii) to ask the Committee to agree that the Policy Statement relating to RIPA does not require any amendment.

Policy Framework and Previous Decisions

2. The Codes of Practice made under RIPA require elected members of a local authority to review the authority's use of RIPA and set the policy at least once a year. They should also consider internal reports on the use of surveillance on a quarterly basis to ensure that it is being applied consistently with the local authority's policy and that the policy remains fit for purpose. Elected members should not, however, be involved in making decisions on specific authorisations.
3. Since October 2000 the County Council has had statutory responsibilities under RIPA to ensure there is appropriate oversight for the authorisation of its officers who are undertaking covert surveillance governed by RIPA.
4. On 25 November 2013 this Committee agreed changes to the Policy Statement to reflect legislative changes and the recommendations made following an inspection undertaken by the Office of Surveillance Commissioners. The Cabinet subsequently agreed the Policy Statement on 13 December 2013.

Background

6. The three activities primarily used by the County Council are "Directed Surveillance", the conduct and use of "Covert Human Intelligence Sources"

(CHIS) and authorisations to acquire certain types of “communications data”. The Trading Standards Service is the primary user of RIPA within the County Council. These are the RIPA ‘powers’ referred to in this paper.

7. Directed surveillance is the pre-planned covert surveillance of individuals, sometimes involving the use of hidden visual and audio equipment. CHIS includes the use of County Council officers, who pretend to be acting as consumers to purchase goods and services, e.g. in person, by telephone and on the internet. Communications data relates to information obtained from communication service providers, for example, subscriber details relating to an internet account, mobile phone or fixed line numbers, but this does not include the contents of the communication itself.
8. With effect from 1 November 2012 changes were implemented governing how local authorities use RIPA. The amendments are contained within the Protection of Freedoms Act 2012. Essentially, the changes have implemented an additional layer of scrutiny. Local authority authorisations under RIPA for the use of these particular covert techniques can only be given effect once an order approving the authorisation or notice has been granted by a Magistrates ‘Court’.
9. Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010, add further restrictions on the use of RIPA. A local authority can now only grant an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminality. These are criminal offences and only those offences which on conviction are punishable by a maximum term of imprisonment of six months or more, or offences relating to the sale of alcohol or tobacco to children.

The Process

10. An application by the Authority for a RIPA authorisation or notice is considered at a hearing in the Magistrates’ Court. The hearing is conducted in private and heard by a Magistrate or District Judge who will read and consider the RIPA authorisation or notice applied for. Home Office guidance recommends the County Council Monitoring Officer should designate certain officers for the purpose of presenting RIPA cases to the Magistrates’ Court. Delegated powers agreed by the Cabinet enable the County Solicitor to “authorise staff to prosecute, defend or appear in proceedings before Magistrates’ Courts on behalf of the County Council”. A pool of suitable officers within Regulatory Services are designated for this purpose. The existing delegated power will allow for further designations to be made by the County Solicitor should it become necessary and appropriate for officers from other service areas to be able to represent the County Council in RIPA hearings.
11. The Corporate Governance Committee continues to be the appropriate body to receive quarterly reports and to review the RIPA Policy Statement annually, with a view to reporting to the Cabinet on an annual basis on both the use of RIPA powers and whether the policy remains fit for purpose.

12. Procedures and the published Home Office guidance for local authorities are available to all employees via the County Council's intranet.

Use of RIPA

13. For the period from 1 October 2013 to 30 September 2014 the following authorisations have been given:
 - 17 directed surveillance;
 - 11 CHIS;
 - 2 relating to the acquisition of communications data.
14. All authorisations granted within this period related to covert surveillance activities undertaken by the Trading Standards Service. These criminal investigations related to the sale and repair of vehicles; the supply of counterfeit or unsafe products; unfair trading practices conducted via the internet or on the doorstep; the sale of alcohol or tobacco to children.
15. To date, all RIPA applications submitted by the Council were approved by a District Judge or a Magistrate sitting at Leicester Magistrates' Court. On each occasion an application was put before the Court, the County Council was able to demonstrate that appropriate consideration had be given to the necessity and proportionality of the surveillance to be undertaken and that it was being sought for a legitimate purpose.

Illegal Sales of Butane, knives and fireworks

16. The Cabinet agreed at its meeting on 13 December 2013 to revise the Policy Statement to enable the Council to undertake covert investigatory techniques, in respect to the prevention and detection of illegal sales of the following age restricted products: Butane, Knives and Fireworks, even though these products do not meet the criteria specified in the Protection of Freedoms Act 2012 and therefore do not attract the protections of RIPA, in respect to these covert investigatory techniques. The Council has implemented a procedure to ensure that it continues to comply with its obligations under the ECHR (Article 8), requiring its Trading Standards Service to adhere to the same authorisation procedures for RIPA authorisations and/or notices, except for the requirement to seek the approval of a Magistrates' Court.
17. For the period from 1 October 2013 to 30 September 2014 authorisations were granted to undertake four covert test purchase attempts relating to butane or knives, two of which resulted in sale to a 15 year old volunteer.

The Policy Statement

18. In light of the actions taken, officers have considered whether there is any need to review the current policy statement and have concluded that this is not necessary.

Recommendations

19. That the Committee:

- a) Agrees that the Policy Statement remains fit for purpose, and
- b) Continues to receive quarterly reports on the use of RIPA powers and to report to the Cabinet on an annual basis on both the use of RIPA powers and whether the Policy remains fit for purpose in order to fulfil the statutory obligations placed on the County Council.

Background Papers

Report to the Corporate Governance Committee on 25 November 2013 'Regulation of Investigatory Powers Act 2000 - Annual Report'.

Report to the Cabinet on 13 December 2013 'Regulation of Investigatory Powers Act 2000'.

Covert Surveillance and the Acquisition of "Communications Data" Policy Statement

Circulation under the Local Issues Alert Procedure

20. None.

Equality and Human Rights Implications

21. None arising from this report.

Officers to Contact

David Morgan, County Solicitor

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

Appendix

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

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

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

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

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

2. In accordance with RIPA the Council will only use three covert investigatory techniques for its core functions (details set out below).

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

“Covert Human Intelligence Source” will only be used for the purposes of the Council’s investigations. These are individuals, who establish or maintain a

personal or other relationships with another person(s), without revealing his or her true identity, for the covert purpose of obtaining information and disclosing the information to the Council.

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

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

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

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

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

Director, Head of Service, Service Manager or equivalent level of seniority and are aware of the Council's obligations to comply with RIPA and with this policy. Furthermore, all officers who are required to undertake covert techniques will receive appropriate training or be appropriately supervised.

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

Approved: Cabinet 3rd June 2005

Revised: Cabinet 13th December 2013

This page is intentionally left blank

CORPORATE GOVERNANCE COMMITTEE – 24TH NOVEMBER 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 30th September 2014.

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. The UK economy continues to show significant growth and it is expected that strong growth will continue for the remainder of 2014 and into 2015, with forward-looking surveys making very encouraging reading. The overall strength is mainly based on consumer expenditure and growth in the housing market, with manufacturing having a more lacklustre performance.
5. Given the strength in the economy it is no surprise that unemployment levels continued to fall, but wage growth is very low – and below inflation levels – and productivity continues to disappoint. The level of inflation, which is the Bank of England Monetary Policy Committee’s target, has trended lower and in September the Consumer Price Inflation fell to just 1.2% which is well below the 2.0% target. A sharp decline in commodity prices, especially oil, and a supermarket price war were major reason for the much larger than expected fall in inflation and there are some signs that these factors may continue for some time. Despite two members of the MPC having already voted for base rate rises, recent data suggests that the first base rate rise might be further away than has previously been considered likely.
6. The US economy also continues to show healthy growth, although the Chairman of the Federal Reserve has continued to stress that there is no hurry to start the process of normalisation of interest rates. This view is founded on continuing weakness elsewhere in the World economy.

7. Europe is facing an increasing threat of deflation and significant monetary policy changes have been made to try to alleviate this, potentially disastrous, outcome. Overall economic growth in the Eurozone, and even in the main economies such as Germany, remains anaemic and there is no sign that this will improve in the short term. Japan, despite massive monetary stimulation, is not particularly strong and many emerging market economies have slowed down considerably. In the absence of meaningful growth elsewhere in the world, it is difficult to see how the UK and US can continue to maintain such healthy growth rates and this is likely to have a dampening effect on any near-term increases in interest rates.

Action Taken during September Quarter

8. The balance of the investment portfolio increased from £188.4m at the end of June to £190.4m at the end of September 2014. Given the lack of available counterparties, and the fact that the portfolio is already up to the allowed limit for most acceptable counterparties, action taken can generally be classified as 'care and maintenance' of the portfolio.
9. A loan of £5m with Bank of Scotland (originally for 1 year and at a rate of 1.01%) matured during the quarter and was renewed for a fresh 1 year period at a rate of 0.95%. A loan of £5m to a local authority also matured but there were no local authorities that were looking to borrow money at acceptable rates, so the only option was to place these proceeds into a money market fund. A 3 month loan to HSBC for £15m matured and was renewed for a further 3 month period at a slightly higher rate (0.556% from 0.525%). The overall impact of the activity on the average rate was negligible (it rose from 0.588% to 0.596%), with the major reason for the increase being small rises in the rates payable by money market funds.
10. 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	38.0
Money Market Funds	<u>87.4</u>
	<u>190.4</u>

11. At the quarter end, the loans to Local Authorities were amounts of £10m to Birmingham City Council, £8m to Exeter City and £5m to each of The Highland Council, North Tyneside, Isle of Wight and Blackpool BC. All except one of these loans will mature in the December quarter, with the Exeter City loan maturing in mid-January.
12. The current list of acceptable counterparties is very short and comprises:
- Lloyds Banking Group (£40m, for up to 1 year)
 - HSBC (£25m, for up to 2 years)
 - Local Authorities (£10m per Authority, for up to 1 year)
 - Money Market Funds (£25m limit per fund, maximum £125m in total)
 - UK Debt Management Office (unlimited, for up to 1 year)
 - UK Government Treasury Bills (unlimited, for up to 1 year)

13. There are also five 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 5th September 2012 at 2.72%
 - 5 year loan for £1.4m, commenced 27th November 2012 at 2.19%
 - 5 year loan for £2m, commenced 12th February 2013 at 2.24%
 - 5 year loan for £2m, commenced 1st August 2013 at 2.31%
 - 5 year loan for £1m, commenced 31st December 2013 at 3.08%
14. The Leicestershire Local Enterprise Fund has been making financing available to small and medium sized Leicestershire companies, via an association with Funding Circle, since December 2013. There are a number of hurdles that companies must 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 the latest information available at the time of writing this report (which covered the period to the end of August 2014) was that there had been 21 loans made totalling £219,220 and the average interest rate on these loans was 8.4%.

Resource Implications

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

Equality and Human Rights Implications

16. There are no discernable equal opportunity implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

Colin Pratt - telephone 0116 305 7656, email colin.pratt@leics.gov.uk
 Chris Tambini - telephone 0116 305 6199, email chris.tambini@leics.gov.uk
 Corporate Resources Department

This page is intentionally left blank



CORPORATE GOVERNANCE COMMITTEE – 24TH NOVEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**RECOMMENDED CHANGE TO TREASURY MANAGEMENT POLICY IN
RESPECT OF THE LENDING OF SURPLUS BALANCES**

Purpose of the Report

1. To seek the views of the Corporate Governance Committee about recommended changes to the method by which the acceptability of counterparties to whom surplus balances can be lent is decided, and to seek views in respect of the inclusion of Certificates of Deposit (CDs) as an acceptable loan instrument. These views will be included in a future report to the Cabinet, with the ultimate aim of included any agreed changes in the Annual Investment Strategy that will become effective on 1st April 2015 following approval by the Council.

Background

2. The Authority has a policy in respect of the minimum credit ratings that are required in order that loans can be made to certain counterparties, and this policy dictates both the maximum amount that can be lent to any counterparty and the maximum period that a loan can be placed for.
3. Leicestershire's credit rating requirements are high, which is a reflection of the fact that the security of the sum invested is considered to be of the utmost importance. Leicestershire has employed treasury management advisors (Capita Asset Services, formerly known as Sector Treasury Services) for almost 20 years and for most of this time the credit ratings that were required in order to become an acceptable counterparty have been broadly similar to those suggested by the advisor, although Leicestershire has always had a slightly more risk-averse approach. Until the financial crisis this meant that a relatively small number of lower – but still highly – rated institutions were not included in Leicestershire's list but were included in that produced by the advisor. 'Losing' these slightly higher risk counterparties was considered to have no meaningful impact on the management of the portfolio and the level of interest earned, so the additional (small) risk was deemed unnecessary.
4. Following the financial crisis Leicestershire tightened up its required credit ratings, at a time that the credit ratings of financial institutions fell. The impact was that the number of acceptable counterparties reduced

very significantly, which was felt to be appropriate given the uncertainty that surrounded the financial industry at that time and for a number of years afterwards. Other than a small nuance to the required criteria that allowed UK part state owned banks to remain on the counterparty list with marginally lower ratings than were needed without state ownership, Leicestershire's requirements have remained constant since the changes that were considered necessary as a result of the financial crisis.

5. The current list of acceptable counterparties is very small and consists of Lloyds Banking Group (who, under the current policy, would probably be removed from the list if there was a further share sale by the Government), HSBC, local authorities, money market funds and the Government (via either the Debt Management Office or Treasury Bills).
6. Given the level of balances held – an average of £180m and often over £200m – there are occasions when lending the balances at an acceptable level of interest becomes a problem. This should not, in itself, suggest that a change of policy is appropriate as exposing the monies to an unacceptable level of risk simply to generate additional interest is clearly not sensible. There has, however, been a significant change in the nature of financial institutions in recent years – including being subject to regular stress tests, much more intense regulation and the requirement to hold significantly more capital, both in itself, but also compared to an institution's risk weighted assets – and it is now considered appropriate to take a different approach to the level of credit ratings that are considered acceptable by the Authority.

Approach to deciding acceptable counterparties

7. Leicestershire's approach to selecting acceptable counterparties has stood the Council in good stead for many years – avoidance of the Icelandic Bank default was not luck, it was because these banks never had sufficiently high credit ratings to be acceptable to the Council. It is, however, a fairly one-dimensional approach as it relies almost exclusively on credit ratings as the factor that determines acceptability. There are some other factors taken into account, such as the credit rating of the home nation of the counterparty and a number of financial market risk metrics, but the credit ratings assigned by rating agencies remain the key factor.
8. The Council's treasury management advisors have a far more holistic approach to producing a list of acceptable counterparties, although the credit ratings of individual institutions remain the backbone of it. Other factors include a macroeconomic assessment, the rating of the home nation, outlook notifications issued by the rating agencies and the level of Credit Default Swaps for the counterparties. Credit Default Swaps set a price for 'insuring' against the default of a counterparty and are a market assessment of this risk; as they are actively traded they reflect institution-specific issues relatively quickly.

9. Leicestershire does not have the expertise or resource to be able to effectively assess many of the 'softer' issues around counterparty quality. The advisor's approach undoubtedly gives the Council a more rounded assessment than anything that could be done using in-house resources, and it seems sensible that the advice of the Council's advisors is used when setting a list of acceptable counterparties. It is felt that their methodology has the end result of a counterparty list that is very low risk, but is sufficiently flexible to take account of changes to counterparty quality.
10. Another matter that has become apparent in recent years is that the credit rating agencies continue to adapt their methodologies and to introduce/withdraw individual elements of their ratings. Capita are able to evaluate what impact these changes will have and to adapt their methodology accordingly, but this is far more difficult to implement if the Council continues to retain its own methodology.

Impact of switching to Capita's methodology

11. One reason that there are no overseas banks on Leicestershire's list of acceptable counterparties is that the current policy requires overseas banks to have a higher credit rating than those which are acceptable for UK banks. Capita's methodology does not differentiate between UK and overseas banks, and also includes an acceptable level of credit rating that is slightly lower than that used by Leicestershire. The lowest acceptable credit rating used by Capita is still very high, so the marginal decrease is not considered to bring any meaningful increase in overall risk – their current list still consists exclusively of highly-rated, lower-risk, financial institutions.
12. The list of acceptable counterparties produced by Capita is considerably longer than Leicestershire's current list. The vast majority of these additional counterparties are best considered as 'theoretical' counterparties only – the list includes all authorised deposit takers in the UK that meet the required criteria, but in reality the majority are not active within money markets or pay such low rates that they are not attractive. The reality is that there will be no more than a dozen additional counterparties that are likely to be useful to the Council.
13. One impact of an expanded counterparty list is that there will be less reliance on the use of Money Market Funds. These are pooled funds that invest in cash and cash-like instruments and are actively managed by specialists in the market. Whilst Leicestershire only invests in AAA-rated money market funds, the "AAA"-rating is somewhat misleading as it gives the impression of a risk-free investment.
14. Credit ratings for Money Market Funds are assigned using a different basis than the credit ratings given to countries or individual financial institutions – an AAA-rated Money Market Fund does not mean that

there is a lower risk of capital loss than (for example) lending to the UK Government. In order to maintain an AAA-rating a Money Market Fund has to fulfil certain quantitative criteria; these include a maximum maturity date for any single instrument, a maximum weighted average maturity date, a minimum acceptable credit rating for any counterparty and a maximum exposure to any single counterparty.

15. Assigning an AAA-rating to a pooled fund in which hardly any of the underlying instruments are AAA-rated may seem perverse, but it is a quirk of the rating system rather than a deliberate attempt to mislead. The reality is that the significant diversification and the expert, and active, management make Money Market Funds very low risk investments. If an individual counterparty does default only a small proportion of capital within a Fund could be at risk, unlike a deposit with a single counterparty where the whole investment is at risk. There has never been an instance of an AAA-rated Money Market Fund not repaying 100% of capital in Europe, so their low-risk nature has been borne out in reality.
16. A by-product of an expanded list of acceptable counterparties is that there will almost undoubtedly be lower amounts invested at any point in time with Money Market Funds. The current policy effectively 'forces' significant sums to be held in these products; the maximum permitted exposure is £125m, with a maximum for each individual fund of £25m, and the amount actually invested in them is usually between £100m - £125m. Whilst these funds are felt to be a low risk investment, diversification away from them will lower overall risks and also potentially increase the interest earned.
17. Money Market Funds are very much focussed on the ultra-short end of the yield curve and this is reflected in the fact that their returns are typically close to that of overnight to seven day maturities. As such, diversification away from them will allow the consideration of a wider range of investment maturities that should produce a more appropriate level of return given the Council's cash flow profile. The use of a wider range of investment maturities will still be dependent on market conditions, the outlook for interest rates and the maximum durations applied to acceptable counterparties.

Introduction of ability to invest in Certificates of Deposit

18. Certificates of Deposit (CDs) are tradeable cash investments that are issued by financial institutions. They have a set maturity date and rate of interest that is payable at maturity. They carry exactly the same security risks as a cash deposit (i.e. in both instances the lender is deemed an unsecured depositor), but have the added advantage that they can be bought and sold at any point up to maturity.

19. CDs have not previously held any great attraction to the Council, hence they are not currently an acceptable instrument within the treasury management policy. The lack of attraction has been for two reasons – their ‘tradeability’ makes them more attractive to some investors and this often manifests itself in a slightly lower rate of interest than an equivalent term deposit, and the cost of buying/selling them eats into returns (a custodian has to be used).
20. Recent years have seen the emergence of some counterparties that are not active in the cash deposit market, but are active in the issue of CDs at interest levels appropriate to their perceived security. There have also been occasions when CDs have actually been available at rates that are above equivalent cash deposits. This change in the CD market has not required any request to add CDs as an acceptable instrument as the counterparties in question were not on the existing list of acceptable counterparties. An expansion of the list will possibly bring some of these counterparties onto the list, so a change would be desirable.
21. There would always be a preference for making cash deposits to a counterparty rather than buying a CD from the same counterparty, unless there were compelling (usually return-based) reasons for buying a CD. The addition of certificates of deposit as an acceptable instrument would, however, bring some useful flexibility in managing the loan portfolio. The intention would be that all CDs are held to maturity, but specific circumstances may lead to sales prior to maturity.
22. For the avoidance of doubt, CDs could only be held if they were issued by counterparties that were on the authorised counterparty list. The maximum duration and amount would be in line with those that are relevant to the counterparty in question, and in terms of ensuring that limits are not breached a CD would be simply considered to be a cash investment with that counterparty. If the counterparty was removed from the authorised list while a CD issued by them was held, consideration would be given to selling the CD to remove the exposure but a sale would not be automatic. A view would be taken on the risks associated with continuing to hold the CD and this would be considered against any potential loss that would be incurred in the event of a sale.

Possible changes to list produced by Capita

23. Whilst it is recommended that the methodology used by Capita is adopted by the Council – in effect, that Leicestershire begins to use their standard list of authorised counterparties as the basis of its list – there are some changes that would be considered reasonable, and which would result in Leicestershire’s list being slightly more risk averse than the standard Capita one. These would be that the maximum loan period should be one year (Capita have a small number of counterparties that are included for a suggested period of up to two

years), and that those counterparties for whom Capita suggest a maximum maturity of 100 days are excluded; including this handful of counterparties adds an element of additional risk (albeit a small amount) for little extra return. Another way of looking at this last point is that if Capita are unwilling to recommend a loan of over 100 days, the County Council should err on the side of caution given that any lost opportunities are likely to bring a negligible extra return.

24. It is also suggested that there should be a few 'housekeeping' rules taken into account:
 - Sovereign rating is already part of the Capita methodology, but a maximum total exposure to all institutions from any overseas country should be set at £30m – so, for example, only a total of £30m could be on loan to all Australian banks despite the total of their individual limits being £70m;
 - There are some counterparties where both a parent company and a subsidiary are licensed deposit takers in the UK. Where this is the case a 'group limit' should apply, and this should be set at the limit that is given to the parent company;
 - There should continue to be differentiation between UK and overseas banks, but only in terms of the amounts that can be lent to them and not in the maximum duration of loans.
25. Capita do not recommend maximum amounts that should be lent to a counterparty as they believe that this should be adapted to both the size and the risk tolerances of individual clients, and should be for the client to decide. Having considered this issue the following limits are recommended:
 - If the counterparty is on the list as a 'special institution' (i.e. they have a meaningful level of UK government ownership), the limit should be £50m;
 - If the counterparty is a 'normal' institution and the maximum period is 1 year: £30m for UK institutions, £15m for overseas institutions
 - If the counterparty is considered acceptable for 6 months: £20m for UK institutions, £10m for overseas institutions.
26. The principles laid out in this report – taking the standard Capita list of acceptable counterparties, 'tweaking' it slightly for matters such as restricting loans to a maximum of 1 year and excluding a small number of counterparties that are at the lowest end of Capita's list – give a strong and defined process for creating a list, and the list will only include counterparties with strong credit ratings (and, therefore, low credit risks).

27. This revised process will create extra flexibility and will help to enhance returns modestly – in the current market circumstances it is probable that the enhanced return will be between £150,000 and £250,000 p.a. The expanded list does not create any meaningful increase in risk. A full list that this change in process will create (based on credit ratings at 24th October 2014) is attached, with counterparties that are expected to actually be attractive highlighted.

Summary

28. Leicestershire's current method of producing a list of acceptable counterparties to whom loans can be made has worked well for many years, but changes within the market (including the increasingly more active and nuanced ways in which the credit rating agencies allocate ratings) run the risk of making these methods obsolete and too one-dimensional. The methods used by our treasury management advisors, Capita Asset Services, take more aspects of financial markets into account and are more advanced than the Authority's current methods. Capita's methodology is followed by the vast majority of their clients; given their dominant position as treasury advisors to Local Authorities, their methodology is very widely accepted.
29. Whilst there is merit to making small changes to Capita's methods, the changes considered prudent are fairly minor. Capita's methodology produces a list of counterparties that are high quality, and low risk.
30. There is no intention of changing Leicestershire's methods until 1st April 2015, by which time these changes will have been considered by the Cabinet and the Council. This report is the starting point of this consideration.

Resource Implications

31. Treasury Management Policy should not be based on a desire to maximise interest earned, and security of the sum invested should always be the main consideration. The proposals highlighted in this report are not based on a desire to generate more interest but the expectation is that (if fully adopted) they will lead to an extra £150,000 - £250,000 interest being earned in each year, without any meaningful increase in the overall risk.

Equality and Human Rights Implications

32. There are no discernable equal opportunity implications arising from this report.

Recommendation

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

Background Papers

None.

Circulation under the Local Issues Alert Procedure

None.

Appendix

List of acceptable counterparties using recommendations included in the report to the Corporate Governance Committee

Officers to Contact

Chris Tambini, Assistant Director (Strategic Finance and Property)
Telephone 0116 3056199, email: chris.tambini@leics.gov.uk

Colin Pratt, Investment Manager
Telephone 0116 3057656, email: colin.pratt@leics.gov.uk

APPENDIX

List of acceptable counterparties using recommendations included in report to Corporate Governance Committee on 24th November 2014

(Highlighted counterparties are those that are currently active within money markets and paying rates that are competitive)

1 year

Lloyds Banking Group plc	United Kingdom	£50m
Royal Bank of Scotland Group plc	United Kingdom	£50m
Bank of New York Mellon (International) Ltd (1)	United Kingdom	£15m*
HSBC Bank plc (2)	United Kingdom	£30m*
National Bank of Abu Dhabi	Abu Dhabi (U.A.E)	£15m
Australia and New Zealand Banking Group Ltd	Australia	£15m
Commonwealth Bank of Australia	Australia	£15m
National Australia Bank Ltd	Australia	£15m
Westpac Banking Corporation	Australia	£15m
Bank of Montreal	Canada	£15m
Bank of Nova Scotia	Canada	£15m
Canadian Imperial Bank of Commerce	Canada	£15m
Royal Bank of Canada	Canada	£15m
Toronto Dominion Bank	Canada	£15m
Nordea Bank Finland plc (3)	Finland	£15m*
Pohjola Bank	Finland	£15m
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	£15m
Landwirtschaftliche Rentenbank	Germany	£15m

NRW.BANK	Germany	£15m
The Hong Kong and Shanghai Banking Corporation Ltd (2)	Hong Kong	£15m*
Banque et Caisse d'Epargne de l'Etat	Luxembourg	£15m
Clearstream Banking	Luxembourg	£15m
Bank Nederlandse Gemeenten	Netherlands	£15m
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	Netherlands	£15m
Nederlandse Waterschapsbank N.V	Netherlands	£15m
Qatar National Bank	Qatar	£15m
Samba Financial Group	Saudi Arabia	£15m
DBS Bank Ltd	Singapore	£15m
Oversea Chinese Banking Corporation Ltd	Singapore	£15m
United Overseas Bank Ltd	Singapore	£15m
Nordea Bank AB (3)	Sweden	£15m*
Svenska Handelsbanken AB	Sweden	£15m
Bank of New York Mellon, The (1)	United States	£15m*
HSBC Bank USA, N.A. (2)	United States	£15m*
JPMorgan Chase Bank NA	United States	£15m
Northern Trust Company	United States	£15m
State Street Bank and Trust Company	United States	£15m
U.S. Bancorp	United States	£15m
Wells Fargo Bank NA	United States	£15m

6 Months

Abbey National Treasury Services plc (4)	United Kingdom	£20m*
Barclays Bank plc	United Kingdom	£20m
Cater Allen (4)	United Kingdom	£20m*

Citibank International Plc (5)	United Kingdom	£10m*
Credit Suisse International (6)	United Kingdom	£10m*
Merrill Lynch International	United Kingdom	£20m
Nationwide BS	United Kingdom	£20m
Santander UK plc (4)	United Kingdom	£20m*
Standard Chartered Bank	United Kingdom	£20m
Sumitomo Mitsui Banking Corporation Europe Ltd	United Kingdom	£20m
UBS Ltd (7)	United Kingdom	£10m*
Macquarie Bank Limited	Australia	£10m
BNP Paribas Fortis	Belgium	£10m
KBC Bank NV	Belgium	£10m
National Bank of Canada	Canada	£10m
BNP Paribas	France	£10m
Credit Agricole Corporate and Investment Bank	France	£10m
Credit Industriel et Commercial	France	£10m
Credit Agricole SA	France	£10m
BayernLB	Germany	£10m
Deutsche Bank AG	Germany	£10m
Landesbank Baden Wuerttemberg	Germany	£10m
Landesbank Berlin AG	Germany	£10m
Landesbank Hessen-Thueringen Girozentrale (Helaba)	Germany	£10m
ING Bank NV	Netherlands	£10m
DnB Bank	Norway	£10m
Arab National Bank	Saudi Arabia	£10m
Riyad Bank	Saudi Arabia	£10m
Skandinaviska Enskilda Banken AB	Sweden	£10m

Swedbank AB	Sweden	£10m
Credit Suisse AG (6)	Switzerland	£10m*
UBS AG (7)	Switzerland	£10m*
Bank of America, N.A.	United States	£10m
BOKF, NA	United States	£10m
Citibank, N.A. (5)	United States	£10m*

- (1) Maximum total position and duration for Bank of New York Mellon and subsidiaries is £15m for 1 year – based on US parent.
- (2) Maximum total position and duration for HSBC and subsidiaries is £30m for 1 year – based on UK parent.
- (3) Maximum total position and duration for Nordea Bank and subsidiaries is £15m for 1 year – based on Swedish parent.
- (4) Maximum total position and duration for Santander Bank UK and subsidiaries is £20m for 6 months – based on UK parent.
- (5) Maximum total position for Citibank and subsidiaries is £10m for 6 months – based on US parent.
- (6) Maximum total position for Credit Suisse and subsidiaries is £10m for 6 months – based on Swiss parent.
- (7) Maximum total position for UBS and subsidiaries is £10m for 6 months – based on Swiss parent.



CORPORATE GOVERNANCE COMMITTEE
24 NOVEMBER 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 report where high importance recommendations have been made;
 - (b) Provide an update on the County Solicitor's report on the investigation into allegations concerning the conduct of the former Leader of the County Council, Mr David Parsons, regarding his use of County Council resources and action to be taken to recover costs incurred;

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 high-importance recommendations.
3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion 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 commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken.

Summary of progress against the Internal Audit Plan 2014-15

4. This report covers audits finalised during the period 1 September to 31 October 2014.
5. Four maintained schools were audited in the period. Two received opinions of '*...well above the (measured) standard*' and the other two received opinions of '*...above the standard*'.

6. The individual opinions are found on the LCCIAS web page. The web link is:- http://www.leics.gov.uk/audit_schools_colleges.htm
7. The outcome of all other audits completed since the last progress report to the Committee is shown in **Appendix 1** to this report. 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 (HI) recommendation would not normally get a classification above partial.
8. **Appendix 2** to this report details 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.
9. To summarise movements within Appendix 2: -
 - a. Six new HI recommendations (Adults and Communities (A&C) Integrated Adults System (IAS) project phase 2); Children and Family Services (C&F)/Corporate Resources (CR) sponsored academies revenue and capital implications) have been added;
 - b. One HI recommendation has been closed (C&F decommissioning the previous case management system records);
 - c. Implementation dates for four HI recommendations were further 'extended' to allow for stabilisation or progression of arrangements and pending the conclusion of a follow up audit (CR 'M-Star' (2), Pension Fund Contribution Banding (1) and CR Employee Annual Leave Recording (1));
 - d. Regarding the three HI recommendations in respect of developer contributions (Section 106) that are listed on the last page (7) of the Appendix as 'on hold', the HoIAS has agreed with the County Solicitor the provisional scope for a follow up audit to assess current compliance.

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

10. At the Committee meeting held on 23 September 2014, members were informed that despite a significant amount of pre action correspondence with Mr Parsons, the County Council had not received an appropriate response from him. The sum of £1,500.00 remained outstanding, and so the County Solicitor had instructed Legal Services to issue proceedings. A Court Order was obtained and the Committee was informed that Mr Parsons would also be charged for the Court costs (£160.00), making the total sum owed £1,660.00.

11. After the Committee, Mr Parsons entered into further correspondence with Legal Services. It was agreed that he would pay £1,000.00 immediately, which was duly received on 21 October. On the basis that Mr Parsons had paid back a good portion of the debt, it was agreed to allow further time for him to pay off the balance.
12. Should the balance not be paid by Mr Parsons, enforcement of the Court Order remains an option.

Resource Implications

13. None.

Equality and Human Rights Implications

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

Recommendation

15. That the report is noted.

Background Papers

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 12 May 2014 - Internal Audit Plan for 2014-15

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 CC and reports to the Corporate Governance Committee on 14 June, 23 September, and 25 November 2013 and 10 February, 12 May and 23 September 2014 – Investigation into allegations concerning a former Members' conduct.

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Internal Audit Service

Tel: 0116 305 7629

Email: neil.jones@leics.gov.uk

Appendices

Appendix 1 - Summary of Final Internal Audit Reports issued during the period
1 September to 31 October 2014

Appendix 2 - High-Importance Recommendations

This page is intentionally left blank

<u>Department</u>	<u>Job</u>	<u>Final Report</u>	<u>Opinion/Action</u>	<u>HI Recommendation</u>
Adults & Communities	Integrated Adults System (IAS) project phase 2	06-Oct-14	Partial	Yes
Children & Family Services	Sponsored Academies - Revenue & Capital Implications	22-Oct-14	Partial	Yes
Consolidated Risk	Assurance Mapping - ICT	10-Sep-14	Other	No
Consolidated Risk	IT General Controls b/f 13 14	09-Sep-14	Substantial	No
Environment & Transport	Bus Service Operator's Grant (BSOG)	29-Sep-14	Substantial	No
Environment & Transport	Midlands Highway Alliance - Contract tender process	30-Oct-14	Substantial	No
Environment & Transport	Local Pinch Point Fund	25-Sep-14	Declaration letter	No
Environment & Transport	Local Transport Capital Block Funding (Integrated Transport & Highway Maintenance)	29-Sep-14	Declaration Letter	No
Public Health	Performance Management	17-Sep-14	Substantial	No

This page is intentionally left blank

High Importance Recommendations

<u>Audit Title (Director)</u>	<u>Summary of Finding and Recommendation</u>	<u>Management Response</u>	<u>Action Date (by end of)</u>	<u>Confirmed Implemented</u>
Reported November 2014				
Integrated Adults System (IAS) project phase 2 (A&C)	<p>The audit revealed there was need for immediate improvements to some areas of the project specifically around scoping requirements, determining processes, and resource identification and planning.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. clear criteria be established for the prioritisation of tasks, 2. development of a detailed resource plan, 3. regular updating of the project control records 4. undertaking a ‘gap analysis’ to determine processes that still need to be developed <p>Management agreed that a formal re-planning exercise involving key stakeholders would be formally signed off as a matter of urgency. This will also take into account key tasks still outstanding from Phase 1. Once phase 2 priorities have been finalised a detailed resource plan will be developed and the PID updated to reflect this.</p>	<p>Agreed</p> <p>(see previous column for detail)</p>	December	

Audit Title (Director)	Summary of Finding and Recommendation	Management Response	Action Date (by end of)	Confirmed Implemented
Reported November 2014				
Sponsored Academies - Revenue & Capital Implications (C&FS/CR)	<p>The LA has ongoing responsibilities under legislation, part of which is to ensure that schools remain ‘fit-for-purpose’ from an infrastructure aspect and business continuity risks are appropriately managed. However, on-going role of the LA post-conversion with regard to the physical state of an academy’s buildings is not clearly defined.</p>			
	<p>Recommended that the ongoing responsibilities of LCC as the landlord should be defined</p> <p>A system of prioritisation is used, based on condition surveys and other intelligence, to determine which capital works will be funded centrally (e.g. those relating to health & safety or serious structural issues). With regard to schools undergoing imposed sponsored academy conversion there will be negotiation with the potential sponsor surrounding their expectations that any immediate capital works are completed at the LA’s expense and prior to conversion. Without completion, there is a risk that the sponsors will find schools financially unattractive to sponsor.</p>	<p>Agreed</p>	<p>January 2015</p>	
	<p>Recommended that a clear strategy should be developed by C&FS and CR (Property Services), endorsed by the Corporate Schools’ Group, setting out the process to be followed in determining what capital works will be LA-funded.</p>	<p>Agreed</p>	<p>January 2015</p>	

Reported May 2014				
Decommissioning of SSIS the previous case management system (C&F)	<p>C&F Management Team has accepted advice from Legal Services to retain all data recorded on the former electronic case management system (SSIS). This is because it is not practical to physically go through thousands of children's records, and make a judgement on what should or should not be retained, given the limited resource of staff that are 'qualified' to make such decisions.</p> <p>The risk with retaining all C&F (electronic and paper) records is that the Authority could be breaching the Data Protection Act by retaining records for longer than required.</p> <p>Legal Services' view is that any fines for not retaining data when it should be retained for example in litigation, would be greater than if data is kept securely for longer than required.</p> <p>It is recommended that the risk (to cover electronic and paper) should be escalated to CMT and if accepted should be included in the Corporate Risk Register.</p>	A	September 2014	Yes

Reported May 2014				
‘M-Star’ – Managed Service For Temporary Agency Resources (CR)	<p>‘Off contract’ spend on agency staff remained high and if the levels continued then projected savings would not be achieved. In addition, the volume of agency worker timesheets that were auto-approved (i.e. if they hadn’t been approved by the relevant manager after a certain time) was high (almost 20%), increasing the risk of errors and perhaps fraud.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. Proactive periodical analysis by Procurement team and pass to business HR and Finance teams to drive more conformity 2. Establish targets and thresholds for auto approvals and investigate those falling outside them 	<p>A</p> <p>At the time of final report some progress had already been made</p>	<p>Originally July 2014 Extended to Oct. 2014</p> <p>Corporate HR has further analysed off contract spend data and auto approvals. The results were reported to CMT in October, where it was agreed that further analysis was required for all departments to enable robust challenge to take place surrounding any non-compliance.</p> <p>HR is now engaging individual DMTs to ensure that there is sufficient ‘tone from the top’ with regard to both of the issues.</p> <p>CR DMT is assisting, promoting messages on completing approvals, minimum auto approvals and decreasing levels of off-contract spend</p> <p>Extend from October 2014 to January 2015</p>	

Reported November 2013				
Pension Fund contribution 'bands' (Pension Fund)	<p>Each year the Department for Communities & Local Government set the contribution bandings for the Local Government Pension Fund. These come into effect each April, hence payrolls have to be revised to reflect the new bandings. EMSS payroll staff should check that the changes have properly occurred. The audit revealed that a report designed to assist this task was inadequate and also that due to work load and time constraints no checks were undertaken on one payroll and only a random sample on another. This could impact on both employee and employer contributions and have reputation damage.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. that the report should be reconfigured 2. a framework for sample testing should be agreed and implemented to cover future pension banding changes. 	A	<p>Originally Sept. 2013 Extended to June 2014 Extended to Oct. 2014</p> <p>1. The report was produced</p> <p>2. The newly appointed Head of EMSS has agreed to develop and finalise the framework with the two partners.</p> <p>LCCIAS will confirm progress at the end of December.</p> <p>Nottingham City Internal Audit will confirm that agreed sample checks are undertaken as part of their EMSS audits</p> <p>Extend from October to December 2014</p>	<ol style="list-style-type: none"> 1. Yes 2. Pending

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>Originally March 2013 Extended to Jan. 2014 Extended to Mar. 2014 Extended to Oct 2014</p> <p>The audit is concluded but findings need to be discussed with management</p> <p>Extend from October 2014 to December 2015</p>	

‘On hold’ pending new internal audit work

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

Key to management response

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

Audit/CGC/14-15/Nov 14/Appendix 2 HI Progress Report

Last Revised 12/11/2014

This page is intentionally left blank

**CORPORATE GOVERNANCE COMMITTEE****24 NOVEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****THE INTERNAL AUDIT CHARTER****Purpose of Report**

1. The purpose of this report is to seek the Committee's approval of the Internal Audit Charter and to provide a brief update on the development of the Internal Audit Service Quality Assurance and Improvement Programme.

Background

2. A professional, independent and objective internal audit service is recognised throughout the UK public sector as a key element of good governance. The foundation of an effective internal audit service is compliance with standards and proper practices.
3. The 'Relevant Internal Audit Standard Setters' in the UK (for which CIPFA represents local government), have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:-
 - a. Definition of Internal Auditing
 - b. Code of Ethics
 - c. International Standards for the Professional Practice of Internal Auditing
4. Additional requirements and interpretations for the UK public sector have been inserted into the PSIAS. All principal local authorities must make provision for internal audit in accordance with the PSIAS.
5. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning

6. Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For Leicestershire County Council, the term 'board' has been interpreted as the Corporate Governance Committee (the Committee), 'senior management' as Corporate Management Team (CMT), and 'chief audit executive' the Head of Internal Audit Service (HoIAS).
7. The PSIAS mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), which must be periodically reviewed and presented to CMT (senior management) and the Committee (board) for approval.
8. The HoIAS' Annual Report for 2013-14 which was discussed at the Committee on 23 September 2014, informed members that a Charter (and a Quality Assurance and Improvement Programme – QAIP) had not been finalised and approved. For transparency the HoIAS reported this as an area for improvement in the Annual Governance Statement.
9. The CFO tasked the HoIAS to develop and implement both a Charter and QAIP by the end of December 2014.

The Internal Audit Charter for Leicestershire County Council

10. Leicestershire County Council Internal Audit Service (LCCIAS) provides internal audit activity and the Charter establishes its position within the Council, including the nature of the HoIAS' functional reporting relationship with the Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the Committee.
11. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a recognised statement for review and acceptance by CMT and for approval, as documented in formal minutes, by the Committee. It also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility, which establishes the role of LCCIAS and whether it continues to be adequate to enable it to accomplish its objectives. If a question should arise, the Charter provides a formal, written protocol agreed with the Chief Financial Officer (CFO), the Monitoring Officer (MO), CMT, and the Committee about the Council's internal audit activity.
12. The PSIAS mandate that the Internal Audit Charter for the Council should:-
 - a. recognise the mandatory nature of the PSIAS
 - b. define the scope of internal audit activities recognising that internal audit's remit extends to the organisation's entire control environment not just financial controls
 - c. establish internal audit's responsibilities, objectives and organisational independence

- d. establish accountability, reporting lines and relationships between the leader of the internal audit activity and those to whom they report functionally and administratively
- e. set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies
- f. establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

Additional public sector requirements also specify that the Charter must: -

- g. define the terms 'board' and 'senior management' in relation to internal audit activity
- h. cover the arrangements for appropriate resourcing
- i. define the role of internal audit in any fraud-related work
- j. include arrangements for avoiding conflicts of interest if non audit activities are undertaken

13. In developing the Charter, the HoIAS has taken full account of the detailed requirements of the PSIAS and also a Local Government Application Note (LGAN) developed by CIPFA, which provides further explanation for the PSIAS and practical guidance on how to apply them. The Charter has 6 distinct sections:-

<u>Section</u>	<u>Content</u>
----------------	----------------

- | | |
|---|---|
| 1 | Introduction |
| 2 | Purpose (PSIAS definition of the internal audit activity) |
| 3 | Definitions (including the Board and Senior Management) |
| 4 | Authority (afforded to the internal audit activity) |
| 5 | Responsibility (of the Committee, CMT and the HoIAS) |
| 6 | The scope of the internal audit activity (including its roles in compiling the AGS and in fraud and corruption) |

14. Within section 4, under the sub-heading of 'Organisational Independence', the HoIAS has included at paragraph 4.11 that the PSIAS require that '*if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties*' and specifically that, '*Assurance engagements for functions over which the HoIAS (chief audit executive) has responsibility must be overseen by a party outside the internal audit activity*'. On 23 September 2014 the Committee considered a report of the Director of Corporate Resources entitled 'Risk Management Update', and noted that responsibility for the administration and development of, and reporting on, the Council's risk management framework had transferred to the HoIAS. Whilst the HoIAS does not identify, evaluate and manage the risks, since that is a management function, it is considered prudent that the Charter records that any internal audit engagement covering the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by someone outside of LCCIAS.

15. Within section 5, under the sub-heading of 'International Standards for the Professional Practice of Internal Auditing', paragraph 5.5 states that LCCIAS will conform to the full range of the standards. However, the HoIAS has interpreted that many of the detailed PSIAS requirements merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approaches to internal audit activity. Those details are not repeated in the Charter but new requirements, extensions and variations are explained.
16. The Internal Audit Charter, jointly reviewed by the Chief Financial Officer and Monitoring Officer and approved by CMT at its meeting on 13 November 2014 is included as Appendix 1. The full PSIAS are included as Appendix 2.
17. The Charter replaces two documents that previously explained the internal audit activity at Leicestershire County Council, 'The Statement of Aims and Objectives' and 'The Strategy of Leicestershire County Council Internal Audit.

Brief update on the development of the Internal Audit Service Quality Assurance and Improvement Programme

18. A Quality Assurance and Improvement Programme (QAIP) is being developed by the HoIAS. The QAIP is designed to enable an evaluation of LCCIAS' conformance with the PSIAS, assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP is scheduled to be approved by the Council's Chief Financial Officer and CMT by the end of December. There is not a requirement for the Council's Corporate Governance Committee to formally approve the QAIP, only to receive results of future assessments against it. Nevertheless, progress against the development of the QAIP and its approval will be reported to the February Corporate Governance Committee.

Resource Implications

19. The determination of resource to undertake internal audit activity is referred to at various points throughout the Charter

Equality and Human Rights Implications

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

Recommendations

21. It is recommended that the Committee:
 - a. Approves the Internal Audit Charter, attached as Appendix 1 to this report;
 - b. Notes the progress with the development of a Quality Assurance and Improvement Programme (QAIP).

Background Papers

The Constitution of Leicestershire County Council

Reports to the Corporate Governance Committee on progress against the implementation of the Public Sector Internal Audit Standards (PSIAS) on 10 February, 12 May, and 23 September 2014.

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Internal Audit Service

Tel: 0116 305 7629

Email: neil.jones@leics.gov.uk

Appendices

Appendix 1 - The Internal Audit Charter

Appendix 2 - The Public Sector Internal Audit Standards (2013)

This page is intentionally left blank

The Internal Audit Charter : Contents

1. Introduction	2
2. Purpose	2
3. Definitions	3
Independence	3
Objectivity	3
Assurance activity	3
Consulting activity	3
The Chief Audit Executive	4
The Board and Senior Management	4
The Senior Management Team	5
4. Authority	5
Statutory and Professional Requirements for internal audit activity	5
Access	6
Organisational independence	6
5. Responsibility	7
The Committee's responsibilities	7
CMT's responsibilities	8
The HoIAS' responsibilities;	8
➤ Code of Ethics	8
➤ International Standards for the Professional Practice of Internal Auditing	8
➤ Attribute standards	9
➤ Performance standards	10
6. The Scope of Internal Audit Activity	11
The role of internal audit in compiling the annual governance statement	12
The role of internal audit in fraud and corruption	12

1. Introduction

- 1.1. The Public Sector Internal Audit Standards 2013 (the PSIAS), provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass both the mandatory elements of the Global Institute of Internal Auditors (IIA) standards, and also additional requirements and interpretations for the UK public sector. A Local Government Application Note (LGAN) developed by CIPFA provides further explanation for the PSIAS and practical guidance on how to apply them.
- 1.2. The PSIAS mandate that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), that is consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Responsibility for, and ownership of, the Charter remains with the organisation and final approval of the Charter resides with the Board (the definition is explained in 3.12 and 3.13 below).
- 1.3. The Charter replaces two documents that previously explained the internal audit activity at Leicestershire County Council, 'The Statement of Aims and Objectives' and 'The Strategy of Leicestershire County Council Internal Audit.

2. Purpose

- 2.1. The purpose of the internal audit activity is explained by the PSIAS Definition of Internal Auditing: -

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 2.2. The LGAN further explains that '*the organisation* (Leicestershire County Council's management) *is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (known as the control environment). Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.*
- 2.3. Leicestershire County Council Internal Audit Service (LCCIAS) has adopted the PSIAS definition of internal auditing.

3. Definitions

Independence

- 3.1. The PSIAS define independence as *‘the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, requires the head of the activity to have direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels’*.

Objectivity

- 3.2. The PSIAS define objectivity as *‘an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels’*.

Assurance activity

- 3.3. This is defined in the PSIAS as *‘An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements’*.
- 3.4. LCCIAS conducts a wide range of engagements (assignments) designed to evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all aspects of the Council’s control environment (including where it works in partnership with, and leads on behalf of others).
- 3.5. LCCIAS aims to co-ordinate its assurance activity with other internal and external providers of assurance services to ensure sufficient and proper coverage over the control environment and minimise duplication of efforts.

Consulting activity

- 3.6. This is defined in the PSIAS as *‘Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility’*.

- 3.7. LCCIAS often acts in a consulting role and provides support for improvement in the Council's systems, procedures and control processes without assuming management responsibility. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies. The provision of such advice does not prejudice LCCIAS' right to evaluate the established systems and controls at a later date. Other consulting includes counsel, facilitation and training.
- 3.8. There is a specific public sector requirement that *'Approval must be sought from the board (see 3.11 below) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.* The Head of Internal Audit Service's (HoIAS) determination of 'significant' is 5% of total available planned days.
- 3.9. The combined results and outcomes of assurance and consulting activities are fundamental to determining the annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment.

The Chief Audit Executive

- 3.10. Although the PSIAS and LGAN have both adopted the original IIA Standards term 'Chief Audit Executive', it is recognised that this only describes a role which at Leicestershire County Council (the Council) is performed by the Head of Internal Audit Service (HoIAS). Within this Charter, all references from hereon are to the HoIAS.

The Board and Senior Management

- 3.11. A public sector requirement of the PSIAS is for the Charter to define the terms 'board' and 'senior management' for the purposes of internal audit activity. The LGAN advises the terms must be interpreted in the context of the governance arrangements within each individual organisation.
- 3.12. The PSIAS definition of the Board informs that it, *'...may refer to an audit committee to which the governing body has delegated certain functions'*. For the Council, responsibility for, *'...the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Code of Corporate Governance'* is delegated to the Corporate Governance Committee (the Committee). Other responsibilities of the Committee that align to requirements of PSIAS include monitoring: -
- a. the adequacy and effectiveness of the Internal Audit Service
 - b. the effectiveness of officer arrangements for ensuring an adequate internal control environment and combating fraud and corruption
 - c. the arrangements for the identification monitoring and management of strategic and operational risk within the Council.
- 3.13. Consequently, at the Council the Committee will perform the function of the Board. Within this Charter, all references from hereon are to the Committee.

The Senior Management Team

3.14. There is not a specific definition of 'senior management' in either the PSIAS or the LGAN. However, the PSIAS require *'the HoIAS to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals'*, and the LGAN advises that *'an effective internal audit service should understand the whole organisation, its needs and objectives'*. In order to fully understand and be able to fulfill its responsibilities, the HoIAS and his/her team requires unfettered access to Directors and especially the statutory officers i.e. the Chief Financial Officer and Monitoring Officer.

3.15. Consequently, at the Council, Corporate Management Team (CMT) will perform the functions of the Senior Management Team. Within this Charter, all references from hereon are to the CMT.

4. Authority

Statutory and Professional Requirements for internal audit activity

4.1. The Accounts and Audit Regulations 2011 (the Regulations), require authorities to *'undertake an adequate and effective system of internal audit of its accounting records and of its system of internal control, (comprising risk management, control and governance), in accordance with the 'proper practices' in relation to internal control'*. Guidance to the Regulations recognises the PSIAS as representing *'proper internal audit practices'*.

4.2. Section 151 of the Local Government Act 1972, states that every local authority should *'make arrangements for the proper administration of their financial affairs, and shall secure that one of their officers has responsibility for the administration of those affairs'*. CIPFA defines that *'proper administration'* should include *'compliance with the statutory requirements for accounting and internal audit'*. The Council's Constitution (Financial Procedure Rule 15(a)) determines that the Chief Financial Officer (CFO) is responsible for the proper administration of the Council's financial affairs and for arranging a continuous internal audit of the financial management arrangements.

4.3. The relationship between the head of the internal audit activity, namely the HoIAS, and the CFO is of particular importance in local government. The CIPFA Statement on the Role of the CFO in Local Government states that the CFO must: -

- a. *ensure an effective internal audit function is resourced and maintained*
- b. *ensure that the authority has put in place effective arrangements for internal audit of the control environment*
- c. *support the authority's internal audit arrangements*
- d. *ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively*

4.4. At the Council, the CFO: -

- a. contributes to and agrees the overall annual internal audit plan
- b. receives periodic updates on progress and performance against the plan and approves major variations before they are reported to the Committee
- c. commissions (or approves) unplanned audits
- d. is the HoIAS' line manager and conducts his/her annual performance and development review;
- e. determines LCCIAS resources and approves the boundaries and limits for any external trading;

Access

4.5. PSIAS 1000 requires the Charter to, *'establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities'*.

4.6. The Council's Constitution Financial Procedure Rule 15(b) states that the CFO or an authorised representative (interpreted to be any LCCIAS internal auditors) has authority to:-

- a. enter any Council building or land at all reasonable times;
- b. have access to all records, documents and correspondence relating to any transactions of the Council;
- c. receive such explanations as he or she considers necessary on any matter under examination;
- d. require any employee of the Council to produce cash, stores or any other Council property under his/her her control.

4.7. Whilst not explicit, Rule 15(b) is a conduit to seeking agreement to access partner organisations' records.

Organisational independence

4.8. The PSIAS require that *'reporting and management arrangements must be put in place that preserves the HoIAS (and LCCIAS') independence and objectivity, in particular with regard to the principle that they must remain independent of the audited activities'*. This requirement aligns to CIPFA's Statement on the Role of the Head of Internal Audit (2010) that *'organisations need to ensure that where the HoIAS is an employee, he or she is 'sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team'*.

4.9. PSIAS 1110 on Organisational Independence states that *‘the HoIAS (HoIAS) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The HoIAS must confirm to the Committee, at least annually, the organisational independence of the internal audit activity’*. An additional public sector requirement of PSIAS 1110 is that *‘The HoIAS must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee’*.

4.10. The HoIAS reports to both the CFO and to the Committee (occasionally reports are approved with CMT beforehand). The HoIAS has direct access to all of the Council’s Directors and their management teams, the Chief Executive, the Monitoring Officer (MO) and CFO, and, if required, to the Chair of the Committee. In accordance with PSIAS 1110A.1, there is acknowledgement amongst these parties that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

4.11. PSIAS 1130 requires that *‘if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties’* and specifically at 1130.A2 that, *‘Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity’*. The HoIAS is responsible for the administration and development of, and reporting on, the Council’s risk management framework. Whilst the HoIAS doesn’t identify, evaluate and manage the risks, since that is a management function, it is considered prudent that any internal audit engagement covering the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by a party outside of the internal audit activity.

5. Responsibility

This section of the Charter summarises the key responsibilities of the Committee, CMT and the HoIAS and LCCIAS internal auditors

The Committee’s responsibilities

5.1. Examples of key duties within the PSIAS which align to the Committee’s Terms of Reference (ToR) are as follows: -

- a. approve the internal audit charter
- b. approve the risk based internal audit plan
- c. receive communications from the HoIAS on internal audit performance relative to its plan and other matters
- d. receive an annual confirmation from the HoIAS with regard to the organisational independence of the internal audit activity

- e. receive the HoIAS' annual report, including the opinion on the control environment, a statement on conformance to the PSIAS and the results of the Quality Assurance and Improvement Programme – QAIP (see 5.4a)
- f. make appropriate enquiries of the management and the HoIAS to determine whether there are inappropriate scope or resource limitations.

CMT's responsibilities

5.2. The effectiveness of the internal audit activity relies upon the full co-operation of management. Under this Charter, CMT will co-operate with the HOIAS in the following: -

- a. providing input to the annual risk based internal audit plan
- b. agreeing Terms of Engagement within agreed timescales
- c. sponsoring each audit at Assistant Director level
- d. providing LCCIAS with full support and co-operation including access to relevant records and personnel
- e. responding to LCCIAS reports within agreed timescales;
- f. ensuring that recommendations are implemented within agreed timescales;
- g. providing assurance that management actions have been implemented
- h. notifying the CFO of any significant changes in the control environment and proposed changes and developments in systems;
- i. notifying the CFO and MO of all suspected or detected fraud, corruption or impropriety.

The HoIAS' responsibilities

Code of Ethics

5.3. The HoIAS must ensure that LCCIAS internal auditors conform to the Code of Ethics (the Code), which promotes an ethical and professional culture and comprises both principles that are relevant to the profession and practice of internal auditing, and rules of conduct that describe behaviour norms and guide the ethical conduct expected of internal auditors. The Code does not supersede or replace either individuals' own professional bodies' codes of ethics or those of the Council. A PSIAS public sector requirement is that LCCIAS internal auditors must have regard to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

International Standards for the Professional Practice of Internal Auditing

5.4. The HoIAS must ensure that there is a robust framework supporting the activity of internal audit and that LCCIAS' internal auditors are trained and guided, and their performance monitored, to ensure they conform to the detailed attribute and performance standards within the PSIAS.

- 5.5. LCCIAS will conform to the full range of the standards. Nevertheless, the HoIAS has interpreted that many of the detailed PSIAS requirements for planning, performing, communicating results and monitoring progress merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approach to internal audit activity and so those details are not repeated in this Charter. Only new requirements, extensions and variations are explained in more detail below: -

Attribute standards

- a. 1300 - The HoIAS must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. This is a new requirement for LCCIAS.

The QAIP should enable: -

- evaluations of LCCIAS' conformance with the Definition of Internal Auditing and the Standards
- internal auditors' compliance with the Code of Ethics
- assessment of the efficiency and effectiveness of the internal audit activity
- the identification of opportunities for improvement.

The QAIP must plan for both internal and external assessments and the latter must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The HoIAS must discuss with the Committee both the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. There are two additional public sector requirements: -

- the HoIAS must agree the scope of external assessments with an appropriate sponsor, e.g. the CFO as well as with the external assessor or assessment team. The HoIAS must communicate the results of the QAIP to CMT and the Committee
- the results of the QAIP and progress against any improvement plans must be reported in the HoIAS annual report (usually the June Committee). The HoIAS may state that LCCIAS conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the QAIP support this statement. When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the HoIAS must disclose the non-conformance and the impact to CMT and the Committee. An additional public sector requirement is that more significant deviations must be considered for inclusion in the governance statement.

Performance standards

- b. 2000 - The HoIAS must effectively manage the internal audit activity to ensure it adds value to the organisation. This sub-set of requirements includes the HoIAS' responsibility to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

There is a revised requirement for the risk based plan to incorporate or be linked to a strategic or high-level statement of how the internal audit activity will be delivered and developed in accordance with the Charter and how it links to the Council's objectives and priorities.

There are two additional public sector requirements: -

- the risk-based plan must explain how LCCIAS' resource requirements have been assessed. Where the HoIAS believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Committee
- the HoIAS must include in the risk-based plan the approach to using other sources of assurance (e.g. the External Auditor or where the Council is in partnership with another organisation) and any work required to place reliance upon those other sources.

Reporting to the Committee on performance relative to the plan is well established. However PSIAS also requires periodically reporting to the CFO, CMT and the Committee on the internal audit activity's purpose, authority and responsibility.

- c. 2100 - The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. This sub-set formalises some of the work already undertaken by LCCIAS to assess and make appropriate recommendations for improving the governance process, but then requires specific coverage to ensure accomplishment of the following objectives: -
- Promoting appropriate ethics and values within the Council;
 - Ensuring effective organisational performance management and accountability;
 - Communicating risk and control information to appropriate areas of the Council;
 - Coordinating the activities of and communicating information among the Committee, external and internal auditors and management.

For risk management processes, there are requirements to evaluate risk exposures relating to the Council's governance, operations and information systems and the potential for the occurrence of fraud and how the Council manages fraud risk.

- d. 2400 – LCCIAS must communicate the results of engagements, including the engagement’s objectives and scope as well as applicable conclusions, recommendations and action plans. The PSIAS is explicit that LCCIAS auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of the QAIP (see 5.4b) support the statement.

A specific public sector requirement formalises the HoIAS responsibility to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Council’s control environment contained within a report that can be used to inform the governance statement. A new requirement is for the HoIAS annual report to include a statement on conformance with the PSIAS and the results of the QAIP.

- e. 2600 - When the HoIAS concludes that management has accepted a level of risk that may be unacceptable and there is a danger that Council objectives may not be achieved, the matter should be discussed with the CFO and/or CMT. If the HoIAS determines that the matter has not been resolved, the HoIAS must communicate the matter to the Committee.

6. The Scope of Internal Audit Activity

6.1. CMT is responsible for establishing and maintaining appropriate governance, risk management and control arrangements (i.e. the control environment), for not only County Council activities, but also for those provided in conjunction with, and/or on behalf of its partners. LCCIAS’ remit extends to the Council’s entire control environment. However, limitations on internal audit resource requires the HoIAS to understand and take account of the position with respect to the Council’s other sources of assurance (internal and external) and plan internal audit work accordingly so that activity can be co-ordinated, ensuring proper coverage and minimising duplication of effort.

6.2. Internal audit activity for the Council (and, where appropriate its partners) includes: -

- providing assurance services i.e. reviewing, appraising and reporting on: -
 - the soundness, adequacy and application of governance processes, risk management frameworks and internal controls;
 - the extent to which assets are accounted for and safeguarded from losses of all kinds
 - the suitability and reliability of financial and other data developed;
 - reviewing compliance and conformance to rules, regulations, laws, codes of practice, guidelines and principles
 - the accuracy and completeness of grant claims
- providing consulting services;
- undertaking studies, reviews or assignments as directed (or approved) by the Chief Financial Officer;

The role of internal audit in compiling the annual governance statement

6.3. The planning and undertaking of assurance engagements, knowledge of, and co-ordination with, other assurance providers and specific requirements under PSAIS 2100, leaves the HoIAS well placed to compile the annual governance statement (AGS). The process of preparing the AGS should itself add value to the corporate governance and internal control framework. The AGS remains a corporately owned document.

The role of internal audit in fraud and corruption

6.4. CMT is responsible for developing and maintaining a control environment that mitigates risk of fraud and corruption

6.5. The HoIAS is responsible for developing and maintaining advice and guidance the Council's approach to managing the risks of fraud, bribery and corruption. This includes: -

- Ensuring that strategies, policies and procedures are kept up to date and align with relevant codes of conduct
- Ensuring adherence to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
- Developing training and guidance on fraud awareness
- Compiling a fraud risk assessment that is the basis for planning anti-fraud audits
- Coordination of the Council's involvement in national anti-fraud projects
- Informing Committee of initiatives, progress and outcomes

6.6. LCCIAS does not have responsibility for the detection or prevention of fraud and corruption, but it considers those risks when undertaking its activities. The independence of the internal audit activity leaves it well placed to undertake (or guide) any investigations that are required. The HoIAS will determine the level and scope of LCCIAS' involvement including delegating the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

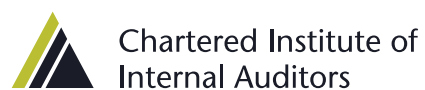
Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

Issued by the Relevant Internal Audit Standard Setters:



In collaboration with:



Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

ISBN 978 1 84508 356 4

Permission has been obtained from the copyright holder, The Institute of Internal Auditors, 247 Maitland Ave, Altamonte Springs, Florida 32701-4201, USA. The concepts enunciated in the original IPPF have been preserved in this version.

Contents

Section 1	Introduction	4
Section 2	Applicability	7
Section 3	Definition of Internal Auditing	9
Section 4	Code of Ethics	10
Section 5	Standards	13
	Attribute Standards	13
	Purpose, authority and responsibility	13
	Independence and objectivity	14
	Proficiency and due professional care	16
	Quality assurance and improvement programme	17
	Performance Standards	20
	Managing the internal audit activity	20
	Nature of work	22
	Engagement planning	24
	Performing the engagement	26
	Communicating results	27
	Monitoring progress	30
	Communicating the acceptance of risks	30
	Glossary	31

SECTION 1

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

Framework overview

The Relevant Internal Audit Standard Setters (RIASS)¹ have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
CIPFA			UK Local authorities. England & Wales only The Office of the Police & Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK. Scotland only Strathclyde Partnership for Transport.
HM Treasury	UK* Government departments and their executive agencies and non-departmental public bodies.		
Department of Health		England Clinical Commissioning Groups. NHS Trusts.	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
Scottish Government	Scotland The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Parliament Corporate Body.	Scotland NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.	
Welsh Government	Wales The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.	Wales Health Boards and Trusts.	
Northern Ireland Assembly: Department of Finance and Personnel (NI)	Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.		

* Unless the body falls under the jurisdiction of the devolved governments.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

SECTION 4

Code of Ethics

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

Standards

Attribute Standards

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive;
- approving the remuneration of the chief audit executive; and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

Public sector requirement

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Performance Standards

2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Interpretation:

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the *Definition of Internal Auditing* and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the *Code of Ethics* and the *Standards*.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

Public sector requirement

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Public sector requirement

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2110 Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

2201 Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

2210 Engagement Objectives

Objectives must be established for each engagement.

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

Public sector interpretation

In the public sector, criteria are likely to include value for money.

2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

2240 Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2240.A1

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

2240.C1

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 Communicating Results

Internal auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

2410.A1

Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement programme support the statement.

2431 Engagement Disclosure of Nonconformance

When nonconformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will identify:

- The scope including the time period to which the opinion pertains;
- Scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Glossary

Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

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

Control Environment

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

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

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Public sector definition: Governance Statement

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) strongly recommended.

Public sector interpretation

Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organisation is willing to accept.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.

Should

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

**CORPORATE GOVERNANCE COMMITTEE – 24 NOVEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****ANNUAL GOVERNANCE STATEMENT (AGS) 2014 – UPDATE
AGAINST KEY IMPROVEMENT AREAS****Purpose of Report**

1. The purpose of this report is to provide a mid-year update to the Committee on those areas identified for improvement included within the County Council's 2013/14 approved Annual Governance Statement (AGS).

Key Improvement Areas 2013/14

2. At its meeting on 12 May 2014 the Committee approved the draft 2013/14 AGS. A minor change to reflect an additional key area for improvement to meet the requirements of the Public Sector Internal Audit Standards was added at the 24 September Committee meeting. A copy of the final signed statement accompanied the Annual Statement of Accounts which is published on the County Council's website.
3. The County Council's review of effectiveness concluded that overall financial management and corporate governance arrangements were sound. To ensure that this continues to be the case at the County Council during the assurance gathering process development areas were also identified.
4. Section 6 of the 2013/14 AGS includes a table setting out the key areas identified as requiring improvement during the review period 2013/14. The Appendix to this report provides a mid-year progress update on these areas. In summary, there has been progress in every area identified. A number of areas form part of the Authority's Transformation Programme or have links to it and therefore many improvement actions are ongoing.
5. Implementing actions to address identified issues will ensure that gaps identified within the County Council's current control environment will be closed and strengthened and further enhance the Council's overall governance arrangements.

Recommendations

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

Resource Implications

7. None arising from this report.

Equality and Human Rights Implications

8. None arising from this report.

Background Papers

Report to the Corporate Governance Committee 12 May 2014 – ‘Annual Governance Statement 2013/14’

Circulation Under the Local Issues Alert Procedure

None.

Officers to Contact

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

Appendix

Key Improvement areas 2014/15

APPENDIX 1**Key Improvement Areas – 2014/15**

The table below describes identified areas for improvements included within the 2013/14 approved AGS, with a corresponding mid-year update.

Key Improvement Areas – Principle B	Lead Officer	Deadline
<p><u>Partnership Working</u></p> <p>Partnership working and the investment of County Council funding is becoming potentially more complex meaning that partnership protocols and governance arrangements need to be reviewed. To this effect, a self-assessment of existing partnerships has been carried out and this provides intelligence on how partnerships perform in relation to the various governance benchmarks.</p> <p>Department's need to ensure they are aware of the partnerships /joint working arrangements within their areas and have duly considered any risks to the Authority.</p> <p>Update</p> <p>All departments have been advised as to how they should identify partnership risks and include these within their existing risk registers. Progress has been made in a number of departments and it is expected that the remaining departments will have completed the actions required in time for them to be included within the Quarter Three Risk Management Update (to be reported to Corporate Governance Committee in February 2015).</p> <p>New arrangements for partnership working and governance will be presented to Cabinet on 19th November. These identify the partnerships which are a priority for the County Council.</p>	Departmental Management Teams	December 2014

Key Improvement Areas – Principle B (continued)	Lead Officer	Deadline
<p><u>Internal Audit Charter & Quality Assurance & Improvement Programme (QAIP)</u></p> <p>Develop and gain members approval to both a Charter & QAIP</p> <p>Update The Charter has been approved by the Chief Financial Officer and Monitoring Officer and Corporate Management Team (CMT). It is scheduled to be approved by members at the 24 November 2014 Corporate Governance Committee.</p> <p>The QAIP is scheduled for completion and approval by CMT in December. There isn't a mandatory requirement for members to approve the QAIP (only assessments against it once it has been established). Nevertheless, members will be informed at the February committee of its completion and approval by CMT.</p>	HolIAS	December 2014

Key Improvement Areas – Principle C	Lead Officer	Deadline
<p><u>Whistleblowing</u></p> <p>The County Council's current Employee Code of Conduct and Whistleblowing Policy needs to be revised taking into account recent best practice. To this effect the County Solicitor has commissioned a team to review the Council's existing policy and procedures.</p> <p>Update The review and revision of the Code of Conduct and Whistleblowing policy has been completed and will be launched through the Corporate Information Service in mid-November</p>	Monitoring Officer	September 2014

Key Improvement Areas – Principle D	Lead Officer	Deadline
<p><u>Business Intelligence (BI)</u></p> <p>Actions to improve BI will enhance the effectiveness of decision making at both departmental and corporate level aiding the forthcoming transformation agenda. A cross department review of BI and Data Management has been conducted. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme and will deliver a focused programme of work to bring improvement and mitigate risk.</p> <p>Update</p> <p>The Data and BI Programme has been established, and progress is being made across the 4 work-streams of Supply, Demand, Technology and Data. A number of exemplar areas are being scoped in order to accelerate progress.</p> <p>Emerging BI requirements from the Transformation Programme are being captured, and work is underway on a number of these.</p> <p>Relevant links are being made with the Effective Commissioning Stream of the Transformation Programme.</p>	<p>Assistant Director Strategic Information & Technology and Acting Assistant Chief Executive</p>	<p>December 2014</p>

Key Improvement Areas – Principle E	Lead Officer	Deadline
<p><u>Succession Planning</u></p> <p>The County Council recognises that there is a need to focus on improving succession planning. The People Strategy Board has agreed a pilot approach to 'Talent Management' and Succession Planning which is due to commence in April 2014 with 3 areas within the Council. A report on this will be taken to Corporate Management Team once the pilot has taken place and the outcome and future proposal is known.</p> <p>Update</p> <p>3 pilot areas have been identified, with one in Children and Family Services (C&FS), one in Environment and Transport (E&T) and one in ESPO. Due to service changes in the C&FS and E&T departments the implementation of the pilots has been delayed to later in 2014/15.</p> <p>Further work to be undertaken by the HR Business Partner to support and engage ESPO in the model and how it can support ESPO's business.</p> <p>Succession planning and talent management will now also be a work stream within the People and Organisation Development Enabler supporting the Council's transformation agenda, seeking to expand the work beyond the pilot areas.</p>	<p>Learning & Development Manager</p>	<p>December 2014</p>

Key Improvement Areas – Principle F	Lead Officer	Deadline
<p><u>External Website</u></p> <p>The County Council recognises that engagement with officers and the public is vital to achieving objectives and is committed to publishing information for both internal and external customers. To this effect, an Online Services Project is underway which will radically overhaul technology, content, approach and governance of the website to make it customer-focussed and evidence based.</p> <p>Update The Online Services project is making good progress, with the design stage nearing completion. Visual designs have been approved by CMT and procurement of the new content management system is underway.</p> <p>The project has taken a strongly evidence-based and customer focused approach, and links are being made to the Customers and Communities Enabler. CMT has agreed new governance arrangements, and endorsed the proposed approach to development of content for a go-live in spring 2015.</p>	<p>Assistant Director Strategic Information & Technology</p>	<p>December 2014</p>

This page is intentionally left blank