Meeting: **Corporate Governance Committee**

Date/Time: **Friday, 20 February 2015 at 10.00 am**

Location: **Guthlaxton Committee Room, County Hall, Glenfield**

Contact: **Mr E Walters (tel: 0116 305 6016)**

Email: **euan.walters@leics.gov.uk**

Membership

Mr. E. D. Snartt CC (Chairman)

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

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 24 November 2014		(Pages 3 - 8)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	External Audit of Annual Grant Certifications.	Director of Corporate Resources	(Pages 9 - 20)
7.	External Audit Plan 2014/15.	Director of	(Pages 21 - 50)

		Corporate Resources	
8.	Treasury Management Strategy Statement and Annual Investment Strategy.	Director of Corporate Resources	(Pages 51 - 70)
9.	Risk Management Update.	Director of Corporate Resources	(Pages 71 - 144)

A presentation on the risks associated with the ability to deliver savings and efficiencies through service redesign and the transformation programme as required in the MTFS will be provided as part of this item.

10.	Anti-Fraud and Corruption Framework.	Director of Corporate Resources	(Pages 145 - 184)
11.	Quarterly Treasury Management Update.	Director of Corporate Resources	(Pages 185 - 188)
12.	Internal Audit Service Progress Report.	Director of Corporate Resources	(Pages 189 - 202)
13.	Regulation of Investigatory Powers Act 2000 (RIPA).	County Solicitor	(Pages 203 - 206)

14. Date of next meeting.

    The next meeting will be held on Friday 12 June 2015 at 10.00am.

15. Any other items which the Chairman has decided to take as urgent.

Leicestershire County Council

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Monday, 24 November 2014.

PRESENT

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

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

19. Minutes of the meeting held on 23 September 2014.

The minutes of the meeting held on 23 September 2014 were taken as read, confirmed and signed.

20. Question Time.

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

21. 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).

22. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

23. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. There were no declarations of interest.

24. Annual Audit Letter 2013/2014.

The Committee considered a report of the Director of Corporate Resources which presented the Annual Audit Letter 2013/14. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

The Chairman welcomed Richard Bacon and Matthew Elmer of PricewaterhouseCoopers, the County Council’s external auditors, to the meeting for this and other items.

RESOLVED:

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

25. External Audit Plan - Progress Report 2014/2015.

The Committee considered a report of the Director of Corporate Resources which introduced the External Audit 2014/15 Progress Report. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

It was suggested that the Committee would benefit from more information regarding the PricewaterhouseCoopers publications 'Productivity in the Public Sector' and 'The public's view on decentralisation'. Briefings on these publications were held at the offices of PricewaterhouseCoopers and members of the Committee were welcome to attend.

RESOLVED:

That the update provided by PricewaterhouseCoopers be noted.

26. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources which provided 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 marked 'Agenda Item 8' is filed with these minutes.

The Committee also received a presentation on the risk associated with the transfer of communicating responsibility for 0-5 public health services from NHS England to the County Council. A copy of the slides forming the presentation is filed with these minutes.

Presentation – Public health 0-5 services: Transfer of Commissioning Responsibility.

It was noted that the service specification and Commissioning for Quality and Innovation (CQUIN) payments had now been confirmed and were as expected. There were still outstanding risks regarding the level of funding and nature of the transfer mechanism for the contract. The draft funding arrangements indicated that the cost of the service would be met through the transfer.

The Committee welcomed the proposal to integrate the health visitor service with the school nursing service. It was felt that this would provide added value for both services.

Risk Register

The External Auditor welcomed the robust planning undertaken by the County Council in the light of future uncertainties such as the upcoming General Election. He also acknowledged that the risks which the County Council faced mainly related to dealings with other bodies and as such were beyond its control. The detail relating to risks around information management was welcomed by the External Auditor, along with progress made in this area.

Arising from discussion the following points were noted:

(i) It was noted that the policy framework for the Risk Register was being reviewed and would be submitted to the committee for consideration in February.

(ii) With regard to the risks around Transformation, it was noted that there were a few areas in Children & Family Services where there was a risk that the savings targets would not be achieved on time. However, this was not a risk to the overall achievement of the Transformation Programme.

(iii) In response to a question regarding the impact of academy and secondary age conversion on home to school transport policy the Committee was assured that there were now policies in place and the issue had been moved to a departmental level.

RESOLVED:

(a) That the current status of the strategic risks and the addition of new risks facing the Council be noted;

(b) That officers be requested to provide a presentation on the risk associated with the ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS at the next meeting of the committee;

(c) That the updated Corporate Risk Register attached as Appendix A to the report be approved;

(d) That the principles of the CIPFA Code of Practice on Counter Fraud (2014) be adopted in support of the Council's initiatives to improve further the prevention and pursuit of fraud.

27. Regulation of Investigatory Powers Act 2000 (RIPA).

The Committee considered a report of the County Solicitor on the Authority's use of the Regulation of Investigatory Powers Act 2000. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

RESOLVED:

(a) That it be agreed that the Policy Statement remains fit for purpose;

(b) That it be agreed that the Committee will continue to receive quarterly reports on the use of RIPA powers and to report to the Cabinet on an annual basis on both the use of RIPA powers and whether the Policy remains fit for purpose in order to fulfil the statutory obligations placed on the County Council.

28. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to update the Committee on the actions taken in respect of treasury management in the quarter ending 30 September 2014. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

It was noted that outstanding debts to the County Council were summarised in the Statement of Accounts.

Some concern was expressed that the interest rate of 8.4% on loans to small and medium sized Leicestershire companies was too high. However, the Committee was advised that this was an average figure for the market and set on a commercial basis, not by the Authority. No company was required to take the loan if they did not find the rate of interest acceptable. The risk of default played a large part in the rate being at 8.4%.

RESOLVED:

That the content of the report be noted.

29. Recommended Change to Treasury Management Policy in Respect of the Lending of Surplus Balances.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek the views of the Committee about recommended changes to the method by which the acceptability of counterparties to whom surplus balances could be lent was decided. A copy of the report is filed with these minutes.

The Chairman welcomed Dan Wilson from Capita to the meeting for this item.

It was noted that if a counterparty was declared bankrupt, the County Council would lose its investment with the exception of what could be recovered through legal processes. The Committee was advised that credit rating agencies had learnt lessons from the financial crisis in 2008/09 and were now more effective and quicker to downgrade banks. Capita's decisions regarding counterparties were based on whether the level of risk and rate of return equated, as well as looking at the market's views on risk.

Members acknowledged that the current list of counterparties was too small. Although there was risk involved in widening the list, it was hoped that sufficient assurances were in place to provide mitigation. The Committee wished to see the list of counterparties being closely monitored to ensure that the Council was not exposed to unnecessary risk.

Some members suggested that, when considering the change to the list of counterparties, the Cabinet should also give consideration to developing an ethical banking policy, for example to ensure that the County Council was not investing in oppressive regimes. It was acknowledged that there would be difficulties involved in defining ethical limitations.

RESOLVED:

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

(b) That the comments now made be referred to the Cabinet for consideration.

30. Quarterly Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to give a summary of the Internal Audit Service work and provide an update on the investigation into the former Leader of the County Council, Mr David Parsons. A copy of the report is filed with these minutes marked 'Agenda Item 12'.

The Committee noted that the time which Mr Parsons had been given to pay the balance owed had now run out and unless payment was made enforcement action would be taken. The County Solicitor was unable to provide more details on Mr Parson's ability to pay the money owed as this would introduce personal information. Whilst some Members hoped that the Authority could claim for the Officer time spent dealing with the matter, the County Solicitor informed that all of this money could not be reclaimed. The County Solicitor confirmed that he would write to the Committee to provide updates as appropriate before the next meeting.

RESOLVED:

That the content of the report be noted.

31. The Internal Audit Charter.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek the Committee's approval of the Internal Audit Charter and to provide an update on the development of the Internal Audit Service Quality Assurance and Improvement Programme. A copy of the report marked 'Agenda Item 13' is filed with these minutes. The external Auditor confirmed that the development of an Internal Audit Charter was in line with national guidance.

RESOLVED:

(a) That the Internal Audit Charter, attached as Appendix 1 to the report, be approved;

(b) That the progress with the development of a Quality Assurance and Improvement Programme be noted.

32. Annual Governance Statement 2014 - Update Against Key Improvement Areas.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide a mid-year update to the Committee on those areas identified for improvement included within the County Council's 2013/14 approved Annual Governance Statement.

RESOLVED:

That the report and progress detailed in the Appendix to the report be noted.

33. Dates of future meetings.

RESOLVED:

That the next meeting of the Committee be held on Friday 20 February 2015.

34. Any other items which the Chairman has decided to take as urgent.

There were no other items which the Chairman decided to take as urgent.

10.00 - 11.40 am CHAIRMAN
24 November 2014

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 20 FEBRUARY 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ANNUAL GRANTS CERTIFICATION REPORT 2013/14

Purpose

1. To present the Annual Grants Certification Report for 2013/14 for approval.

Background

2. A copy of the Annual Grants Certification Report for 2013/14 is included in the Appendix attached to this report. Matthew Elmer from the County Council's external auditors, PricewaterhouseCoopers, will attend the meeting in order to present the letter and answer any questions.

Recommendation

3. The Committee will be requested formally to approve the Annual Grants Certification Report 2013/14.

Equal Opportunities

4. None.

Circulation Under the Local Issues Alert Procedure

5. None.

Background Papers

6. None.

Officers to Contact

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Annual Certification Report 2013/14

Leicestershire County Council

Government and Public Sector – Annual Certification Report to those charged with governance.

February 2015

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

22 January 2015

Our Reference: LCC/1314/Cert

Ladies and Gentleman,

Annual Certification Report (2013/14)

This report summarises our certification work performed last year.

Results of Certification Work

We certified one claim – the Loughborough Town Centre Transport Project TRA11 - worth a net total of £6,537,697. The claim was amended but it did not require a qualification letter to set out the matters arising from the certification findings of the claim.

We did not identify any matters relating to the Authority's arrangements for the preparation of the claim and return during the course of our work. The amendments were as a result of administrative errors, which were minor in nature.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT
T: +44 (0) 121 265 5000, F: +44 (0) 121 265 5050, www.pwc.co.uk

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Introduction

Scope of Work

Each year some grant-paying bodies may request certification by an appropriately qualified auditor, of claims and financial returns submitted to them by local authorities. Certification arrangements are made by the Audit Commission under Section 28 of the Audit Commission Act 1998 and is one way for a grant-paying body to obtain assurance about an authority's entitlement to grant or subsidy or about information provided within a return.

Certification work is not an audit but a different type of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within Certification Instructions (CIs) issued to us by the Audit Commission; these are designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. The precise nature of work will vary according to the claim or return.

Our role is to act as 'agent' of the Audit Commission when undertaking certification work. We are required to carry out workand complete an auditor certificate in accordance with the arrangements and requirements set by the Audit Commission.

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

International Standards on Auditing UK and Ireland (ISAs), the Auditing Practices Board's Practice Note 10 (Revised) and the Audit Commission's Code of Audit Practice do not apply to certification work.

Statement of Responsibilities

The Audit Commission publishes a 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' this is available from the Audit Commission website. It summarises the Commission's framework for making certification arrangements and highlights the different responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns.

Results of Certification Work

Claims and Returns certified

A summary of the claims and returns certified for financial year 1 April 2013 to 31 March 2014 is set out in the table below. The Audit Commission require that all matters arising are either amended for (where appropraite) or reported within a qualification letter.

One claim was amended following the certifiation work undertaken. The errors were of administrative type and minor in nature. The deadline for authority submission for the Transport claim was met. The deadline for auditor certification was met.

Fee information for the claims and returns is summarised on page 6.

Summary

CI Reference	***Scheme Title***	***Form***	***Original Value***	***Final Value***	***Amendment***	***Qualification***
TRA11	Local Transport Plan: major project – Loughborough Town Centre Transport Project	S31 AUD Form 13-14	6,537,697	6,537,697	Yes*	No

*The amendments had no impact on the overall value of the claim.

Certification Fees

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

Claim/Return	2013/14 Indicative Fee *	2013/14 Variation**	2013/14 Proposed Final Fee**	2012/13 Billed Fee	Comment
	£	£	£	£	
TRA11 Local Transport plan: major projects	0	2,789	2,789	2,789	
PEN05 Teachers Pensions return	0	0	0	12,087	This scheme was removed from Audit Commission arrangements for 2013/14
Total	***0***	***2,789***	***2,789***	***14,876***	

These fees reflect the Council's current performance and arrangements for certification.

* Indicative fees may subsequently be updated for Audit Commission approved variations; for example where there was a change in the level of work required.

** Fee variations which are pending Audit Commission approval.

Appendix

Prior year recommendations

For 2013/14 under Audit Commission certification arrangements, the following schemes did not apply:

- PEN05 Teachers Pensions Return

Alternative arrangements may have been entered into directly between the grant paying bodies and assurance practitioners, however for the purposes of this report, which is focused on Audit Commission certification work, these schemes have been excluded; on this basis where issues arose in prior year these are now excluded from the action plan.

Audit Commission Definitions for Certification work

Abbreviations used in certification work are:-

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

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

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

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

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

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

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

'**returns**' are either:

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

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

'**Statement**' is the *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, available from www.audit-commission.gov.uk;

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

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

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 20 FEBRUARY 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN 2014/15

Purpose

1. To present the external Audit Plan for 2014/15 for consideration.

Background

2. A progress report on preparation of the Audit Plan for 2014/15 was presented to the Corporate Governance Committee at its last meeting on 20th November 2014.

Audit Plan 2014/15

3. The Audit Plan for 2014/15 is included in the Appendix attached to this report. Matthew Elmer from the County Council's external auditors, PricewaterhouseCoopers (PwC), will attend the meeting in order to present the Audit Plan and answer any questions.

4. Overall materiality for the audit opinion is £17.2m. This is reported on page 8 of the Appendix and is set at 2% of gross expenditure per the 2013/14 statement of accounts.

5. The Appendix, on page 8, also explains that auditing standards requires the Auditor to report all misstatements in the accounts unless they are 'clearly trivial', i.e. those that do not have a material effect on the financial statements. Auditing standards suggest 5% of overall materiality is appropriate which would mean a reporting level of £861,000. The Corporate Governance Committee has previously agreed a £100,000 limit. It is recommended that the limit is retained as the financial statements are reported to the nearest £100,000.

6. Within the section on fraud, page 12 of the Appendix, the auditor enquires of the committee the following:

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

7. The Committee receives regular updates on anti-fraud and corruption initiatives, as the Council continually assesses its counter fraud arrangements and performance against professional guidance. A report on the revised whistle-blowing arrangements, was brought to Committee on 23 September 2014 as part of a number of policies which were being developed to contribute to achieving compliance with the principles of the revised Employee's Code of Conduct of selflessness, integrity, objectivity and openness. Those policies are also intended to reduce the risk of bribery, corruption or bias and a further report on today's agenda introduces specific documents designed to mitigate the risk of fraud and corruption.

8. The Committee is kept informed of instances of fraud through written reports from the Head of Internal Audit Service (HoIAS) at the conclusion of any investigations. There is also scope for the HoIAS to verbally brief the Chairman and Vice Chairman of the Committee throughout an investigation when a matter was considered to be of significant concern. The Committee has a new responsibility from 2015 to assess the Authority's level of conformance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014), a statement of which will ultimately be contained in the Council's Annual Governance Statement

9. In accordance with its terms of reference, the Committee monitors on an annual basis the adequacy and effectiveness of the Internal Audit Service. On a quarterly basis it considers any major Internal Audit Service findings and the responses to the implementation of its recommendations, as well as arrangements for the identification, monitoring and management of strategic and operational risk (including fraud risk) within the Council.

Recommendation

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

11. The Committee is recommended to retain a reporting limit for 'trivial' misstatements of £100,000.

Equal Opportunities

12. None.

Circulation Under the Local Issues Alert Procedure

13. None.

Background Papers

Corporate Governance Committee 20 November 2014; External Audit Plan – Progress Report 2014/15

Officers to Contact

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www.pwc.co.uk

Leicestershire County Council

External Audit Plan 2014/15

Government and Public Sector

January 2015

pwc

Contents

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.

Executive summary

Background

We have prepared this audit plan to provide the Corporate Governance Committee of Leicestershire County Council ('the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ending 31 March 2015. This is the last financial year for which PwC will be your external auditors under our contract with the Audit Commission.

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

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We look forward to discussing our report with you on 20 February 2015. Attending the meeting from PwC will be Matthew Elmer.

Our Responsibilities

Our responsibilities are as follows:

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)).

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.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

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 ourwork and consider whether it complies with CIPFA / SOLACE guidance.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

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.

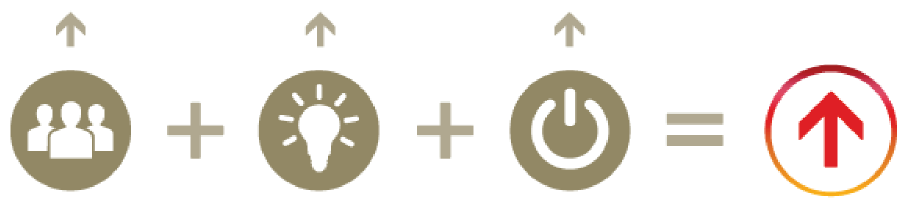
Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

Audit approach

The PwC Audit

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

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



Smart People + **Smart Approach** + **Smart Technology** = **The PwC Audit**

Our unique methodology involves our people, a tailored audit approach and our use of technology. Our 'smart' approach underpins your audit. The core elements of our audit are outlined below:

Client acceptance & independence

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance system' which highlights an overall engagement risk score and highlights areas of heightened risk.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out in Appendix A the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

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

Understanding the Authority

The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services, in particular in relation to social care.

Our risks identified later in this plan have been considered in the above context.

Relevant risks

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

●	**Significant**	Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.
●	**Elevated**	Although not considered significant, the nature of the balance/area requires specific consideration.

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ending 31 March 2015.

Main Council Audit

Risk	Categorisation	Audit approach
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. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will perform procedures to: - Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; - Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); - Evaluate the business rationale underlying significant transactions outside the normal course of business; and - Perform unpredictable procedures targeted on fraud risks. We may perform other audit procedures if necessary.
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	Significant ●	We will obtain an understanding of revenue and expenditure controls. We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.

Risk	Categorisation	Audit approach
Valuation of property, plant and equipment Property, Plant and Equipment is the largest figure on your balance sheet. The economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment. Whilst you are only required to re-value your assets at least once every 5 years, there is a requirement to assess the carrying value of your assets for impairment every year. This assessment also needs to cover whether assets have materially increased in value since their last formal valuation.	Elevated ●	The Council measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of internally professionally qualified valuers and processes and assumptions underlying fair value estimates. Specific areas of audit risk include: • The accuracy and completeness of detailed information on assets. • Whether the assumptions underlying the classification of properties are appropriate. • The valuer's methodology, assumptions and underlying data, and our access to these. Where asset valuations are undertaken in-year we will: • agree the source data used by your Valuer to supporting records; • assess the work of your Valuer through use of our own internal specialists where required; and • agree the outputs to your Fixed Asset Register and accounts. Where any changes to valuation bases are proposed we will work with you to understand and evaluate the rationale you are using on a timely basis. Where assets are not re-valued in year, we will review your impairment assessment, and evaluate whether your assets are held at an appropriate value in your accounts at the year-end

Risk	Categorisation	Audit approach
Medium Term Financial Strategy The Authority has made significant efforts over the past few years to identify savings and deliver more efficient services. The current MTFS is based upon a reduction in formula grant over the four year period 2014/15 to 2017/18. It includes savings of over £100m. Growth of £28.5m has been included for service improvement, cost and demand pressures. Recent announcements on likely future funding and the protection from reductions of other public services over the medium term mean that the total savings requirement is likely to continue being significant.	Significant (VfM work)	You have historically provided value for money services when benchmarked against your nearest neighbours. However, the scale of the challenge over the next few years is significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered. In some areas reduced service provision is inevitable. In forming our conclusion economy, efficiency and effectiveness, we will review your Medium Term Financial Strategy. We will understand how you develop the strategy and will compare the assumptions you have used to comparative benchmarks and best practice. In particular, we will review: • the governance structure in place to deliver your plans ; • how you have managed your 2014/15 savings programme; • the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities. • the sensitivity of key assumptions to change; • the impact of potential changes to key assumptions and the rigour behind the MTFS; • the prioritisation of resources as part of the MTFS; and • your arrangements to review the value for money which your services provide; and • the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

Overall Materiality: £17,232,000

Triviality: £100,000

Intelligent scoping
Materiality

	£
Overall materiality	17,232,000
Clearly trivial reporting de minimis	100,000

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality for the 2014-15 audit has been set at 2% of gross expenditure per the 2013-14 accounts. We will update this assessment as necessary in light of the Authority's actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. Auditing standards indicate that a level of 5% of overall materiality would be appropriate. This would mean a reporting level of £861,600.

The Corporate Governance Committee has previously agreed a reporting level of £100,000. We would like to seek the Committee's views on the threshold for 2014-15.

Robust Testing

Where we do our work

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

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

When we do our work

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

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

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

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

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

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

We ask the Corporate Governance Committee for their views on the risk of fraud.

Risk of fraud

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

Auditors' responsibility	**Management's responsibility**	**Responsibility of the Corporate Governance Committee**
Our objectives are: • To identify and assess the risks of material misstatement of the financial statements due to fraud; • To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and • To respond appropriately to fraud or suspected fraud identified during the audit.	Management's responsibilities in relation to fraud are: • To design and implement programmes and controls to prevent, deter and detect fraud; • To ensure that the entity's culture and environment promote ethical behaviour; and • To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.	Your responsibility as part of your governance role is: • To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and • To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur

Your views on fraud

We enquire of the Corporate Governance Committee:

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

The audit team remains consistent with the previous year.

Audit team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you. The core members of your audit team are:

Audit Team	Responsibilities
Lead Partner **Richard Bacon** 6th year on the audit* 0121 232 2598 richard.f.bacon@uk.pwc.com	Lead Partner responsible for the overall quality of our audit service. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manager **Matthew Elmer** 8th year on the audit** 0121 265 5517 matthew.r.elmer@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.
Engagement Manager **Edward Cooke** 3rd year on the audit 0121 265 5182 edward.cooke@uk.pwc.com	Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work.

*The Audit Commission allows an Engagement Leader to be appointed for 5 consecutive years. This can be extended for up to 2 further years on request. Richard's extension to cover the 2014/15 audit has been approved.

**The Audit Commission allows for the audit manager to be involved in an audit for up to 10 years.

The audit fees remain at the same level as in the previous year.

Audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015. No changes to the work programme have been proposed therefore scale audit fees have been set at the same level as the fees applicable for 2013/14.

Our indicative audit fee compared to the actual fee for 2013/14 is as follows:

Audit fee	Actual fee 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice - 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	102,600	102,600
Certification of Claims and Returns	2,789	0
Total Audit Code work	**105,389**	**102,600**
Planned non-audit work	0*	0
Total fees (audit and non-audit work)	**105,389**	**102,600**

*In addition to the audit of the Statement of Accounts, PwC undertook some non-audit work during 2013/14:

- East Midlands Councils (EMC) audit 2013/14 (estimated fee of £8,500) – we separately provide an audit of the EMC accounts. We will not be undertaking an audit in 2014/15 because EMC are now hosted by Nottingham City Council.
- VAT Helpline (£3,000) – we provide a VAT service to the Council giving unlimited access to a telephone helpline for routine VAT queries.
- VAT claim (estimated £14,000) – you have requested administrative assistance with a VAT claim you are progressing.

We have based the audit fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you, the Audit Commission and its successor body.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Other services

As noted in the audit fees section above, we provide some

Support provided by PwC	Threats to independence and safeguards in place
East Midlands Councils audit	**Self Review Threat:** The audit team will conduct the audit work and this has arisen due to our appointment as external auditors. There is no self review threat as we will not be relying on this work in our capacity as external auditors. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat. No such threat has been identified in our previous work with the Council.
VAT helpline and claim VAT claim	**Self Review Threat:** We will not be relying on the work being undertaken with your VAT team. There is no self review threat. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for management and we have therefore concluded that this work does not pose an advocacy threat.

	Familiarity Threat: This work does not present a familiarity threat. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat. No such threat has been identified in our previous work with the Council.
Certification of claims and returns	**Self Review Threat:** The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self review threat as we are certifying management completed grant returns and claims. **Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self interest threat. **Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. **Familiarity Threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation Threat:** We have concluded that this work does not pose an intimidation threat. No such threat has been identified in our previous work with the Council.

Relationships and Investments

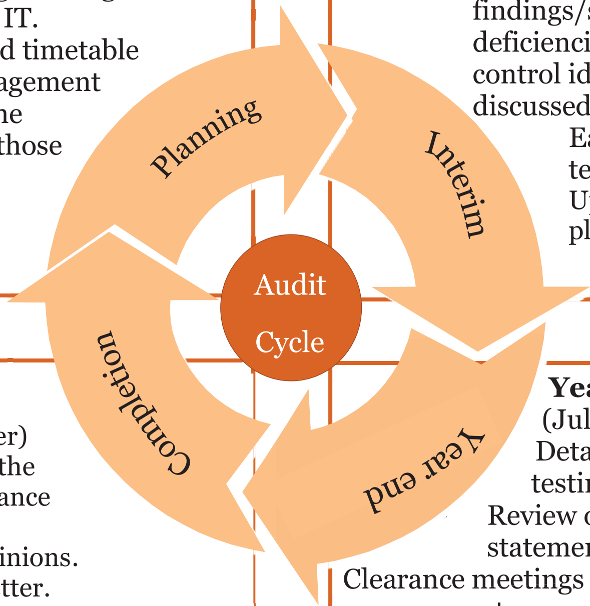
Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we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

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

Appendix B: Communications Plan

Planning (January - March)
Discussion of business risks with key management and plan detailed audit approach
Detailed planning meetings with Finance, HR and IT.
Audit strategy and timetable agreed with management
Presentation of the audit strategy to those charged with governance

Interim (March)
Update understanding of key processes and controls
Key accounting and audit findings/significant deficiencies in internal control identified, discussed and resolved
Early substantive testing
Update our planning work



Completion
(August/September)
ISA 260 report to the Corporate Governance Committee .
Statutory audit opinions.
Representation Letter.
Annual Audit Letter.

Year end audit
(July/August)
Detailed audit testing
Review of financial statements
Clearance meetings with management

Continuous Communication

- Continuous proactive discussion of issues as and when they arise; ‘no surprises’
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice

Appendix C: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

Procedure	Description
Technical updates	PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include: • A weekly publication covering the week's accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.
Independence standards	PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.
Ethics	Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.
Independent review	Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT. As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission's website should you wish to take a look.

Smart People

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

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

Smart Approach

Data auditing

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

In 2014/15 we anticipate the work will include:

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

Centre of Excellence

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

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

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

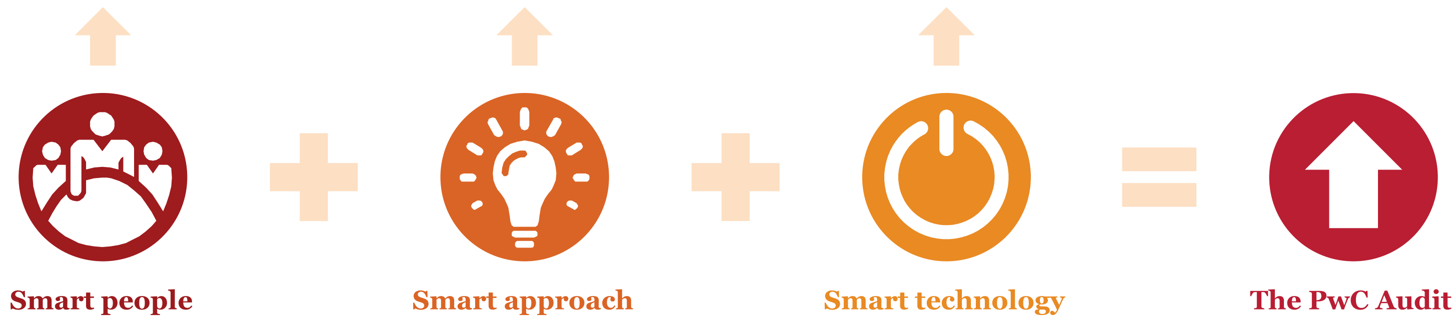
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

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

Smart Technology

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

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



Our 'smart' approach underpins your audit.

Appendix D: Other engagement information

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

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

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

Electronic communication

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

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

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

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

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

Access to audit working papers

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

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland for the facilitation of basic audit tasks. This arrangement was approved by the Corporate Governance Committee in 2014. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

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

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

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

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

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

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 20TH FEBRUARY 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2015/16

Purpose of the Report

1. To allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2015/16.

Background

2. The treasury management strategy statement and annual investment strategy form part of the Medium Term Financial Strategy and will be considered by the Council at its meeting on 18th February 2015. Any amendments made by the Council to either of these documents will be reported to the Committee.

3. The two strategies are broadly in line with those of previous years, with the only significant amendments being a move to more closely align this Authority's policy in respect of acceptable counterparties with that of Capita Asset Services, who act as treasury management advisor to the Authority. The rationale behind these changes, together with details of the expected impact, was the subject of a detailed report produced for the Corporate Governance Committee and considered at its meeting of 24th November 2014.

4. It is usual for the Corporate Governance Committee to have an opportunity to comment on the treasury management strategy statement and annual investment strategy prior to it being submitted to full Council. Due to the timing of meetings, it has not been possible to do so this year. However, the Committee will have an opportunity to influence the strategies via the use of delegated powers available to the Chief Financial Officer. Any significant issues raised by the Committee will be reported to the Cabinet for further consideration.

Resource Implications

7. The interest earned on revenue balances and the interest paid on external debt (which link directly into treasury management strategy statement and annual investment strategy) will impact onto the resources available to the Council.

Equality and Human Rights Implications

8. There are no discernable equal opportunity implications.

Recommendation

9. The Committee is asked to comment on this report.

Background Papers

Recommended change to treasury management policy in respect of the lending of surplus balances – Report of the Director of Corporate Resources. Corporate Governance Committee, 24th November 2014.

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

Colin Pratt - telephone 0116 3057656, email colin.pratt@leics.gov.uk
Chris Tambini - telephone 0116 3056199, email chris.tambini@leics.gov.uk

APPENDIX

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2015/16

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee will consider the contents of Treasury Management Strategy Statement and Annual Investment Strategy at its meeting to be held on 20th February 2015. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

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

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

Treasury Management Strategy 2015/16

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

The Act therefore requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (as required by Investment Guidance issued subsequent to the Act) and this is included as paragraphs 24 – 44 of this strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2015/16 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services.

The strategy covers:

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

Balanced Budget Requirement

3. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the increase in charges to revenue from:-

i) increase in interest charges caused by increased borrowing to finance additional capital expenditure, and
ii) Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Treasury Limits for 2015/16 to 2018/19

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

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

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

Current Portfolio Position

5. The Council’s treasury portfolio position at 31st December 2014 was:

		Principal £m	Average Rate %
Fixed Rate Funding	PWLB	180.10	6.330
	Market	95.50	4.492
Variable Rate Funding	Market	10.00	3.990
Other Long Term Liabilities		0.00	
		285.60	5.634
Total Investments		164.10	0.644
Net debt		121.50	

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

Borrowing Requirement

6. It is not currently anticipated that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2015/16 – 2018/19), and it is also expected that maturing loans will not be replaced. There

are a number of reasons that no new net borrowing is expected, including the current position of having internal indebtedness (at 31st March 2015 an estimated £12.9m of historical capital spending will be financed through internal cash resources), a change by the Government to switch capital approvals to grants as opposed to borrowing approvals, no unsupported borrowing included in the MTFS and the level of Minimum Revenue Provision (See Annex 1) that will be generated over the period.

7. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt is expected to exceed the Capital Financing Requirement at the end of 2016/17 and to increase further during the next two financial years it is currently prohibitively expensive to prematurely repay existing debt. If there are cost-effective opportunities to avoid an overborrowed position they will be considered as long as they are in the best long-term financial interests of the Council. This will probably require long-term borrowing rates to increase meaningfully from their current level.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Opening Capital Financing Requirement	**298,540**	**283,607**	**266,613**	**253,858**
New Borrowing	0	0	0	0
Statutory Minimum Revenue Provision (MRP)	(11,993)	(11,414)	(10,755)	(10,263)
Voluntary MRP	(2,940)	(5,580)	(2,000)	(2,000)
Closing Capital Financing Requirement	**283,607**	**266,613**	**253,858**	**241,595**
Opening external debt	**285,600**	**275,100**	**274,600**	**264,600**
Loans maturing	(10,500)	(500)	(10,000)	(500)
Closing external debt	**275,100**	**274,600**	**264,600**	**264,100**
Overborrowed/(borrowing requirement)	**(8,507)**	**7,987**	**10,742**	**22,505**

Prudential and Treasury Indicators for 2015/16 – 2018/19

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

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

Prospects for Interest Rates

9. Despite economic growth in the UK being relatively robust, the current low level of inflation and the forecast for changes to inflation levels in the near term make it unlikely that there will be an increase in UK bank base rates until at least the end of 2015. The timing and extent of increases is highly dependent on economic growth in not just the UK, but also the rest of the developed world. The general consensus is that base rates, when they start to rise, will do so gradually in terms of both the amounts of the increase and also the pace of them. The likelihood of reaching levels that would previously have been considered normal (4% - 6%) within the foreseeable future is very slim.

10. The range of forecasts produced by economists is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 – 3 years. There is, of course, a possibility of economic growth accelerating more than is currently predicted and if any acceleration gains traction, base rate rises may happen more quickly and more aggressively than is currently predicted. The Governor of the Bank of England continues to issue ‘forward guidance’ which suggests that base rate rises are not imminent and will be very gradual when they commence.

Borrowing Strategy

11. The outlook for borrowing rates - which are linked to Government bond (gilt) yields – is difficult to predict. Currently gilt yields are at multi-generational lows and the consensus is that they have to rise from here; this was however the consensus 12 months ago and they have fallen meaningfully since then. Supply of gilts is likely to be meaningful for a number of years and eventually there has to be an unwinding of quantitative easing which will see a further increase in gilt availability, so the demand/supply dynamic appears to point to yields rising rather than falling. Any setback in economic growth (not just in the UK, but also globally) may, however, cause investors to reassess the outlook for returns from other assets and a period of stable, or even falling, gilt yields cannot be ruled out.

12. Although borrowing from the Public Works Loans Board (PWLB) is still generally the most attractive external option available to the authority, the expectation of an overborrowed position by the end of 2016/17 makes the use of external borrowing unlikely. Even if the outlook for an overborrowed position changes, which is only likely if repayment of existing debt actually happens, the use of internal borrowing using available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.

13. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when

borrowing should be carried out. Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

External v Internal Borrowing

14. The Council currently has significant cash balances invested, and at the end of December 2014 these stood at £164.1m. These balances relate to a number of different items – earmarked funds and provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them – but only a small amount of the balances relate to the General County Fund.

15. The Council has, since January 2009, repaid over £80m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme over this period, and internal borrowing is expected to stand at £12.9m at the end of the current financial year. This internal borrowing is, effectively, being financed through the loss of interest that would otherwise have been earned by lending the money, which is currently below 0.5%. This internal borrowing has been extremely cost-effective, but the cost of it will increase broadly in line with base rates in the years ahead.

16. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

Policy on borrowing in advance of need

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

18 In determining whether borrowing will be taken in advance of the need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need.
- ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered
- evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
- consider the merits (or otherwise) of other forms of funding
- consider a range of periods and repayment profiles for the borrowing.

19. The current position in respect of the level of internal borrowing and a move by Central Government to replace borrowing approvals for capital projects with grants makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.

Debt Rescheduling/Premature Debt Repayment

20. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously, but would be expected to have occurred within a relatively short period of time.

21. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is overly focussed into a single year will be avoided. Changes in recent years to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.

22. If there is meaningful increase in medium and long-term premature repayment rates, there is a possibility that premature repayment of existing debt (without any replacement) might become attractive. This type of action would involve an increase in internal debt from its current levels, and would only be carried out if it was considered likely to be beneficial in the medium term.

23. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.

Annual Investment Strategy

Investment Policy

24. The Council will have regard to the CLG's Guidance on Local Authority Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

    - the security of capital and
    - the liquidity of its investments

25. The Council will aim to achieve the optimum return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. Borrowing money purely to invest or on-lend is unlawful and this Council will not engage in such activity.

26. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent, and is one reason that the various organisations that have got into financial difficulties over the years (BCCI, Northern Rock, the Icelandic Banks etc.) have not been on the list of acceptable counterparties. The current policy is based almost entirely on ratings issued by independent credit rating agencies and the Council's rating requirements were increased following the default of the Icelandic Banks. This coincided with credit rating downgrades for the majority of financial institutions, and led to a list that had very few acceptable counterparties. This was considered to be entirely appropriate given the risks inherent within financial markets at the time.

27. In recent years financial institutions have become far more tightly regulated and are now forced to hold significantly more capital. There is also a requirement to hold higher levels of capital if the assets held by them are of higher risk. Regular stress tests are also carried out that assess the risks in the event of a number of quite extreme scenarios. Overall, the 'riskiness' of financial institutions - and of the banking system as a whole - is much lower than it has been for a long time and it is now felt appropriate to slightly relax the requirements for becoming an acceptable counterparty, with the changes being effective from 1st April 2015.

28. Alongside the meaningful improvements to the security of financial institutions, the credit rating agencies continue to amend their methodologies in terms of how ratings are awarded. The three major credit rating agencies – S&P, Moody's and Fitch – have different methods and there is relatively regular 'finessing' of the methodologies which make it extremely difficult for the Council's in-house resource to judge what changes are required to our own requirements in terms of acceptable credit rating levels.

29. Using credit ratings as virtually the only determinant of whether a counterparty is acceptable or not is rather one-dimensional and fails to take full account of some of the other useful information that is available when determining the risk of individual financial institutions. This other information includes the cost of Credit Default Spreads (CDS - in effect, the cost of insuring against default) for individual institutions. CDS's are liquid and actively traded and having up-to-date information

on the prices of them is vital if they are going to be used as part of the decision-making process.

30. Capita Asset Services have advised the Council on treasury management matters for many years and are the dominant treasury management advisor to local authorities. They maintain a list of suggested counterparties that is used by the vast majority of their clients and the decision-making process that produces this list includes the use of credit ratings, CDS prices and a number of other ‘softer’ issues. They also have meaningful resource in this area and are better placed that Officers of the Council to take a holistic view of counterparty risk. It is now considered appropriate to utilise the skills of Capita and for the Council’s list of acceptable counterparties to mirror the one produced by them, with the exception of some small changes discussed below.

31. There are two areas in which it is proposed to differ from the standard Capita list of acceptable counterparties. They have a small number of institutions where they recommend a maximum loan period of two years, and it is considered appropriate that Leicestershire should restrict all loans to one year. There are also a small number of counterparties to whom Capita give a suggested maximum maturity period of 100 days and it is proposed that these are excluded from the Council’s list entirely. The Council’s list of acceptable counterparties will, therefore, be marginally different from the one produced by Capita.

32. It is important to point out that the proposed change to the method of producing an acceptable counterparty list is not based on the desire to have more counterparties, and therefore greater flexibility within the loan portfolio. This greater flexibility and the expected £150,000 - £250,000 p.a. increase in interest that will be earned (based on current market conditions) are by-products of a desire to maintain a policy that can evolve in line with market changes, which will be increasingly difficult if we continue to use in-house resource for this purpose. The increase in counterparties does not come at the expense of a meaningful increase in risk, and the list will continue to include only high-quality, low-risk counterparties.

33. It is also proposed, for the first time, to include certificate of deposit (CDs) in the list of acceptable investment instruments. CDs are merely tradable loan instruments that carry exactly the same security risks as term deposits. It is expected that term deposits will continue to be the preferred option for loans, but as there are some counterparties that are not active in taking term deposits but do issue CDs including them will add flexibility to the management of the portfolio.

34. The proposed changes to the method in which the list of acceptable counterparties is produced and the inclusion of CDs within the list of acceptable instruments was considered by the Corporate Governance Committee at its meeting of 24th November 2014. They were supportive of the proposals.

35. The investment instruments identified for use in the financial year are listed below. The limits for both maximum loan periods and amounts will be set in line with the criteria shown in annex 3. As part of the proposal to commence utilisation of Capita’s suggested counterparty list (adjusted for the matters mentioned in paragraph 31, above) the maximum loan period has been reduced to one year. If financial institutions show meaningful increases in their credit ratings in the years ahead consideration will be given to the reintroduction of loan periods of over one year.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum (1)
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100
UK Government Treasury Bills	Yes	Government-Backed	1 year	100
Term deposits with credit-rated institutions with maturities up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100
Money Market Funds	Yes	At least as high as acceptable credit – rated banks	Daily, same-day redemptions and subscriptions	£125m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA's do not have credit ratings, but high security	1 year	50
Certificates of Deposit with credit-rated institutions with maturities of up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100

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

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

Local Authority Mortgage Scheme
Under this scheme the Council has invested £8.4m, for a period of up to 5 years. This is classified as being a service investment, rather than a treasury management investment.

Leicestershire Local Enterprise Fund
Up to £1m has been made available for loans to small and medium-sized Leicestershire businesses via this Fund, which is administered by Funding Circle. This is classified as being a service investment, rather than a treasury management investment.

<u>Creditworthiness policy</u>

36. It is proposed that the Council adopts the suggested counterparty list as produced by Capita Asset Services, subject to a maximum one year loan period and the

exclusion of any counterparty with a suggested maximum loan period of 100 days or less. Capita's methodology includes the use of credit ratings from S & P, Fitch and Moody's, factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). The general economic climate is also considered and will, on occasions, have an impact onto the list of suggested counterparties.

37. Capita Asset services issue very timely information in respect of changes to credit ratings or outlooks, and changes to their suggested counterparty list are also issued. These reports are monitored within a short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical. A weekly summary of the credit ratings etc. of counterparties is also issued and this gives an opportunity to ensure that no important information has been missed.

Country Limits

38. The Capita criteria includes a requirement for the country of domicile of any counterparty to be very highly rated. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support. The Council's list of acceptable counterparties will include a limit on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk.

Investment Strategy

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

Policy on the use of external service providers

40. External investment managers will not be used, except to the extent that a Money Market Fund can be considered an external manager.

41. The Council uses Capita Asset Services as its external treasury management adviser, but recognises that responsibility for treasury management decisions remains with the organisation at all times. Undue reliance on our external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

Scheme of Delegation

42. (i) Full Council
- Approval of annual strategy
- Other matters where full Council approval is required under guidance or statutory requirement

(ii) Cabinet

- Approval of updates or revisions to strategy during the year
- Approval of Annual Treasury Outturn report

(iii) Corporate Governance Committee
- Mid-year treasury management updates (usually quarterly)
- Review of treasury management policy and procedures, including making recommendations to responsible body
- Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

(iv) Assistant Director, Strategic Finance and Property
- Day-to-day management of treasury management, within agreed policy
- Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

43. The Section 151 Officer is the Assistant Director, Strategic Finance and Property who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

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

ANNEX 1

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

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

Prudent Provision.

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

It is proposed that provision is made on the following basis:

Government supported borrowing (through the formula grant system):

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

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

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

The County Council will also look to take opportunities to use general underspends and one off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs. In 2014/15, voluntary contributions of £6.4m are planned. The MTFS 2015-19 includes further voluntary contributions of £2.9m (2015/16), £5.6m (2016/17), £2m (2017/18) and £2m (2018/19).

Financial Implications

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2015/16 totals £14.9m (includes £2.9m voluntary contributions). This comprises £14.5m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

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

ANNEX 2

PRUDENTIAL AND TREASURY INDICATORS

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

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

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

	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Expenditure	£53.1m	£84.7m	£94.2m	£47.1m	£32.9m
Capital financing requirement	£299m	£284m	£267m	£254m	£242m
Ratio of financing costs to net revenue stream	8.66%	7.58%	8.39%	7.25%	7.20%
Impact on Band D Council Tax	£4.51	£4.40	£4.32	£4.25	£4.17

The projected level of capital expenditure shown above, differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional resources that may become available to the authority during the course of a year, typically further developer contributions arising from housing development. Capital expenditure for 2017/18 and 2018/19 is less than previous years as government funding for C&FS has not yet been announced.

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

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

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

The key indicator of affordability is the impact of capital expenditure on Council Tax. This is falling over the periods shown and reflects the reduction due to MRP and the decision for no new unsupported borrowing.

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

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

Operational boundary for external debt

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	289.8	280.9	271.0	270.6
Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	**291.1**	**282.1**	**272.1**	**271.6**

Authorised limit for external debt

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	299.8	290.9	281.0	280.6
Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	**301.1**	**292.1**	**282.1**	**281.6**

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2015/16 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2014/15 indicators with the latest forecast

In February 2014 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	Prudential Indicator	Latest Projection

	Set 2014/15	19/01/15
Actual Capital Financing Costs as a % of Net Revenue Stream	7.24%	8.66%
Capital Expenditure	£64.3m	£53.1m
Operational Boundary for External Debt	£310.5m	£306.5m
Authorised Limit for External Debt	£320.5m	£316.5m
Interest Rate Exposure – Fixed	50-100%	96%
Interest Rate Exposure – Variable	0-50%	4%
Capital Financing Requirement	£303m	£299m

The latest forecast of external debt, £285.6m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2014/15. The maturity structure of debt is within the indicators set. The latest projection for the Capital Financing Requirement includes voluntary additional provision of £6.4m in 2014/15 (funded from the 2014 MTFS and 2014/15 forecast revenue underspends – see MRP strategy). This has led to the increase in the latest projection of actual capital financing costs, to 8.66% compared with the original indicator of 7.24%.

Treasury Management Indicators

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

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

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

a) An upper limit on fixed interest rate exposures for 2015/16 to 2018/19 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2015/16 to 2018/19 of 50% of its net outstanding principal sums.
b) Upper and lower limits for the maturity structure of its borrowings as follows:
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

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

c) An upper limit for principal sums invested for periods longer than 364 days is 0% of the portfolio.

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

ANNEX 3

POLICY ON APPROVED ORGANISATIONS FOR LENDING

APPROVED ORGANISATIONS FOR LENDING

Institution	Maximum Sum Outstanding/Period of Loan
UK Clearing Banks and UK Building Societies	£20m/6 months up to £50m/12months
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Foreign Banks	£10m/6 months up to £15m/12 months
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months

The list of acceptable institutions will mirror the list of suggested counterparties maintained by Capita Asset Services, except the maximum maturity period will be restricted to 1 year and no institution with a suggested maturity period of 100 days or less will be excluded.

LIMITS FOR INDIVIDUAL FINANCIAL INSTITUTIONS

UK Banks and Building Societies

Maximum Sum Outstanding	£50m	£30m	£20m
Maximum Loan Period	1 year	1 year	6 months
General description	'Special Institutions' (i.e. part UK-Government owned) and included in Capita list for period of 1 year or more	Not 'special institutions' and included in Capita list for period of 1 year or more	Included in Capita List for period of 6 months

Overseas Banks

Maximum Sum Outstanding	£15m	£10m
Maximum Loan Period	1 year	6 months
Minimum Fitch Ratings	Included in Capita list for period of 1 year or more	Included in Capita List for period of 6 months

A maximum of £30m can be invested with all banks domiciled within a single country.

Some financial institutions have both a parent company and a subsidiary that are licensed deposit takers in the UK. Where this is the case a ‘group limit’ will apply, and this will be the limit that is given to the parent company.

In some cases the parent company will be an overseas institution and they will have UK-registered subsidiaries. Where this is the case the parent company limit will apply at a total group level, even if this limit is less than would be given to the UK subsidiary on a stand-alone basis. Any money invested with a UK subsidiary of an overseas institution will be classed as being invested in the country of domicile of the parent, if the parent is an overseas institution for country-maximum purposes.

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

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE
20 FEBRUARY 2015

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 for the quarter ended 31 December 2014. 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. This quarter's report covers:

    a) The Corporate Risk Register (CRR) –an update including the addition and removal of risks
    b) The review and revision of the Risk Management Policy and Strategy
    c) A re-assessment of the Council's risk management maturity
    d) An update on counter-fraud initiatives.
    e) Requirements under the Local Government Transparency Code 2014 to report fraud data

Corporate Risk Register (CRR)

2. The Council maintains departmental risk registers and a Corporate Risk Register (CRR). These registers contain the most significant mitigated risks which the Council is managing and are owned by Directors and Assistant Directors.

    The CRR 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.

3. 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 as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded; the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected back within the relevant departmental risk register.

    Key changes since the CRR was last presented to the Committee in November 2014 are:

i. Addition of new risk:

- Leicestershire Highways Operations (LHO) - Financial Information System Implementation Project. The Project has highlighted a number of issues around payment of invoices, limited resources, and reliability of management information produced. A number of urgent actions have been agreed to oversee the project to conclusion.
  The nature of this risk is similar to an existing risk 10 – Liquidlogic Adults System (LAS) Phase 2 Project: risks to operational business as usual and compliance with reporting requirement of the Care Act 2014. Therefore the overall risk description has been reworded as follows:

  Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively

  The LAS Phase 2 and LHO Project risks will both be combined and incorporated under the above revised risk description.

ii Removal of risks:

- Risk 6 -The transition of Health Visiting (from NHS England) to local authorities. [Previous rating: 20 / Revised rating: 12] The funding allocation has now been agreed with NHS England for the transfer of Health Visiting including Commissioning for Quality and Innovation (CQUIN) payment and commissioning support. The service specification has been published and the Health Visiting Assurance Board continues to work with colleagues to move forward the transition into the County Council.

- Risk 11- Failure by Members to comply with the new Information Security Policy (Previous rating: 16 / Revised rating: 8). Auto forwarding facility for emails has been removed from all Members' County Council email accounts. All Members are accessing their County Council emails via CITRIX or LCC provided Ipad.

4. At its meeting on 24 November 2014, the Committee requested that a presentation be provided on the risks associated with the ability to deliver savings and efficiencies through service redesign and the transformation programme as required in the MTFS as detailed in the CRR (Risk 1). 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. The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that: -
   a) A horizontal arrow shows there's not much movement expected in the risk;
   b) A downward pointing arrow shows there's expectation the risk will be mitigated towards 'medium' and would likely be removed from the register;
   c) An upwards pointing arrow would be unusual since it would show that the already high scoring risk is likely to be greater.

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update	Direction of Travel (Residual Risk Score 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	MTFS approval process in place. MTFS includes increased savings and focus on demand management. Investment in transformation programme in terms of capacity, capability, and improved governance	⇔ Expected to remain 'high/red'
C&FS	2	Cost of school sponsorship to the County Council prior to conversion	16	The risk of the County Council being responsible for a large deficit budget in a secondary school is reduced as most schools are now academies. However, there is an increased risk of rising deficit budget in any schools prior to sponsored academy conversion. Whilst no further schools have been placed into an OFSTED category, the budget set aside for covering the cost of previous sponsorship is now depleted.	⇔ 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	Further work is taking place at the East Midlands Finance Group in January 2015 to refine the Lincolnshire model	⇔ 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	Following the submission of additional supporting material on 28th November 2014, the BCF plan was moved to 'approved' by NHS England. Delivery against the BCF programme plan continues with no additional red risks being flagged in this quarter. Key delivery highlights include: • 1st November additional capacity within Single Point of Access went live to provide GP's and East Midlands Ambulance Service with a faster response time supporting the avoidable admissions metric. • The Unified Prevention Board has established key priorities to support the development of a joint commissioning plan. • Number of people accessing the Older Persons Unit and the Night Nursing service is increasing. • 79 paramedics trained to date on the Falls Risk Assessment Tool. The Better Care Together (BCT) Programme Risk Register is being developed. Once finalised this will enable alignment between BCT risks and BCF integration risk register.	⬄ Expected to remain medium/ amber
All	5	Challenges caused by the Welfare Reform Act.	25	National Audit Office (NAO) published a report in November 2014. This updates progress since the Universal Credit timetable was reset. The timetable for the transfer of claimants to universal Credit has been put back by two years, but even by 2019 it is not expected that all claimants will have transferred.	⬄ expected to remain 'high/red'
ICT, Information Security					
CR	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Second Disaster Recovery test successfully completed	⇩ Expected to move to medium/ amber

CR	7	Continuing risk of failure of information security.	16	Some further work is required before latest PSN submission is approved	Expected to move to medium/ amber
All	8	Failure by the County Council to provide effective business intelligence to services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme.	15	Clear programme of work underway addressing people, data and systems issues. Approach to new Target Operating Model agreed. Transformation priorities are driving specific improvements and work packages.	Expected to remain 'high/red'
CR	9	Insufficient capacity to provide Information & Technology solutions.	16	New Strategic Information & Technology (SI &T) structure in place. New Work Programme process in use. Resource management tool to be implemented in next two months. Continued unknown level of demand from Transformation projects.	Expected to remain 'high/red'
All	10	Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively	15	<u>LAS Phase 2 Project</u> Internal Audit recommendations are being addressed. The core roadmap releases remain high risk due to the delay in receiving the system updates. The level of risk is expected to fall during the summer months but will increase in the autumn due to the next roadmap releases although there currently appears to be more time for user testing. Emphasis on clearing payables and charging issues. <u>Leicestershire Highways Operations (LHO) - Financial Information System Implementation Project</u>. Action plan developed to conclude project. Temporary arrangements in place to assist clearing invoice	Expected to move to medium/ amber Expected to move to medium/

				issues.	amber
C&FS	11	Retention of children's case files beyond Data Protection Act (DPA) requirements	16	Note: No change from previous reported position.	Expected to remain 'high/red'
Transportation					
E&T	12	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	13	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	15	Phase one of Payment by Results now complete. Cost benefits work underway. Entered phase two early so further funding available to Leicestershire, via Troubled Families Unit.	Expected to remain 'high/red'
CE & C&FS	14	Partnership relationships - Community Safety are not effective due to the difficulties of maintaining a working relationship with the Police and Crime Commissioner (PCC)	15	Partnership Summit held in December. Plans being developed.	Expected to remain 'high/red'
E&T	15	LLEP-insufficient funding for transport schemes to deliver economic	20	Revised management and governance arrangements including establishing a Resources Group to oversee finances.	Expected to remain red

		growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council			
Commissioning & Procurement					
CR	16	The Authority does not obtain the required value and level of performance from its providers and suppliers	15	Programme of work underway to help mitigate this risk as part of the Effective Commissioning Enabler (Transformation Programme) and business continuity arrangements	Expected to move to 'medium/ amber'
Environment					
E &T	17	Reduced recycling performance	15 Decreased from 16- both impact and likelihood	First six months indicated that the recycling level has dropped but is unlikely to be a major drop over the year (impact reduced to 3) however it is unlikely that the position will be recovered (likelihood increased to 5)	Expected to remain red

Specific Update - EPH					
A&C	18	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	By the end of December 2014, Leicestershire County Care Limited (LCCL) has made capital payments totalling £1.585m against the outstanding sum of £3.245m. The balance outstanding is £1.66m. LCCL continues to comply with the terms of the new financial agreement, making monthly capital payments of £20k, and timely interest payments at a rate of 7.5% (current Bank of England Base Rate, plus 7%). Interest received up to the end of December 2014 amounted to £362,000.	Expected to remain 'medium / amber'

Risk Management Policy and Strategy

6. The Council's Risk Management Policy and Strategy has been reviewed, and revised and was submitted as an appendix to the report on the Medium Term Financial Strategy to the Cabinet on 6 February and full Council on 18 February.

7. Within its Terms of Reference, this Committee has a responsibility to monitor the arrangements for the identification monitoring and management of strategic and operational risk within the Council. Therefore, the recommendation to Cabinet is to approve the Risk Management Policy and Strategy subject to consideration by the Corporate Governance Committee with delegation to the Director of Corporate Resources to amend it if necessary. A copy of the revised Policy and Strategy is included in Appendix B.

Risk Maturity Assessment (Section 4.0 of the Strategy)

8. The last independent assessment of the Council's risk maturity framework was undertaken in September 2011 which concluded that the Council's risk management maturity was between Level 2 'Happening', and Level 3 'Working'. Following that, Corporate Risk Management Group set itself a target of achieving Level 4 'Embedded and Working' by 2014/15. An internal audit of the risk management framework design and associated governance in December 2013 reported 'substantial' assurance.

9. Given the detailed review and revision of the Policy and Strategy, a decision was taken to re-assess (audit) the Council's maturity. However, since the Head of Internal Audit Service is now responsible for the administration and development of, and reporting on, the Council's risk management framework, in accordance with the Internal Audit Charter (approved Corporate Governance Committee in November 2014) the current maturity audit was overseen by a senior manager from outside of the Service.

10. The audit scored the Council's level of risk maturity as between levels 3 "Working" and 4 "Embedded and Working"; concluded that there had been significant progress since the previous review (2011) and, by and large, a robust framework underpinning risk management exists within the Council.

11. Significant progress has been made to improve maturity from the previous assessment, but nevertheless, further development is necessary in some of the core areas. The short term vision (within the calendar year 2015) is to implement the improvements recommended in the risk maturity assessment to prove we have fully achieved level 4 'Embedded and Working' across all core areas where required. Thereafter, subject to resources available, consideration will be given to whether it is practical and affordable to move further along the risk management maturity scale for some core areas, towards the top score of level 5 'Driving'.

12. A copy of the risk maturity assessment summary is attached in Appendix C and the draft action plan with associated recommendations is at Appendix D.
Risk Appetite (Section 9.0 of the Strategy)

13. The Council's 'risk appetite' based on a combination of impact and likelihood scoring criteria and escalation trigger points, was approved in February 2013 as part of the Strategy. The current criteria and expected actions are shown in Appendix E.

    Analysis of the risks on the Corporate Risk Register revealed that if appetite was increased, there would be a significant reduction in the number of risks that are reported to the Corporate Governance Committee i.e. in the current appetite scores of '15 and above' are reported. At the end of quarter 2 (reported to Committee on 24 November 2014) there were 18 risks in the domain. If the appetite was increased to '16' then 6 risks would have been removed and if it was increased to '20' then 13 risks would have been removed. This is shown in Appendix F. The risks appearing on the Corporate Risk Register are broadly in line in comparison with the Zurich Municipal Local Government Risk Ranking report.

    The current risk appetite has been reviewed and whilst it continues to be actively monitored, it will remain unchanged for the time being.

Anti-Fraud Initiatives

Protecting the Public Purse 2014 (PPP 2014) – Fighting Fraud against Local Government

14. In October 2014, the Audit Commission released PPP 2014 which was the Commission's last report in the PPP series before it closes in March 2015 (see Para. 22 for further information). PPP 2014 focuses on the continuing progress within local government to protect taxpayers' money by fighting fraud. It collates and summarises the information gathered in the Commission's Annual Fraud and Corruption Survey. Results published in PPP 2014 can be used to benchmark performance in detecting fraud and to identify strengths, trends and areas for improvement.

15. PPP reports are produced for those responsible for governance in local government, particularly councillors. It is intended to help them protect valuable and increasingly scarce public resources. PPP 2014 covers these important themes:
    - The scale and value of fraud detected by local government bodies in 2013/14;
    - Whether fraud is in decline;
    - Trends in housing tenancy (district level) and council tax discount fraud;
    - Trends and threats in other significant fraud types;
    - National developments impacting on local government counter fraud.

The full report is available from the Audit Commission via the following link:
http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf

16. The nationwide headline information from PPP 2014 is as follows:

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is considered to be an underestimate.
- In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in PPP 2013. However, their value increased by 6 per cent:
  - The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
  - The number of detected cases of housing benefit and council tax benefit fraud fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
  - The number of detected cases of **non-benefit** fraud fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.
- Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies:
  - Between 2009/10 and 2013/14, councils consistently detected more **council tax discount** fraud than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
  - The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
  - Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.
- There is more reported fraud in the schools sector:
  - Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. No comparable data exists on fraud in non-maintained schools.
  - Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

17. The table below shows the largest frauds categories that are that are most relevant to the County Council:

Fraud Type	Cases 2013/14	Value 2013/14 (£m)	Value 2012/13 (£m)	% Change (%)
Council Tax Discount	49,428	16.9	19.9	-15%
Business Rates	84	1.2	7.3	-84%
Insurance	226	4.8	3.0	+60%
Procurement	127	4.4	1.9	+132%
Social Care	438	6.3	4.0	+57%
Economic / Third Sector	36	0.7	1.3	-46%
Disabled Parking Concessions (Blue Badges)	4.055	2.0	1.5	+33%
Internal (Staff) Fraud	1,474	8.4	16.8	-50%
Abuse of Position	341	4.0	4.5	-11%
Payroll	432	1.4	2.4	-42%
Maintained Schools	206	2.3	2.3	0%

18. It is not possible to say whether the decline in some detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils', it may signal the effect of reduced investigatory resources. The PPP2014 report recommends that Councils in particular should (i) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100); and (ii) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80).

19. Whilst the PPP outlines the main areas of fraud risk across local government, each authority's risk profile will be different. At its meeting on 24 November 2014, the Committee was presented with the Council's revised Fraud Risk Assessment. The Council's assessment took into account areas identified in The National Fraud Authority, Fighting Fraud Locally (FFL), PPP reports, information from the bi-annual National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases. The results of PPP 2014 mirror the Council's fraud risk assessment in that an analysis of the number and value of reported fraud cases over the last three years reveals relatively low numbers and values of fraud against the Council.

20. PPP 2014 contained the revised checklist for the benefit of those 'responsible for governance'. The checklist was reproduced and disseminated to relevant areas/officers that provided information for the fraud risk assessment, for them to take on board recent developments and recommendations. The completed checklist detailing our progress in each area is attached as Appendix G.

21. Outputs from both the Fraud Risk Assessment and the revised checklist will be used proactively to plan counter-fraud activity during 2015-16 including as part of the Internal Audit Plan. Planned activity is recorded in the Action Plan of the Anti-Fraud and Corruption Strategy, which is contained in a further agenda item.

22. From April 2015, the Audit Commission's counter-fraud activities will transfer to new organisations:

    - When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.

    - The remaining counter-fraud functions, including the PPP series and fraud briefings, will transfer to the CIPFA Counter Fraud Centre. Whilst CIPFA will not have the Audit Commission's statutory powers to demand completion of the annual Fraud and Corruption survey, it has stated that it intends to request voluntary submissions, after the Commission closes.

Council Policies and Strategies to mitigate the risk of fraud and corruption

23. The Council's policies and strategies on Anti-Fraud and Corruption, Bribery and Money Laundering have been reviewed and revised.

24. The revised policies and strategies are contained in a separate report on this agenda.

Local Government Transparency Code 2014

25. The Department for Communities and Local Government (DCLG) published a revised Local Government Transparency Code (the Code) on 3 October 2014. Local authorities in England are required to publish open data as specified in the Code related to the following themes:

    - expenditure over £500
    - government procurement card transactions
    - contract and tender information
    - grants to voluntary, community and social enterprise organisations
    - organisation chart
    - senior salaries
    - the pay multiple
    - trade union facility time
    - local authority land and building assets
    - parking accounts and parking spaces
    - fraud
    - the Constitution.

26. The requirement to report on fraud is a new one. Local authorities are required to publish data including the number of frauds in a financial year, the number of accredited fraud investigators, the numbers of staff involved in fraud

investigations and the total cost of fraud investigations. Being a non-benefit authority, the reporting requirements for the County Council in relation to fraud are not likely to be onerous. Details of individual cases are not required to be published. In accordance with the deadlines established by the Code, 2013/14 data was published by 2 February 2015, with 2014/15 data (and subsequent years) being published by 30 April each year.

Recommendation

27. That the Committee:

a) Approves the current status of the strategic risk, the addition of new risks facing the Council and the updated Corporate Risk Register;

b) Notes the following:
- content of the revised Risk Management Policy and Strategy
- contents of the Risk Maturity Assessment Summary and the associated action plan;
- risk impact and likelihood scoring criteria and escalation trigger points;
- contents of the risk map incorporating the corporate risks (November 2014);
- contents of the PPP 2014 - Checklist for councillors and others responsible for governance;
- Council's requirements under the Local Government Transparency Code 2014.

c) Make recommendations on any areas which might benefit from further examination and identify a risk area for presentation at its next meeting.

Resources Implications

None.

Equal Opportunities Implications

None.

Circulation under the Local Issues Alert Procedure

Members News in Brief item covering the agreement reached with LCCL regarding payment has been circulated to all members.

Background Papers

Report of the Director of Corporate Resources – 'Risk Management Update' – Corporate Governance Committee, 25 November 2013, 10 February, 12 May, 23 September, 24 November 2014

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Appendices

Appendix A - Corporate Risk Register
Appendix B - Risk Management Strategy and Policy
Appendix C - Risk Maturity Assessment Summary
Appendix D - Risk Maturity Assessment Action Plan
Appendix E - Risk scoring and escalation criteria 2014
Appendix F - Risk Map -Where CRR risks fall (November 2014)
Appendix G - PPP 2014 - Checklist for councillors and others responsible for governance

Updated: **Dec-14**

Corporate Risk Register

APPENDIX A

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

							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.	• Chancellor Autumn Statement 2014 projected austerity and 2018/19, requiring LCC to find £120m savings •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	Service Delivery •Negative impact on all services as further service cuts will be required to reduce deficit Reputation •Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted Financial •Loss of income •Restricted funding from other sources	John Sinnott / CMT	•MTFS approval processes in place •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 •Improvement to programme including governance	**5**	**5**	**[R]** **25**	•Update MTFS early 2015 to be considered by Scrutiny Commission, Cabinet and County Council. This will include additional savings •Continued 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.	•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	Service Delivery •Local academy strategy objectives unachievable •If sponsorship projects are approved Capital programme slippage and delays to other major schemes People •Displaced children needing to be relocated if school closes •Stress/pressure on pupils, parents, teachers Reputation •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. Financial •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	•£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.	4	4	[R] 16	Further develop a robust criteria to use to determine the priority on the demands on capital budget. Audit underway in to the management of sponsorships. Outcome is awaited but early indications are that report is positive with robust systems in place	4	4	[R] 16

							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	•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	Service Delivery •Double the number of service users eligible •Concern on how well changes will be understood by service users/public People •Significant staffing and ICT resource implications •Required additional staffing at a time where workforce planning to be reduced Financial •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	•Project Board (Director of Adults & Communities is Programme Sponsor) established to oversee development and delivery of an implementation plan •Department is engaging with emerging national and regional support programme for the Bill. •Modelling is continuing to scope the impact on the budget using best practice from other authorities, regional and national networks. •National guidance for phase 1 has been received and is being incorporated into workstreams. •Risks are being reviewed regularly	5	5	[R] 25	•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. •Programme workstreams are concentrating on key deliverables required for April 2015 •Care Act funding will be allocated for sufficient fte staffing to meet carer assessment and self funder assessments in 2015/16 to allow for probable inaccuracies in modelling.	4	4	[R] 16
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.	• 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	Service Delivery • 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 People • Limited early intervention or prevention due less planning 'around the individual ' leading to higher costs of care within the system Reputation • Loss of trust in partnership working, lack of public confidence in integrated care solutions, commissioners viewed as uncoordinated/fragmented/wasting public resources Financial • 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	• 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	•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	•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	Service Delivery •Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies People •Families less able to maintain independence •Difficulty in identifying and implementing effective preventative measures •'Hard to reach' groups slip through the net Reputation •Cases of hardship / lack of support in media •Potential inspection •Public confused as to which Agency has responsibility Financial •A&C debt increases •Demand led budgets under more pressure •Risk of litigation / judicial review	Mick Connell / Sandy McMillan / Tom Purnell	•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	•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
CR	6	The County Council's services have a growing dependence on ICT systems and infrastructure. Hence maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage is vital.	•Business evolution and dependencies cause additional load on existing infrastructure, reducing resilience to failure •Recovery plans are currently fragmented	<u>Service Delivery</u> •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> •Alternate business continuity arrangements likely to result in backlogs of work <u>Reputation</u> •Negative stories in press •Key partners impacted may influence contract renewals <u>Financial</u> •Potential penalties •Additional costs related to internal and external recovery	Liz Clark / Roderick O'Connor	•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. •Disaster Recovery strategy, policy and plans are completed and signed off. •Disaster test programme signed off and first and second planned tests successfully completed.	**5**	**3**	**[R]** **15**	•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	7	The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security.	•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> •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> •Loss of confidential information compromising service user safety <u>Reputation</u> •Damage to LCC reputation <u>Financial</u> •Financial penalties	Brian Roberts / Liz Clark	• 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 compliance Internal & External penetration testing took place during June 14 •MDM roll out to existing mobile devices underway	**4**	**4**	**[R]** **16**	•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 & Technolofgy 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**
All	8	Failure by LCC to provide effective business intelligence to services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme	•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> •Inadequate information for business cases •Jeopardise importance of robust and effective evidence based decision making •Transformation priorities not being met <u>People</u> •Difficulty in identifying and implementing effective preventative measures •Less productivity through duplication of work <u>Reputation</u> •Inaccurate returns to central government •Unable to comply with increasing number of data sets required under the Transparency Agenda <u>Financial</u> •Risk of litigation/judicial review	Liz Clark / Tom Purnell	•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**	• Data Management options and delivery methods to be explored	**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	9	Insufficient capacity to provide Information & Technology solutions to support major change projects	•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> •Departmental and corporate objectives not met or delayed •Delays to project delivery <u>Financial</u> •Failure to support delivery of efficiency programme and ICT replacement projects	Brian Roberts / Liz Clark	• 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**	•Additional work on IT Strategy •Regular review of capacity versus demand •Review of workforce plans and development of 3 month rolling plan •Further work to assess impact of strategy and transformation activities •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**
All	10	Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively	•Resources not being available to carry out the required tasks at the alloted time •Software not being available when stated •Funding not being available to finance the work required •Key staff leaving, on long term sickness, being assigned to other work etc •Staff not available from A&C for user acceptance testing and/or any training when required •Staff not available from ICT or other Corporate Teams when required	LAS Project Phase 2 •Non compliance with legislation •Need for extra BAU resources to operate workaround processes •Delays in handling cases •Delays in processing Payments and Charges LHO Service Delivery, Reputation, Financial •Suppliers putting LHO on stop Stock levels affected, disruption to service •Reputation consequences of payment issues •Overpayments, off contract spend, lack of MI to understand performance	Sandy McMillian/ Paul Sharpe/ Phil Crossland	LAS Project 2 •Standard Project Gateway Controls •Project and Resource Plans (via PID) •Active Risk and Issue Log •Project Governance through dedicated Project Board •Updates to dependant project boards LHO •Process changes in Stores •Temporary Staff to address payment issues	**5**	**3**	**[R]** **15**	LAS Phase 2 •None Identified LHO •Local Re-Structure Cosultation , •Structure in place, •Project set up to tackle outstanding issues	4	2	**[A]** **8**
C & FS	11	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.	<u>Service Delivery</u> • Service delivery adversely affected by out of date data <u>People</u> •Details of Vulnerable people at risk of disclosure <u>Reputation</u> •Potential adverse media attention and public lack of confidence <u>Financial</u> • 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**

							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	12	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**
C&FS	13	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	Service Delivery •Reduction in families supported •Increase in reactive service demand People •Families and individuals do not achieve their potential Reputation •Loss of confidence in place based solutions Financial •Related services unable to reduce budgets if demand not decreased	Lesley Hagger/Walter Mc Culloch/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**	**3**	**[R]** **15**	•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	14	Partnership relationships regarding Community Safety are not effective	Difficulties of maintaining a working relationship with the Police and Crime Commissioner	Service Delivery , Reputation 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 •New Police Role of Strategic Partnership developed to work between the Police and PCC and Partners	**3**	**5**	**[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
E &T	15	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 •Development of Enabling growth action plan	**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 •Continued discussion with Director / DMT	**5**	**3**	**[R] 15**
All	16	The Authority does not obtain the required value and level of performance from its providers/suppliers	•Lack of robust contract management /performance measures for in-house services •Robustness of supply chain •Reduced funding and resources •Staff turnover leading to lack of continuity in contract management •Insufficient investment in contract management skills and competencies	Service Delivery •Business disruption due to cost and time to re-tender the contract •Standards/quality not met resulting in reduced customer satisfaction •Relationships with providers/suppliers deteriorate People •Additional workload where disputes arise Reputation •Customer complaints Financial •VfM/Efficiencies not achieved •Increased costs as LCC has to pick up the service again •Unfunded financial exposure (MMI)	Brian Roberts / Gordon McFarlane	•The performance of the Authority's 23 'top' contracts is monitored 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**	•Approach to Supplier continuity assurance (based on plans for business critical services) underway •Contract Management Toolkit and training interventions being 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. •Commissioning support model is being developed to help strenghten arrangements. •New Commissioning & Procurement Strategy identified range of additional measures to be implemented	**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	17	Reduced recycling performance	•Reductions in recycling services (at county or district level) casued by drive for efficiency savings •Decreased communication & marketing activity •Increased residual waste •Decreased material price for recyclables •Changes in guidance / definition of recycling	Service Delivery People •Reduced customer satisfaction Reputation •Drop in reputation & adverse publicity Financial •Costs increase (or income decrease) leads to budget overspend	Phil Crossland/ Holly Field	•2014/15 savings & efficiencies are identified with view to minimise impacts on performance. •Monthly 'Waste Management Information' report produced and circulated to management team. •Adoption by all Partner authorities of the updated LMWMS •Plans prepared with the central communications team to ensure waste messages remain high profile. •RHWS contracts take material risk and gain •Continuing dialogue with contractors and WCAs •Attend WDF user group, NAWDO etc to understand proposed changes to recycling calculations	3	5	[R] 15	•Monitor impact of collection changes. •Communicate potential impacts clearly to partners once they are apparent to aid the decision making process •Establish business case for service changes •Develop robust communications plan for planned service changes •Introduction of Improved monitoring and evaluation mechanisms for waste initiatives •Continue to engage with WDF user group, NAWDO etc to keep up to date with planned changes to recycling calculation method	3	5	[R] 15
A&C	18	The County Council transferred nine Elderly Persons Homes (EPH's) as going concerns to Leicestershire County Care Ltd (LCCL) in September 2012. The County Council is 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.	Service Delivery • Adverse effect on smooth running of the EPH's People • Disruption and anxiety to residents Reputation • Negative media concerning treatment of elderly persons Financial • £1.72m outstanding debt	Mick Connell / Sandy McMillan	• New agreement in place with greater restrictions and guarantees •LCC working closely with LCCL to ensure care priorities met and maintain high quality services • LCC officer responsible for compliance • LCCL made regular and timely capital and interest payment • LCC diligently considering various options: current / contingency •Cabinet approval of options presented (Feb)	4	3	[A] 12	• 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	4	3	[A] 12

Department

A&C =	Adults & Communities	E&T =	Environment and Transport
CE =	Chief Executives	PH =	Public Health
CR =	Corporate Resources	All =	Consolidated risk
C&F =	Children and Families Services		

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APPENDIX B

Leicestershire County Council Risk Management Policy

1. All organisations face risk. Those organisations which stimulate effective and efficient risk management (both threats and opportunities) and strive to create an environment of 'no surprises' should be in a stronger position to deliver business objectives, and attain improved services and better value for money.

2. Local government is undergoing a profound transformation. Continuing austerity, increasing expectations and rising demand are creating a lasting change on the management of local authorities. The movement from being service providers to service commissioners and strategic partners, adds new layers of complexity and risk, but also opens up new opportunities for innovation, transformation and community engagement. The County Council recognises that in order to successfully manage its own fundamental transformation, diverse opportunities and risks, effective risk management is a vital activity. The Council will engender a culture for managers where they are encouraged and supported to be innovative but also to have a good understanding of risk and the implications of their decisions.

3. This Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of its risk. In implementing the framework, we will provide assurance to our stakeholders and partners that the identification, assessment, evaluation and management of risk, plays a key role in the delivery and achievement of the Council's vision contained in its Strategic Plan 2014-18 and all of its other plans, strategies and programmes.

4. Our risk management framework will be fit for purpose, reflect our size and the nature of our various operations and use our skills and capabilities to the full. In order for risk management to be effective and become an enabling tool, we will ensure that we have a robust, consistent, formalised process of awareness, management, monitoring and reporting throughout the Council.

5. This Policy has the full support of Members and the Chief Executive, who are committed to embedding risk management throughout the Council and it requires the co-operation and commitment of all employees to ensure that resources are utilised effectively.

Signed: John Sinnott

Title: Chief Executive

Date: 15th January 2015 Review Date: December 2015

Leicestershire County Council Risk Management Strategy

1.0 Introduction

Risk for this purpose is defined as:

Under the ISO31000 – Risk is defined as: *Effect of uncertainty on objectives* Risk Management is defined as: *Coordinated activities to direct and control an organisation with regards to risk*

The Risk Management Strategy outlines how Leicestershire County Council will use risk management to successfully deliver Service, Departmental and Corporate objectives and priorities.

All organisations face a wide variety of risks, including risks to people or property, financial loss, failure of new projects or ongoing service delivery and damage to reputation. The County Council recognises that at a time when public services are facing unprecedented cuts in funding and undergoing a significant period of change, the effective management of risk is needed more than ever.

2.0 Why do it?

The County Council's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk Management is a business process that is used to identify, assess, evaluate, review and report risks in a robust, systematic and documented way. The process of risk management does not seek to fully eliminate all risks, as this cannot be achieved. Rather, it acts to reduce the residual risk to an appropriate level with which the organisation is comfortable.

The approved Risk Management Policy and Strategy documents aim to provide a framework within which risks can be identified, assessed and managed.

3.0 Benefits

Risk management is a tool that forms part of the governance system of every public service organisation. When applied appropriately it can bring multiple benefits:

- Helps organisations achieve their stated objectives and improve the delivery of intended outcomes.
- Helps managers to demonstrate good governance, better understand their risk profile and better mitigate risks (particularly uninsurable ones).
- Help the organisation to enhance political and community support and satisfy stakeholders' and partners' expectations on internal control.
- Increased effectiveness of transformation projects and programmes.
- Improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of assets.
- Protection of reputation.
- Protection of people

4.0 Risk Management Maturity

Across all industries, sectors and organisations different levels of risk management maturity exist. Risk management maturity refers to the journey an organisation goes through when managing risk.

The Association of Local Authority Risk Managers (ALARM) has developed and published a National Performance Model for Risk Management in Public Services to illustrate what good risk management looks like in a public service organisation. There are 5 levels.

A detailed review[1] undertaken in January 2015 scored the Council's level of risk maturity as between levels 3 ("Working") and 4 ("Embedded and Working"). The assessment concluded that there had been significant progress since the previous assessment (reported to Corporate Governance Committee in September 2011 as between levels 2 and 3) and, by and large, a robust framework exists underpinning risk management within the Council.

A number of recommendations were made to further develop risk management processes and an action plan will be produced to address the recommendations.

1. Undertaken using the ALARM Performance Model by a Senior Internal Auditor not routinely involved in the Council's risk management framework, reporting to the Finance Manager within Strategic Finance to directly avoid any conflict of interests. See section 8.0 'Risk Management Framework – the role of the Internal Audit Service.

The Council will evaluate its risk maturity against ALARM guidance on a three-yearly frequency (maximum) with the next review planned for December 2017.

5.0 Our Vision

Our short term vision (within the calendar year 2015) is to implement the improvements recommended in the risk maturity assessment to prove we have fully achieved level 4 'Embedded & Working' across all core areas where required. Thereafter, subject to resources available, we will consider whether it is practical and affordable to move further along the risk management maturity scale for some core areas, towards the top score of level 5 'Driving'. In practice, that would mean making progress towards achieving the outcomes associated with each core area of maturity as follows:

Core Area	**Outcomes**
Leadership and Management	• Senior management uses consideration of risk to drive excellence through the business, with strong support for well-managed risk-taking.
Strategy and Policy	• Risk management capability in policy and strategy helps to drive organisational excellence
People	• All staff are empowered to be responsible for risk management. • The organisation has a good record of innovation and well-managed risk-taking. • Absence of a blame culture.

Partnerships, Shared Risks and Resources,	• Clear evidence of improved partnership delivery through risk management and that key risks to the community are being effectively managed.
Processes	• Management of risk and uncertainty is well-integrated with all key business processes and shown to be a key driver in business success.
Risk Handling and Assurance	• Clear evidence that risks are being effectively managed throughout the organisation. • Considered risk taking part of the organisational culture.
Outcomes and Delivery	• Risk management arrangements clearly acting as a driver for change and linked to plans and planning cycles.

6.0 Objectives

The Council supports the vision and will do this by:

- Integrating risk management fully into the culture of the Council and into the Council's corporate and service planning processes;

- Improving the framework for identifying, assessing, controlling, reviewing and reporting and communicating risks across the Council;

- Improving the communication of the Council's approach to risk management;

- Improving the coordination of risk management activity across the Council;

- Ensuring that the CMT, Corporate Governance Committee and external stakeholders can obtain necessary assurance that the Council is mitigating the risks of not achieving key priorities and thus complying with corporate governance practice;

- Enhancing the effectiveness of the current approach to managing risks by developing and applying a structured approach to decision making processes throughout the Council;

- Managing risk in accordance with best practice.

7.0 The Risk Management Process

The risk management process is a continuous process involving the identification and assessment of risks, prioritisation of them and the implementation of actions to mitigate the likelihood of them occurring and impact if they did. Our approach to risk management will be proportionate to the decision being made or the impact of the risk. Our arrangements will enable us to manage risks in a consistent manner, at all levels.

The risk management process can be illustrated as:

1 Risk Identification	Have those events which might create, prevent or delay achievement of the County Council's objectives been identified?
2 Risk Assessment	Have the risks identified been assessed using the County Council's risk assessment criteria?
3 Review of current controls and accurate assessment of current risk score	Identification and assessment of the controls already in place to mitigate each risk. If current risk score is still high even with controls: - • Is the score correct? • If so, does the risk need escalating?

4 Managing Risk	Determine whether the cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. Development of further SMART actions
5 Review, Monitor and Report	Using the Risk Management Matrix as an indicator to the frequency of reviewing, monitoring and reporting risks.
6 Integration with Strategic Planning and Decision Making	Using risk management information to make informed decisions.

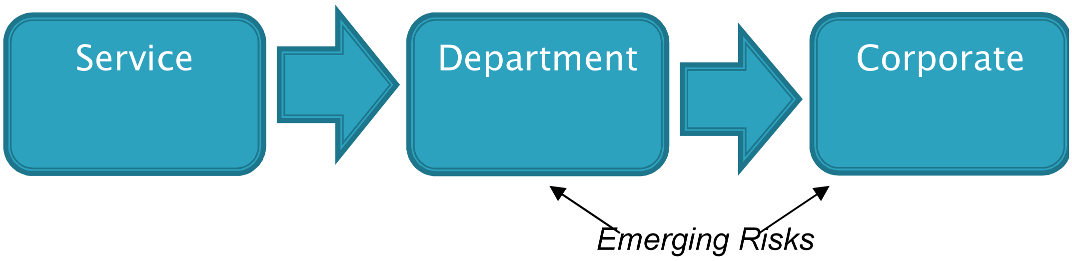
The LCC Risk Management Guidance on CIS provides full details of each step within the above process. It also includes various tools and templates that can be used to aid the whole cycle.

This process is applied through the Risk Management Framework detailed in Section 8 below.

8.0 Risk Management Framework

Process

There is an established framework in which consistent application of the process should ensure the flow of appropriate risk information across the Authority as follows:



<u>Department Risks</u>:

Departments will undertake a risk identification exercise at least annually, as part of service planning. This will include:

- Risks identified and assessed by managers at local/service area;
- Assessment will identify the risks to be managed within the service area and those that may need to be escalated to the next level i.e. department risk register;
- Development of the department risk register including:
    - Department specific risks
    - Risks that may have been escalated up from local/service levels
    - Relevant risks from programmes, projects and partnerships
    - Any department horizon scanning of emerging risks
- In line with Corporate methodology, key risks should be escalated and reported to DMT regularly, settling clear accountability for managing risks;

- Review of department registers to identify continuing ‘high scoring’ risks for escalation to the Corporate Risk Register either individually or consolidated with other risks.

This exercise will provide senior managers with a central record of departmental risks, with a clear audit trail of where the risk originates from and also provide assurance that risks are being managed.

Corporate and Cross-cutting risks - Corporate Risk Register

This process will provide Directors and Members with a central record of corporate risks, to ensure consideration is given to high ranking, strategic risks that could impact the financial, political or reputational arena.

- Each quarter, department risk champions and management teams will review department registers to identify and consider risks for escalation to the Corporate Risk Register, either individually or consolidated from Departmental Risk Registers;
- Internal Audit Service will confirm the quarterly reviews have been consistently undertaken, and co-ordinate the production and reporting of the Corporate Risk Register, through CMT and Corporate Governance Committee
- Whilst most risks are expected to come through this route they may not capture all of the strategic risks facing the Authority. Therefore horizon scanning, information from relevant publications and minutes from key meetings will also provide a basis for including additional risks on the Corporate Risk Register.

Programme, Project and Partnership Risks

Risk implications relating to programmes, projects and partnerships will be assessed and considered for inclusion within the departmental risk registers as appropriate. This process will also recognise that partnership working and the investment of County Council funding in that context is becoming potentially more complex. Separate guidance on partnerships is provided on CIS.

Business Continuity & Insurance

The Business Continuity Team co-ordinates the preparation of business continuity plans at a corporate level and for each department. Such plans aim to minimise the likelihood and/or impact of a business interruption by identifying and prioritising critical functions and their resource requirements. Critical risks will be captured through the service and departmental risk reporting framework. Progress against business continuity and insurance activities will also be regularly reported to the Corporate Governance Committee.

Support

The above process will be supported by the following:

- Ownership of risks (at appropriate levels) assigned to Directors, managers and partners, with clear roles, responsibilities and reporting lines within the Council;
- Incorporating risk management into corporate, service and business planning and strategic and local partnership working;
- Use of the Risk Management Toolkit throughout the Authority
- Providing relevant training on risk management to officers and Members of the Authority that supports the development of wider competencies;
- Learning from best practice and continuous improvement;
- Seeking best practice through inter-authority groups and other professional bodes e.g. the Association of Local Authority Risk Managers (ALARM).

The Role of the Internal Audit Service

In the UK public sector, the provision of assurance services is the primary role for internal audit. This role requires the County Council's Head of Internal Audit Service (HoIAS) to provide an annual internal audit opinion based on an objective assessment of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and controls. The HoIAS annual opinion and report informs the County Council's governance statement.

In order to be able to form such an opinion, the HoIAS establishes a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. The plan takes into account the County Council's risk management framework, including the current and projected levels of risk maturity and appetite, which allows the HoIAS to determine the overall audit strategy and the level of additional audit planning required. The plan is reviewed and adjusted as necessary, in response to changes in the Authority's business, risks, operations, programs, systems, and controls.

The HoIAS intends to continue to develop the approach to engagements and terminology used so that it aligns wherever possible to the Authority's risk management processes.

Responsibility for the administration and development of, and reporting on, the Council's risk management framework transferred to the HoIAS in the summer of 2014 Whilst the HoIAS does not identify, evaluate and manage department or corporate risks, since that is a management function, the Internal Audit Charter provides 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 the Leicestershire County Council Internal Audit Service (LCCIAS). The HoIAS in conjunction with the Director of Corporate Resources will determine the frequency of the review and how it will be affected.

A risk maturity review was conducted by the Internal Audit Service in January 2015. See section 4.0 for approach and conclusion.

9.0 Risk Appetite

Risk appetite is best summarised as "the amount of risk an organisation is willing to accept" and is about looking at both the propensity to take risk; and the propensity to exercise control.

Risk appetite and risk tolerance help an organisation determine what a material risk is; what a high risk is; and what a low risk is. In deciding this, the organisation can:

- More effectively prioritise risks for mitigation
- Better allocate resources
- Demonstrate consistent and more robust decision making
- Clarify the thresholds above which risks need to be escalated.

The Corporate Management Team (CMT) has collectively agreed that the Authority currently exists in a 'riskier' environment and that this is likely to continue. In reality this will mean creating a better understanding of acceptable risk levels, depending on their impact and likelihood. Defining levels allows risks to be categorized and appropriate actions assigned so that the management of identified risks will be proportionate to the decision being made, or the size of the impact on service delivery.

We will review risk appetite and tolerance annually to ensure risks are being managed in the right place.

10.0 Risk Management Roles and Responsibilities

The following structure is unique to the Authority and is influenced by risk maturity, resource capacities, skills sets, internal operations and existing operating structures. The County Council's risk management framework aligns to existing structures and reporting lines**. Full details** of risk management roles and responsibilities can be on Appendix A.

Leadership

- Cabinet
- Lead Members
- CMT

Cabinet:
- Understands the key risks facing the Authority, determines the level of risk and ensures risk management is delivered to mitigate risks.

Lead Members:
- Have responsibility for understanding the risks facing their areas of accountability and how these risks are being managed.

CMT:
- Manages the level of risk the Authority is prepared to accept.
- Establishes a control environment in which risk can be effectively identified, assessed and managed
- Ensures progress against mitigating actions / controls for risks on the corporate risk register.

Corporate

- Corporate Governance Committee (CGC)
- Corporate Risk Management Group (CRMG)

CGC:
- Ensures that an adequate risk management framework and associated control environment is always in place
- Monitor's the arrangements for the identification and management of strategic and operational risks.

CRMG:
- Provides assurance that the risk management framework and its processes are effective.

Departmental

- DMT
- Service Managers
- Programme / Project / Partnership Boards
- Risk Champions

DMT:
- Ensure that the risk management framework is implemented in line with the Councils Risk Management Strategy, and guidance
- Takes full ownership of risks within their departmental risk register and agrees risk mitigation actions, assigns defined timescales and responsibilities – including those departmental risks that are also in the Corporate Risk Register (CRR)

Service Managers:
- Take ownership of all risks that fall within their remit
- Provide assurance to DMT's that these risks are being managed effectively.

Programme / Project / Partnerships:
- Providing assurance that risks and their implications are managed effectively and escalated if appropriate.

Risk Champions:
- Implement the risk management framework within their dept. and provide support and challenge to DMT and service managers.

Staff:
- Responsibility for gaining an understanding of the risks facing their area of accountability and how these risks are being managed.
- Report promptly perceived failures in existing control measures that could increase risk.

Internal Audit

- Internal Audit Service

Risk Management *:
- Review and challenge risk actions
- Provide assurance that the flow or risk information throughout the Authority is working effectively.
- Collates and co-ordinates, risk management updates for reporting to CMT and CGG

Internal Audit:
- Review and challenge the effectiveness of the risk management framework including controls in order to form an independent opinion.

Governance:
- Review and provide assurance within the Annual Governance Statement that the Authority's Risk Management Policy, Strategy, Guidance and Toolkit are being implemented at all levels.

* The Head of Internal Audit Service (HoIAS) is responsible for the administration and development of, and reporting on, the Council's risk management framework. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that this 'impairment' to independence and objectivity is recorded in the Internal Audit Charter (approved by CMT and CGC in November 2014) and (to avoid any conflict of interests) any audits of the risk management framework are overseen from a manager outside of the Service.

Continuous Improvement

Regulators and risk management professionals indicate that good practice is to continuously improve risk management methodologies in line with recommendations from regular assessments and adapt to changing economic conditions.

To this effect, the LCC Risk Management Policy, Strategy, Guidance and related documents will continued to be reviewed after the release of new legislation or government guidance that affects risk governance, internal controls, financial management or the regulatory regime for public service organisations. They will also be reviewed following the results of any audit / review by Internal Audit Service or an external third party.

Appendix A – Risk Management Roles & Responsibilities

Leadership:

Cabinet

Understands the key risks facing the authority, determines the level of risk and ensures risk management is delivered to mitigate risks by:

- Ensuring that a risk management framework has been established and embedded;
- Approving the Council's Risk Management Policy and Strategy as part of the Medium Term Financial Strategy;
- Ensuring relevant risk considerations (if relevant) are included within reports which may have significant strategic policy or operational implications

Lead Members

- Responsibility for gaining an understanding of the risks facing their area of accountability and how these risks are being managed

Corporate Management Team (CMT)

Leading and ensuring effective management, monitoring and review of risk management across the Council by:

- Establishing a control environment and culture in which risk can be effectively assessed and managed;
- Directing the level of risk the Authority is prepared to accept;
- Reviewing and, approving the Council's corporate, strategic risks quarterly and their importance against the Council's vision and priorities;
- Encourage the promotion of risk awareness, rather than risk avoidance;
- Provide challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control) ;
- Assisting with the identification of significant new and emerging risks as they become known - for consideration and addition to the Corporate Risk Register;
- Ensuring that risk assessments (if appropriate) are detailed in Cabinet or Scrutiny reports upon which decisions are based;
- Review annually the Council's Risk Management Policy and Strategy.

Corporate:

Corporate Governance Committee (CGC)

Provides assurance for the Authority that risk management is undertaken and effective by:

- Receiving regular progress reports on the Corporate Risk Register and other risk management related initiatives;
- Reviewing, scrutinising and challenging the performance of the Council's risk management framework; including reviewing progress against planned actions from the previous quarter;
- Receiving presentations on specific areas of risk
- Receiving reports from Internal and External Audit to determine the extent to which they indicate weaknesses in control, risk management and governance arrangements.

Corporate Risk Management Group (via Departmental Risk Champion)

Provides assurance that the risk management framework and its processes are working as intended and are effective by:

Acting as the main contact for their department and its management on risk matters;

- Representing their department at the Corporate Risk Management Group;
- Encouraging the promotion of risk awareness, rather than risk avoidance. Provision of challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Assisting in the implementation of the revised risk management framework and promoting use of the Risk Management Toolkit;
- Providing support on risk management to Directors, Heads of Service and other managers within their service/department;
- Maintaining on behalf of the service directors and heads, a departmental risk register that complies with corporate guidelines;
- Providing regular risk updates to DMT's as per the agreed reporting criteria and risk timetable
- Ensuring that corporate information and requirements are communicated;
- Identifying their service/department's risk management training needs and reporting to the Internal Audit Service ;
- Assessing the relevance of corporate, other departmental service, programme, project and partnership risks and their impact on their department;

- Reviewing cross cutting risk areas where risks of one department impacts on the risks of another;
- Providing regular updates to the Internal Audit Service for corporate risks to enable reporting to the CMT and Corporate Governance Committee.
- Establishing links with external groups and organisations in order to gain knowledge and share best practice on risk management issues.

Departmental:

Departmental Management Teams (DMT)

Ensuring that risk management is implemented in line with the Council's Risk Management Strategy by:

- Appointing a champion / representative for the department and authorising him/her to progress effective risk management that adheres to corporate guidelines, across their services;
- Ensuring that risk management is integrated within the annual service planning process;
- Taking full ownership of risks within their departmental risk register and agree risk mitigation actions, with defined timescales and responsibilities – including those departmental risks that are also in the Corporate Risk Register (CRR);
- Adhering to the corporate risk reporting timetable so that DMT meetings and risk monitoring tasks are aligned
- Ensuring that the CRR accurately reflects only those key strategic risks facing the Authority. The DMT scrutiny process should encompass a review of all departmentally identified corporate risks (new and those already identified), to critically evaluate the following:

    - Whether risk is an ongoing corporate risk
    - Are all mitigating actions are identified, SMART (i.e. Current Controls in place) and working adequately or are additional actions necessary.
    - The current risk score (Impact and Likelihood) is accurate and is not 'over-scored' in terms of likelihood particularly if a range of current controls have been identified as embedded and working adequately
    - Only add any further actions/ additional controls after determining whether any cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. If required, further actions should be SMART and record 'expected timeframe/due date' which would improve the robustness of residual risk impact and likelihood scores
- Receiving reports on risk management activity and review key risks regularly;
- Undertaking regular departmental horizon scanning for new or emerging risks, ensuring communication of these through appropriate channels and incorporation within the Departmental risk register if appropriate

- Suggesting recommendations for the removal of current corporate risks that are considered as lower levels of risk
- Ensuring that risk management considerations are included in all Cabinet, Scrutiny and Regulatory bodies reports in respect of strategic policy decisions;
- Providing assurance on the effectiveness of risk management within their department as part of the Annual Governance Statement process.

<u>Operational / Service Managers</u>

Providing assurance to DMT's that risks within their service are being managed effectively by:

- Ensuring that risk management within their area of responsibility is implemented in line with the Council's Risk Management Strategy;
- Managing risks on a day to day basis;
- Adhering to the risk scoring mechanism outlined in the Strategy to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Communicating the results of their service risk assessment to the DMT via their Risk Champion, demonstrating effectiveness of controls in place to mitigate/reduce service risks;
- Reviewing risks from their areas of responsibility that have been included within the departmental risk register and prioritising and initiating action on them;
- Identifying new and emerging risks or problems with managing known risks and escalating to the Risk Champion where appropriate;
- Ensuring that they and their staff are aware of corporate requirements, seeking clarification from their Risk Champions when required;
- Identifying risk training needs of staff and informing this to Risk Champions;
- Using the Risk Management Toolkit and guidance.

<u>Programme/Project/Partnerships</u>

Providing assurance that project and partnership risks and their impact are managed and communicated effectively by:

- Ensuring risk management is a regular item on Partnership / Programme/Project Board agendas;
- Reviewing and monitoring risks identified on programme/project/partnerships risk registers, ensuring that suitable controls are in place and working, or that plans are being drawn up to strengthen further controls;
- Identifying new and emerging risks or problems with managing known risks, ensuring communication of these through appropriate channels, to inform affected service/department.

Risk Champions

- See Corporate section

Staff

- Taking responsibility for gaining an understanding of the risks facing their area of accountability;
- Report promptly perceived failures in existing control measures that could increase risk.
- Take due care to understand and comply with the risk management processes and guidelines of the Council.

Internal Audit

Risk Management (Head of Internal Audit Service in conjunction with the Director of Corporate Resources):

Provide assurance that the flow of risk information throughout the Authority is working and effective to produce and maintain the Corporate Risk Register by:

- Leading in the implementation of the revised risk management framework and promoting use of the Risk Management Toolkit;
- Meeting with departments as per the risk management timetable to review risk registers and emerging risks;
- Coordinating risk management activity across the Council with the support of departmental risk champions/representatives
- Collating the changes to departmental risks and ensure that the Corporate Risk Register is amended to reflect current position;
- Regular horizon scanning (in conjunction with CMT, DMT, Risk Champions and Head of Internal Audit) of information from relevant publications and minutes from key meetings to provide a basis for including additional risks on the Corporate Risk Register;
- Reporting progress on the Corporate Risk Register and other risk management related initiatives to the CMT, Corporate Governance Committee and Cabinet as per the risk management timetable;
- Supporting departmental risk champions/representatives in their risk management role;
- Communicating corporate risk management information and requirements;
- Reviewing the Risk Management Policy and Strategy at least annually to reflect best practice and initiate improvements;
- Establishing links with external groups and organisations in order to gain knowledge and share best practice on risk management issues.
- Agreeing mechanisms for identifying, assessing and managing risks in key partnerships;
- Supporting the development and delivery of relevant risk training:

Assurance

Review and challenge the effectiveness of the risk management framework, providing independent assurance about the quality of controls that managers have in place, by:

- Creating a risk-based audit plan that is aligned to the Corporate Risk Register and the Departmental Risk Registers;
- Testing and validating existing controls, with recommendations for improvement on identified control weaknesses;
- Reporting outcomes to Chief Officers and Corporate Governance Committee;
- Monitoring changing risk profiles based on audit work undertaken, to adapt future audit work to reflect these changes.
- Conduct relevant audits of the risk management framework and maturity but overseen by a manager independent to the Service

Risk Maturity Assessment – Leicestershire County Council (January 2015)

OVERALL SUMMARY

Self-Assessment Rating Level 3/4 – Between Working and Embedded & Working

INDIVIDUAL CORE AREAS

Core Areas	Assessment Levels
LEADERSHIP & MANAGEMENT	Self-Assessment Rating Level 4 – Embedded & Working
STRATEGY AND POLICY	Self-Assessment Rating Level 3/4 – Between Working and Embedded & Working
PEOPLE	Self-Assessment Rating Level 3/4 – Between Working and Embedded & Working
PARTNERSHIPS, SHARED RISKS AND RESOURCES	Self-Assessment Rating Level 3 – Working
PROCESSES	Self-Assessment Rating Level 4 – Embedded & Working
RISK HANDLING AND ASSURANCE	Self-Assessment Rating Level 3/4 – Between Working and Embedded & Working
OUTCOMES AND DELIVERY	Self-Assessment Rating Level 4 – Embedded & Working

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Risk Maturity Assessment Action Plan

Core Area	Ref	Recommendation
Section 1 – Leadership and Management	1	The Council should determine how frequently it will seek to evaluate the effectiveness of its risk management framework / risk maturity against ALARM guidance (e.g. three-yearly). There may be scope to review less regularly the further up the maturity scale the Council finds itself at? Responsibility for the review should be clearly defined. Given that this assessment has been carried out by LCC staff, albeit reporting through to independent reporting lines (independent of IA management), a decision should be taken whether every *nth* assessment should be commissioned externally. The recommendations arising from this assessment should be shared with appropriate governance streams, e.g. CRMG, CGC.
Section 2 – Strategy and Policy	2	The Council should establish a programme / timetable for review for its risk management framework, e.g. policy and strategy, roles and responsibilities. The ALARM guidance suggests that this should be annually, even if this process is just a brief review to determine that the framework remains fit for purpose. There may be scope to review less regularly the further up the maturity scale the Council finds itself at? Responsibility for the review should be clearly defined. The roles and responsibilities should be revised to reflect the new role of Internal Audit for overseeing risk management within the Council. Consideration should be given to whether the role of the Insurance Manager and Insurance Section should be defined in the Risk Management Roles and Responsibilities document. In addition, it is understood that the Head of Internal Audit has some well-developed thoughts on further developments to the Policy and Strategy, for example regarding defining risk appetite and reaffirming the link between risk management and the annual service planning process.

Section 2 – Strategy and Policy	3	The Council's Risk Management framework should detail clearly the Council's risk appetite and what it determines to be an "acceptable" level of risk. This should be reviewed regularly, including the key 'Impact' and 'Likelihood' indicators that exist within the Council's RM framework (Risk Assessment Measurement Criteria) to guide managers how risk should be scored. Consideration should be given as to whether the Council should work towards adopting different levels of risk appetite for different *categories* of risk (e.g. its appetite for human risk may be lower than its appetite for reputational risk), although it is acknowledged that this can be influenced to a degree through the key 'Impact' and 'Likelihood' indicators that exist within the Council's RM framework (Risk Assessment Measurement Criteria) which are categorised – financial / reputational / people / operational etc .
Section 2 – Strategy and Policy	4	The role of the Corporate Risk Management Group (CRMG) should be reassessed, given that it no longer meets. This process should include giving consideration to whether there should be a different role for such a group comprising departmental risk champions, for example to challenge (each other's) departmental risk registers, risks and controls by peer review or by providing a "buddying" system where more experienced risk champions can provide steering to new and developing ones. The CRMG should play an important role in benchmarking best practice across all departments and in the process promoting and assuring a consistent approach to RM throughout the organisation. The frequency that the CRMG should meet should be considered. For example, it may be that an annual meeting would suffice, scheduled to coincide with the annual review of RM policies, strategies, roles & responsibilities.
Section 3 – People	5	Consideration should be given as to whether there is benefit in commissioning specific learning & development (e.g. e-learning module) for managers in risk management (e.g. the identification, recording, scoring, mitigation and review of risk). Consideration should be given as to whether the Council's Corporate Induction processes adequately covers what (predominantly) non-managers need to know about risk management (e.g. that all staff have some form of responsibility or another in relation to risk management).
Section 3 - People	6	Managers should be reminded to frequently discuss with staff both service level risks (and the controls in place to mitigate them) and, where relevant, departmental and corporate risks. Managers, through processes such as Team Briefings, should regularly remind all staff that risk is everybody's business and that all staff are encouraged to report incidents, challenge practices and raise risk issues. This process should also reflect the current climate of the Council working with every decreasing resource, and thus also seek to identify instances of inefficiency / over controlling and where well-managed risk taking may be an option.

Section 3 - People	7	The Head of Internal Audit should keep a watching brief on the membership of the Corporate Governance Committee. Whilst at present, its membership comprises well trained Members, skilled in the governance of risk, future changes, for example to the Chairmanship, may require targeted training to be delivered.
Section 3 - People	8	Departmental Risk Champions, with support from Internal Audit if necessary, should arrange informal training sessions with individual DMTs to take the opportunity to reaffirm their responsibilities for departmental risk management. This training is especially important where DMTs have new membership.
Section 4 - Partnerships, Shared Risks and Resources	9	There is some evidence that new processes in relation to partnerships and partnership risk are becoming embedded as business as usual, at least within some departments, although this needs to be progressed further to cover the remaining departments too (A&C, Corporate Resources). In particular, these departments should progress identifying their partnerships of 'significance', agreeing these with individual DMTs, and ensuring that the risks associated with these partnerships have been appropriately assessed and, if necessary, included on departmental risk registers.
Section 4 - Partnerships, Shared Risks and Resources	10	Given that processes concerning the assessment of partnership risk have been overhauled recently, consideration should be given to undertaking a specific piece of internal audit work in the 2015/16 financial year to review how effective these processes have become embedded across all departments.
Section 4 - Partnerships, Shared Risks and Resources	11	Given that processes concerning the assessment of partnership risk have been overhauled recently, consideration should be given to running specific workshops on partnerships, risk and risk governance, in conjunction with the Chief Executive's Policy Team, specifically targeted at risk owners, partnership leads and departmental risk champions.
Section 4 - Partnerships, Shared Risks and Resources	12	The CIS pages on partnerships should be refreshed to reflect current (recently revised) practices and processes.

Section 5 - Processes	13	The Council should determine its appetite to develop its processes to achieve Level 5 (“Driving”). In particular, the Council should in the medium-term future consider the benefits of automating its risk management processes, which would effectively make for "real time" risk management. Investment in dedicated risk systems helps keep risk registers current and effective.
Section 5 - Processes	14	Consideration should be given to amending the format of the Council's risk registers to include a column stating how the risk will be managed (i.e. Treat, Tolerate, Terminate, Transfer). By asking risk owners to consider the 4Ts strategy, this amplifies the issue that 'treating' (internal controls) is not the only solution and that 'toleration' can be a logical strategy in some instances.
Section 5 - Processes	15	The Head of Internal Audit Service should keep a watching brief on any future review of the BC/RM/Insurance arrangements within the Council to provide independent assurance that they remain robust and fit-for-purpose. Any significant changes to core areas should be brought to the attention of the Corporate Governance Committee. A new standard Organisational Resilience – BS65000 has just been published (December 2014). The Business Continuity Team should analyse the standard in depth and benchmark current procedures against recommended best practice, developing current procedures where relevant.
Section 5 - Processes	16	Internal Audit should consider the costs vs benefits of subscribing to ALARM membership each year.
Section 5 - Processes	17	Consideration should be given to adding a standard set of questions on RM to all routine internal audits undertaken to challenge at operational level how well RM is understood.
Section 5 - Processes	18	Consideration should be given to publishing the latest Corporate Risk Register and Departmental Risk Registers on the risk pages of CIS on a quarterly basis.
Section 5 - Processes	19	Consideration should be given to revising the standard committee report template to include a paragraph on "Risk Implications", similar to what exists on "Financial Implications" and "Equal Opportunities Implications". This is so that Members can understand the risk issues right at the outset in relation to major decisions that they are being asked to take.

Section 6 – Risk Handling and Assurance	20	In order to move forward to levels 4 & 5, the Council needs to be able to demonstrate a clear link between risk management and the achievement of outcomes, aims and objectives. As an example, an annual report might be compiled, including assessment against pre-determined performance indicators, to assess whether risk management processes are effective. PIs might include metrics such as: - % of routine IA opinions of 'substantial assurance' or above - % of recorded risks that then developed into adverse issues (i.e. where risk management failed) - % of unforeseen issues of significance arising in year that were not on the radar of routine risk management - % of risks de-escalated (scored downwards) throughout the year as a result of the introduction of controls - % of departmental objectives achieved in year Examples of innovative risk taking, and where this has led to positive outcomes (e.g. cash savings through self-insurance schemes) - Etc.
Section 6 – Risk Handling and Assurance	21	When monitoring strategic risks, e.g. those of sufficient significance to be recorded on the Corporate Risk Register, part of the process should be a consideration of the costs of controlling the risks, and whether those costs are justified.
Section 6 – Risk Handling and Assurance	22	There should be proactive promotion of the Council's risk-aware appetite, e.g. promotion of innovation whilst managing risks effectively, avoidance of a blame culture when things go wrong (following well managed risk taking).
Section 7 – Outcomes and Delivery	23	There should be development of a clear link between areas of poor performance as highlighted in the Annual Performance Report and the risk management framework (i.e. consideration whether areas of poor performance need to be formally recorded on risk registers moving forward, a good example being concerns regarding staff sickness and the financial and reputational risk to the Council of this not being appropriately managed moving forward).

ALL	24	For each of the seven areas, the Council should determine its appetite to move forward to the next level and, if there is the appetite, how to develop further towards that level, e.g. the use of risk to drive forward organisational excellence, and how this effectiveness can be measured; and a more proactive approach required in supporting and driving a culture embracing well-managed risk-taking. Achieving a maturity level across the board of 5 would undoubtedly bring with it a resource cost. Therefore, in the context of an authority with scarce resources, there may be desire to simple remain at the current level(s) of maturity.

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	No impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	N/A	Public concern restricted to local complaints	<£50k
2	Low	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality	Residents inconvenienced	Minor adverse local / public / media attention and complaints	£50k-£250k
3	Medium	Considerable fall in service as objectives in service plan are not met	Sustained low level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	£250k - £500k
4	High	Major impact to services as objectives in service plan are not met	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	£500-£750k
5	Very High	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation	>£750k

Risk Likelihood Measurement Criteria

Scale	Likelihood of Occurrence	Projects	Probability %
1	Expected less than 1 time in next 10 years	1 in every 50 projects	0-5%
2	Expected 1 time in next 5 to 10 years	1 in every 25 projects	6-20%
3	Expected 1 time in 3 to 4 years	1 in every 12 projects	21-40%

4	Expected 1 time in 2 years	1 in every 6 projects	41-60%
5	Expected annually	1 in every 3 projects	66% +

Risk Management Matrix

Impact					
5 Very High	5	10	15	20	25
4 High	4	8	12	16	20
3 Medium	3	6	9	12	15
2 Low	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1 Rare	**2** Unlikely	**3** Possible	**4** Probable	**5** Almost certain
					Likelihood

Tolerance Levels	Current Risk Score	Expected Actions by Risk Owners	
White	1 to 2	Contingency Plans =	No action required
		Monitoring =	No action required
		Escalation =	No action required
Low	3 to 5	Contingency Plans =	Not essential
		Monitoring =	Review once a year / Reporting with service area
		Escalation =	Service area manager
Medium	6 to 12	Contingency =	Contingency plans considered
		Monitoring =	Review at least twice a year / Reporting to DMT
		Escalation =	Business Partners / Relevant AD / DMT
High	15 to 25	Contingency =	Comprehensive contingency plans
		Monitoring =	Quarterly Monitoring / Reporting to Corporate Governance Committee
		Escalation =	Chief Officer / CMT / Lead Member

Impact					
5 Very High			7, 9, 12, 16, 19	6, 18	1, 3, 5
4 High			4, 21	2, 8, 10, 11, 13, 20	
3 Medium					15, 17
2 Low					
1 Negligible					
	1 Rare	2 Unlikely	3 Possible	4 Probable / Likely	5 Almost certain

Likelihood

1 = MTFS	6 = PH Transition- Health Visiting	11 = Members Info. Security Policy	17 = Community Safety Partnership
2 = Sponsored Academies	7 = ICT Systems Restore	12 = IAS Phase 2	18 = Transport Schemes Funding
3 = Care Act	8 = Information Security	13 = Data Protection Act	19 = Commissioning Procurement
4 = Better Care Fund	9 = Transformation Programme	15 = Transport Network	20 = Recycling Performance
5 = Welfare Reform Act	10 = Major Change Projects	16 = SLF	21 = Elderly Persons Homes

** Note: Risk 14 has now been removed from the CRR

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Appendix G

Protecting the Public Purse 2014
Checklist for councillors and others responsible for governance

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
1. Do we have a zero tolerance policy towards fraud?	✓		Historically, the County Council does not provide those services that have been considered to be at high risk of fraud, such as revenue and benefits. However it has been recognised that the change of emphasis from local government being a provider to a commissioner of services, changes the risk profile of fraud within LCC, as well as the control environment in which risk is managed. Therefore a thorough fraud risk assessment for LCC is conducted on an annual basis taking into account areas identified in the National Fraud Authority publication *Fighting Fraud Locally – The Local Government Fraud Strategy (FFL)* as well as the Audit Commission's *Protecting the Public Purse (PPP)* publication, reports from the bi-annual National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases. Recognising fraud in this manner has incorporated a comprehensive understanding and knowledge about where potential fraud and bribery problems are likely to occur and the scale of potential losses. This in turn directs revisions to our strategies and procedures and allows the Council to direct resources accordingly. The Corporate Management Team (CMT) and Corporate Governance Committee support initiatives to improve the Council's acknowledgement, prevention and pursuit of fraud.	As before. In addition, the Council has recently refreshed its main strategies and procedures governing counter-fraud. These emphasise that in the majority of cases there would be a zero tolerance approach, whilst, individual circumstances of each case would be considered. The Council's annual Fraud Risk Assessment was completed in November 2014 after being benchmarked for reasonableness through the Midland Counties' Chief Internal Auditors' Group. This was tabled at the Corporate Governance Committee meeting in November 2014.

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?	✓		Over the past couple of years, a significant amount of time has been invested in counter fraud work, the aim being to align LCC with the National Fraud Authority, *Fighting Fraud Locally (FFL) – The Local Government Fraud Strategy.* The FFL Strategy is organised around three themes of Acknowledge, Prevent and Pursue. The starting point of a strategic approach is to acknowledge the threat of fraud by performing an annual fraud risk assessment to direct future policy, strategy and plans. Officers continue to follow recommendations contained within each of FFL themes.	The Council has recently refreshed its main strategies and procedures governing counter-fraud. These have been aligned to both FFL and also to the new CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption* (2014). The five key elements of the CIPFA 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.
3. Do we have dedicated counter-fraud staff?		✓	The County Council does not provide those services that have historically been considered to be at high risk of fraud, such as revenue and benefits, hence has never adopted a dedicated 'team'. However, there has always been a 'corporate' person responsible for the area as well Internal Audit Service dedicating resources, including co-ordinating the Council's responsibilities in the National Fraud Initiative exercise. Internal Audit Service staff have received training on (and experience in) conducting fraud investigations throughout the years. Production of the annual fraud risk	As before, although it should be noted that corporate responsibility for counter-fraud activity within the Council has transferred over during the 2014/15 financial year to the Head of Internal Audit Service (from the Corporate Finance Section). Additional training has been undertaken to supplement the counter fraud knowledge base,

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
			assessment involves a review of the organisation. This is completed in conjunction, and through dialogue, with staff and managers within specific areas susceptible to the risks of fraud/bribery. Consequently, there is a sufficient degree of responsibility being adopted at service/operational levels for risk and to ensure that adequate controls have been implemented.	e.g. CIPFA Better Governance Forum sessions. The CIPFA Counter Fraud Centre is due to launch two new qualifications in investigative practice. Consideration will be given in due course whether to accredit Internal Audit staff in either / both of these qualifications.
4. Do counter-fraud staff review all the work of our organisation?	✓		In producing the annual fraud risk assessment, fraud areas identified in FFL, PPP, the bi-annual National Fraud Initiative (NFI) exercise and Ministry of Justice Bribery guidance were researched. Within the County Council, this fed into a thorough review of the main risks to the organisation.	Whilst the Council does not have dedicated counter-fraud staff per se, responsibility for counter fraud activity and specifically for co-ordinating the Council's Annual Fraud Risk Assessment (FRA) has transferred to the Head of Internal Audit Service. The Internal Audit Service has liaised with senior managers to determine the Council's level of risk exposure in each of these main areas. The FRA for 2014 is complete and was tabled at the Corporate Governance Committee in November 2014. Benchmarking concluded that LCC risk is broadly similar to other Midlands' county councils. The 2014 FRA includes some areas for the first time, including Members' allowances and expenses; and

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
				money laundering activity. The results of the FRA will continue to be used to direct counter-fraud resources within the Council (e.g. during the annual audit planning process).
5. Does a councillor have portfolio responsibility for fighting fraud across the council?	✓		Mr Byron Rhodes, CC, is the Cabinet Lead Member for Corporate Resources and within this remit there is a responsibility to ensure that the County Council demonstrates value for money, which inherently includes fraud mitigation. The Corporate Governance Committee provides assurance for the Council that risk management is undertaken and is effective by reviewing, scrutinising and challenging the performance of the Council's risk management framework; including progress against planned actions. A key element within the LCC risk management framework is the mitigation of fraud.	As before. Mr Rhodes, CC, will be a signatory to the Council's revised Anti-Fraud and Corruption Policy Statement and Strategy, thus demonstrating top-level support for it.
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	✓		Updates on counter-fraud initiatives are presented to the Corporate Governance Committee as appropriate. This has been further complimented by the inclusion of 'Risk of Fraud' within the External Audit Plan provided by PWC.	Counter-fraud updates continue to be provided to the Corporate Governance Committee at each meeting. The revised Anti-Fraud and Corruption Strategy (2014) includes an action plan for the forthcoming 12 months which will, in time, enable the delivery of intended outcomes and priorities to be measured.
7. Have we received the latest Audit Commission fraud briefing presentation from	✓		n/a – new question for 2014.	The Audit Commission's *Protecting the Public Purse Fraud Briefing for Leicestershire* (2013) was received from the

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
our external auditor?				External Auditor in March 2014.
8. Have we assessed our management of counter-fraud work against good practice?	✓		The Corporate Governance Committee was informed that the Council intended to revise its existing counter-fraud framework to align with best practice outlined in *Fighting Fraud Locally (FFL) – The Local Government Fraud Strategy* and that work had already begun to action this. The FFL Strategy was at the time the key reference for best practice in local government. The Council recognises that it is important to balance the cost of prevention against the likely impact of fraud and due consideration continues to be given to the cost/benefit of implementing and/or enhancing the Council's current fraud prevention procedures.	Revisions to the Council's counter-fraud framework are now complete. There is alignment to both FFL and also to the new CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption* (2014). A statement on conformance to the Code (or further action required) will be included within the 2014/15 Annual Governance Statement. The Council is an active member of the Midland Counties' Chief Internal Auditors' Group and through this, and specifically its dedicated Fraud sub-group, we continue to benchmark our approach against that of other Councils and against best practice.
9. Do we raise awareness of fraud risks with:				
• new staff (including agency staff);	✓		All employees are inducted in to the organisation by their manager. As part of the induction the Council's Employee Code of Conduct is covered, which defines the responsibilities, standards and behaviours required of County Council employees with links to specific policies and procedures to guide employees to adhere to the key principles of public life. If the employee is responsible for procurement, the manager is responsible for ensuring that the new employee undertakes the relevant	As before. The Council's e-learning module on Fraud Awareness has been refreshed and will be re-launched in 2015. Efforts are underway to increase the take-up of the module. Completion rates are reported quarterly to Assistant Directors who are the People Strategy

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
			procurement training. Fraud Risks to the County Council are highlighted within the Fraud Awareness CIS pages and e-learning module so that all officers are made aware.	Board member for each department, with the expectation that the Assistant Director promotes completion. It is our intention to refresh the Fraud Awareness CIS pages in the medium-term future to ensure that content remains appropriate and relevant.
• existing staff;	✓		As above. The County Solicitor had commissioned a project team to review the Employee Code of Conduct to ensure that it is up-to-date and legally compliant and aligns to LCC policies and processes, whilst ensuring that it is easily understood by managers and employees alike. The revised Code needs to implicitly emphasise expectations of all employees with regards to fraud, corruption and bribery. Once approved and communicated, the revised Code will contribute to overall fraud awareness amongst staff.	As above. Revisions to the Employee Code of Conduct are complete and a revised Code is due to be published in the near future.
• elected members; and	✓		Risk Management update reports are presented to Corporate Governance Committee which informs members of current risk and counter-fraud initiatives being carried out at the Council. Members also have the opportunity to complete the Fraud Awareness e-learning module. Members are also subject to their own (Members') Code of Conduct which covers the declaration of personal interests and gifts and hospitality register.	As before. Additionally, Members who serve on Corporate Governance Committee receive specific training on risk and internal audit (including the approach to counter fraud risk) from the County Solicitor and the Head of Internal Audit Service.
• our contractors?	✓		The Council's Contract Procedure Rules mandate the inclusion of a 'Prevention of Corruption' clause in all contracts, which includes reference to	As before. A new Anti-Bribery Policy has been developed and will be

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
			the Bribery Act 2010. There is also a 'Supplier Whistleblowing' condition that, like the 'Prevention of Corruption' condition, is included within the Council's Terms and Conditions. The 'Supplier Whistleblowing' condition stipulates that the contractor "comply with the Council's Whistleblowing procedures which ensure that employees of the Contractor are able to bring to the attention of a relevant authority malpractice, fraud and breach of the law on the part of the Contractor or any sub-contractor, without the fear of disciplinary and other retribution of discriminatory action". It also requires the contractor to disseminate the Council's Supplier Whistleblowing Policy amongst its employees and sub-contractors.	published in the near future. Additionally, the revised Employee Code of Conduct covers the issue of bribery and the expectations of staff when brokering contracts etc. on behalf of the Council.
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	✓		In order to share risk management information and experiences, the Council has established networks with other authorities and agencies. Specifically, the Council is a member of the East Midlands Risk Managers' Group, East Midlands' Insurance Officers Group and ALARM (Association of Local Authorities Risk Managers). The Internal Audit Service is an active member of the Midland Counties' Chief Internal Auditors Group (fraud sub-group). It also learns about any fraud issues through membership of the National County Council Audit Network. These groups meet two/ three times a year to discuss risk management and internal audit issues that are common to all authorities and to share examples of best practice. Information about current fraud risks and issues is also gained through regular monitoring and reading of the TIS Online Fraud information stream and discussion forum.	As before, although responsibility for the maintenance and development of risk management (including fraud risk) has transferred to the Head of Internal Audit Service.

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	✓		The Council subscribes to the National Anti-Fraud Network (NAFN) and receives regular updates / bulletins. Where these bulletins contain information of interest, for example fraudulent creditor warnings, officers are proactive in cascading this information to relevant partners – for example, the Financial Service Centre, ESPO, external clients, schools and colleges. The Council plays an active part in the Audit Commission's National Fraud Initiative (NFI). This takes place every two years and participation is mandatory. There is a protocol for raising issues of concern / possible fraud – the first port of call is Trading Standards. This Section will then share the information between others areas (e.g. Finance Teams, Legal Services) where considered necessary. In the absence of a dedicated fraud investigation team, an effective fraud response relies on the efficient sharing of information internally, both to prevent and investigate fraud. The Council also works with and contributes to District Council initiatives to tackle Council Tax fraud.	As before. New developments include the Council now subscribing to CIPFA's Better Governance Forum. Additionally, CIPFA has recently taken on responsibility for counter-fraud within the Public Sector and, through its new Counter Fraud Centre and its dedicated web-site, there is now a professional body with responsibilities for promoting best practice advice regarding current fraud risks and issues. See also #19 (below), we are part of a successful joint-counter fraud funding bid to DCLG which was led by Leicester City Council.
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	✓		Management has prime responsibility for developing the control environment and ensuring it is effective. The Head of Internal Audit Service (HoIAS) has a responsibility under the Public Sector Internal Audit Standards 2013 to both create a risk based audit plan and then conduct risk based audits. Because of improvements to the Council's risk management processes, the HoIAS now places greater reliance on the process of regular risk review and reporting and hence the content of risk registers	As before.

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
			(department and corporate) to form the basis of the plan in addition to audits added at the professional discretion of the s151 Officer, departmental management teams and the HoIAS. Audits are mostly designed so that if it is identified there is a risk to service objectives being achieved; it has been evaluated by management to determine how the risk is to be managed. If management decide that controls should be implemented, the audit will evaluate firstly that the control management has designed is sufficient/adequate so that under normal circumstances it would mitigate the risk occurring, and secondly, that the control is actually being applied consistently (method and timing). Where a system is in development, the auditor may 'consult' with management at early stages to give an opinion on how they're designing controls and then later once the system is embedded, test in order to give assurance those controls still exist and are being applied. Recommendations are made either where there isn't a control when it is needed, the control design is weak or it isn't being applied consistently. The scale of the recommendation affects the auditor's opinion on that individual system's control environment. Collectively the results of all audits form part of the opinion to be reached on the Council's overall control environment, which is reflected in the HoIAS Annual Report.	
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud	✓		The previous biennial exercise was carried out during the 2012/13 financial year and was derived from data sets April to September 2012. The Internal Audit Service receives a	The latest biennial exercise saw details of potential matches (including new data sets on surrounding personal

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
Initiative and receive reports on our outcomes?			summary of all matches (high, medium or low) which is then filtered to extract 'matches that should be investigated further'. The relevant reports are downloaded and sent to respective officers /service areas to progress. LCC received and disseminated 15 reports, totalling just over 10,000 recommendations – of this, almost 9,000 were attributable to a combination of matches on Blue Badges and Concessionary Travel. Whilst the total numbers may seem high, it should be remembered that the NFI matches are derived from reports using old data and in almost every case, the match was proved to be unfruitful, at least from a 'recovery of monies' point of view. Generally, information from the NFI exercise has been out of date and/or inaccurate and therefore some sections (e.g. Pensions Section) choose not to examine the NFI output as they have access to more up to date information (e.g. the Pensions Section uses a mortality tracking service). Given the value of potential fraud, this approach is wholly appropriate. In conclusion, whilst participation in the NFI does not significantly benefit LCC financially, some of the service areas find the information useful, and are somewhat reliant upon it, for updating records.	budgets) distributed by the Audit Commission to Councils and other bodies recently in January 2015. The next six months will see significant activity by Internal Audit Service in both (i) proactively investigating potential matches and (ii) responding to other bodies to assist with their own investigations. The Audit Commission will be disbanded in April 2015. Whilst the Audit Commission's responsibilities for counter-fraud activity have already transferred over to CIPFA and its new Counter Fraud Centre, responsibility for NFI moving forward will transfer to the Cabinet Office under specific legal powers. Whilst participation in the NFI has not significantly benefited LCC financially in the past, the benefits of NFI as a proactive deterrent against fraudulent activity are unquantifiable by value but it is reasonable to suggest they are significant in the prevention of fraud.
14. Do we have arrangements in place that encourage our staff	✓		The existing Policy was planned to be revised in conjunction with the revisions to the Anti-Fraud Strategy and Policy.	The Council's Anti-Money Laundering Policy and Procedures have been refreshed.

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
to raise their concerns about money laundering?				The role of the Council's designated Anti-Money Laundering Officer (AMLO) has been redefined. Clear advice exists on (i) how suspected money laundering activity can be reported through to the AMLO and (ii) what steps the AMLO should take to escalate concerns to national organisations such as the National Crime Agency.
15. Do we have effective arrangements for: • Reporting fraud • Recording fraud	✓		The Internal Audit Service keeps a record of frauds within its investigation database. The Head of Internal Audit Service reports fraud internally to the Corporate Governance Committee and externally to LCC appointed auditors, PricewaterhouseCoopers. The HoIAS also completes and submits the annual Audit Commission Fraud and Corruption Survey on behalf of the Council.	As before although responsibility for the annual survey will transfer to CIPFA. There are new and additional requirements under the Local Government Transparency Code to declare information on frauds on an annual basis.
16. Do we have effective whistle-blowing arrangements? In particular are staff: • aware of our whistle-blowing arrangements? • have confidence in the confidentiality of those arrangements? • confident that any concerns raised will be	✓		The Council recognises that the best fraud fighters are the staff and clients of the local authority and to ensure they are supported to do the right thing, comprehensive and transparent whistleblowing arrangements need to be in place. To this effect the County Solicitor commissioned a team to review the Council's existing Whistleblowing Policy to ensure that it conforms to the British Standard (PAS1998) *Whistleblowing Arrangements Code of Practice*.	The Council's Whistleblowing Policy has now been fully revised and was published as part of a revised employee code of conduct in January 2015. The revision aligns to the British Standard (PAS1998) *Whistleblowing Arrangements Code of Practice*.

I. GENERAL	YES	NO	PREVIOUS ACTION	2014 UPDATE
addressed?				
17. Do we have effective fidelity insurance arrangements?	✓		All staff are covered with a limit of £10million subject to a £100,000 deductible, which is met from an internal fund.	As before.

II. FIGHTING FRAUD WITH REDUCED RESOURCES	YES	NO	PREVIOUS ACTION	2014 UPDATE
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?	✓		n/a – new question for 2014.	As a non-benefit authority, there is no direct effect on the Council's resources as a result of the implementation of the Single Fraud Investigation Service (SFIS). Based on current experience the Internal Audit Service is considered to be sufficiently resourced to deal both with (i) proactive counter-fraud initiatives and (ii) reactive action to any fraud exposure although the scale could impact on planned assurance work.
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?	✓		n/a – new question for 2014.	The Council elected to be part of a joint bid with Leicestershire Districts to support a range of initiatives to combat fraud. This bid is led by Leicester City Council and notification has recently been received that two (of the three submitted) bids have been successful.

II. FIGHTING FRAUD WITH REDUCED RESOURCES	YES	NO	PREVIOUS ACTION	2014 UPDATE
20. If successful, are we using the money effectively?	n/a		n/a – new question for 2014.	It is too early in the process for this to be evaluated. In time, outcomes will be reviewed and decisions taken whether to fund continuation of such initiatives after the period of initial grant.

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
Housing tenancy				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	n/a		n/a – this question is not applicable to an upper tier authority.	n/a
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	n/a		n/a – this question is not applicable to an upper tier authority.	n/a
Procurement				
23. Are we satisfied our procurement controls are working as intended?	✓		There are robust controls in place which are not limited to, but include: • Recently established e-Tendering solution (Pro Contract) that operates set standard procurement templates that cannot be deviated from without Commercial and Procurement Services management authorisation. • The Contract Procedure rules had been updated (approved December 2013); • Specifications drafted as a result of consulting with users and the supply market;	As before. Additionally, the e-Tendering solution provides a full audit trail of all procurement exercises thus it provides transparency. Departmental exceptions log are kept and maintained by Chief Officers, these are reported to CMT on a quarterly basis and a full report is then submitted to the Corporate

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
			• Documented policies and procedures; • Equality of opportunity for all suppliers to submit tenders; • Management trail – documented evidence of how suppliers were selected; • Clear instructions in independently dispatched tender invitation documents; • Declaration of interests of evaluation panel members and bidders; • Monitoring of tender activities and market awareness; • A Corporate Commissioning and Contracts Board (CCB) established to oversee the contract letting and contract management processes within the Council for business critical contracts valued in excess of £1m. The aim is to make sure that the Council gets the best out of its supply base and that there is a disciplined approach to sourcing practice and contract management; • A Good Procurement Practice Framework and supporting checklists developed by the Corporate Board and a panel of legal, procurement and finance staff are used to provide independent challenge at the pre-procurement and contract management stages; • Each department has established its own arrangements for a departmental Commissioning and Contracts Board to review lower value/risk procurement. There have been very few challenges against the Council which is evidence to good procurement controls.	Governance Committee on an annual basis. The Council's Contract Procedure Rules have again been updated (approved December 2014). Each department continues to operate a departmental Commissioning and Contracts Board to review lower value/risk procurement, though these arrangements are the subject of a current (officer) review.

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
24. Have we reviewed our contract letting procedures in line with best practice?	✓		The Contract Procedure rules were updated (approved December 2013) and extensive information and guidance is provided on the CIS regarding control measures to prevent such occurrences.	As before.
Recruitment				
25. Are we satisfied our recruitment procedures:				
• prevent us employing people working under false identities; • confirm employment references effectively;	✓		The Council has robust pre-employment checks in place, underpinned by a managers' tick list. Completion of the checklist is checked by the Employee Service Centre.	As before.
• ensure applicants are eligible to work in the UK; and	✓		The County Council were visited by UK Border Agency in 2012 to discuss measures in place. As a result of this an audit of every employee record was conducted, which confirmed robust procedures are in place, with good practice being followed. Subsequently HR has developed and released a new policy 'Prevention of Illegal Working' – under this policy, a new starter cannot be added to payroll until all documentation has been received and checked with final sign-off by HR Business Partners.	As before.
• require agencies supplying us with staff to undertake the checks that we require?	✓		With the new MSTAR contract, more assurance can be given as the provider, Manpower, directly employs agency workers therefore reducing LCC risk surrounding employment legislation. In routine recruitment, there is a high level of focus on safeguarding issues, with significant control and management of panel vendors. For care roles, extra measures and checks are enforced	As before.

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
			(e.g. 5 year written reference). Using MSTAR allows LCC to insist on certain standards and ensure they are maintained and there is consistent application.	
Personal Budgets				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	✓		Whilst there is agreement that councils' should tackle personal budget fraud, PPP acknowledges the need for councils to adopt a balanced approach and introduce proportionate measures that do not reduce the choice and control that direct payments (as part of personal budgets) aims to bring. The Council produces guidance for service users who receive and manage their own Cash Payments as well as additional guidance for people acting as a "Suitable Person". All users receiving a direct payment sign a 'cash agreement' which clearly states expectations and consequences of misuse. Any misuse of personal budgets should normally be identified at the 'review' stage which is conducted by trained social workers, with an additional worksheet for workers which prompts what anomalies to look for, what would constitute a minor and major breach, and what to do. The 'Customer Journey Simplification Project' being introduced by the department, together with the implementation of the IAS application, is intended to add more robustness to both the awarding and review stage of the personal budget process.	As part of the 'Customer Journey Simplification Project' the Resource Allocation System (RAS) used to assess 'indicative budgets' for care packages is being updated in line with the Care Act. There are inbuilt authorisation processes within the Management Information System which require managers approval should budgets exceed certain limits. A new resource allocation system for service users and for carers is being developed and validated to ensure it is affordable and allows sufficient funds to meet need. The project instigated and supported a review of the outstanding Provider Managed Account balances in Autumn 2014. This was undertaken by the Review Team and

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
				identified and retrieved substantial unused funds residing with care providers, held on behalf of service users. As a result of this work, Customer Journey Simplification have been authorised to undertake a full review of the PMA offering later in 2015, with a view to either improving understanding and controls over the service, or ceasing to offer it. Reviews targeted specifically at this group of service users have been undertaken. Pre-payment cards are to be introduced from April 2015, negating the need for service users to open a second bank account for their personal budget to be paid into. This will assist the financial auditing of service users accounts – providing access to monitor expenditure online through light touch financial audits, and also receive daily alerts where customers have either not been spending their funds, have been mis-spending

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
				them, or have not been making their agreed financial contribution, thus tightening up on the speed and accuracy of expenditure. Procurement of an employment support service offer to ensure service users employing Personal Assistants have advice, information and support to manage their budgets. Additionally, personal budgets is a new data set within the biennial National Fraud Initiative data-matching exercise. There has not been any expansion of personal budgets beyond Direct Payments in the Children and Families Service yet.
27.Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	✓		The Council's Whistleblowing arrangements are being revised (see Q16 above). The revised Policy is intended to cover concerns that fall outside the scope of other existing Council procedures and to that effect, does not replace Adult Social Care Safeguarding Reporting or Adult Social Care Complaints Procedures under which the above would be covered.	The Council's Whistleblowing Policy has now been fully revised and published January 2015. The revision aligns to the British Standard (PAS1998) *Whistleblowing Arrangements Code of Practice*.
Council Tax Discount				
28.Do we take proper action to ensure that	✓		The County Council does not collect Council Tax directly, but via the 7	As before. The latest external

III. CURRENT RISKS AND ISSUES	YES	NO	PREVIOUS ACTION	2014 UPDATE
we only award discounts and allowances to those who are eligible?			district councils. Given that the County Council receives c. 70% of the collections, in the past there has been little incentive for districts to investigate potential fraud; but given the potential financial loss (in times of austerity) it has been recognised that more needs to be done. The County Council contributed towards a Single Person Discounts (SPD) review, a scheme provided by an external provider that involved data matching and investigation.	review of SPD (2014) projects savings of almost £900k of which Leicestershire is the main beneficiary (c.75%). Whilst there is a cost to this work, the savings return is in the region of £13 for every £1 spent.
Housing Benefit				
29. When we tackle housing benefit fraud do we make full use of: • National Fraud Initiative; • Department for Work and Pensions Housing Benefit matching service; • internal data matching; and • private sector data matching?	n/a		n/a – this question is not applicable to an upper tier authority.	n/a

IV. OTHER FRAUD RISKS	YES	NO	PREVIOUS ACTION	2014 UPDATE
30. Do we have appropriate and proportionate defences against the following fraud risks:				
• business rates;	✓		The Government introduced the Business Rates Retention system from April 2013. Like Council Tax, business rates are collected by the districts with	Informal discussions are being held with District Councils with regards to adopting a pro-active

IV. OTHER FRAUD RISKS	YES	NO	PREVIOUS ACTION	2014 UPDATE
			the majority retained by them and Central Government and there is currently no contribution paid towards tacking potential fraud.	approach, similar to the council tax scheme, where due consideration will be given to contributing funding, proportionate to income receivable. Possible actions under consideration are employing a firm of legal specialists to investigate fraud, the employment of additional inspectors and the use of specialist software to identify potential fraud.
• Right to Buy;	n/a		n/a – this question is not applicable to an upper tier authority.	n/a
• council tax reduction;	✓		From April 2013 the government replaced Council Tax benefit with Local Council Tax support. Within this, councils were given the freedom to devise their own local support schemes, including how much support they give to particular groups. Within Leicestershire, a Discretionary Discount Scheme (DDS) has been implemented which gives people a discount in the short term dependent on whether they meet the eligibility criteria, assessed by the Housing & Benefits teams at district level. The County Council has agreed funding to support the DDS and receives updates from districts on the latest financial position.	DDS was underspent in 2013/14 and the underspend was carried forward to fund DDS in 2014/15. Expenditure in 2014/15 has been slightly higher, probably mainly due to increases in the amounts that working age recipients of council tax support have to pay. The level of funding from the County Council and other authorities in 2015/16 and later years is under review and is likely to be reduced.
• schools; and	✓		Most schools have adopted local policies to suit their operational environment. With a significant number of schools within Leicestershire converting to academy status, there are fewer requirements within the Council to rigorously monitor schools procedures. The Internal Audit	As before. Internal Audit issues regular fraud alerts and best practice guidance to LA-maintained schools and also to its traded external

IV. OTHER FRAUD RISKS	YES	NO	PREVIOUS ACTION	2014 UPDATE
			Service continues routine auditing of LA-maintained schools, where internal controls to prevent fraud are tested.	academy clients.
• grants?	✓		The County Council awards a variety of grants, each attracting its own criteria and conditions. However, all grant fund applications go through an established process where fundamental principles are followed to ensure protection of these funds. Most organisations applying are known to LCC thereby reducing any suspicion from a very early (application) stage. Where an application is made and the organisation is previously unknown, an LCC officer will visit the site as a pre-condition of the assessment. Certain grants are subject to an independent 'panel review' to how the fund is awarded - decisions are not taken lightly with rigorous checks to ascertain if the applying organisation is able to appropriately deal with that level of funding etc. Other conditions include (but are not limited to): Matching objectives of project against those identified in a Parish Plan; Applicants needing to have a bank account, with at least two signatories; Applicants requesting more than £1,000 from the should be a formally constituted voluntary or community group or registered charity. All applications are assessed by giving due consideration to the evidence of need and proposed project outcomes demonstrated, in line with the eligibility criteria defined. Grant payments will normally be released on completion of the project/activity for which funding has been approved, and on receipt of invoices. Successful applicants are also expected to provide feedback / evidence of spend (e.g. letter, short	As before.

IV. OTHER FRAUD RISKS	YES	NO	PREVIOUS ACTION	2014 UPDATE
			report, photograph, visit from funder) to confirm the project activities have taken place. Completion of the Fraud Survey has shown nil amounts for Grant fraud.	

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE: 20 FEBRUARY 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ANTI-FRAUD AND CORRUPTION FRAMEWORK

Purpose of the Report

1. To present to Committee three new / updated polices and strategies that will form part of the Council's overall suite of counter fraud documents.

Background

2. The new CIPFA Code of Practice, "Managing the Risk of Fraud and Corruption" (October 2014) sets out a minimum anti-fraud and corruption framework for local authorities. The expectation is that authorities have the following policies, strategies and procedures within their overall suite of counter fraud documents:

    - 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.

3. At its meeting of 24 November 2014, the Committee agreed that the principles of the CIPFA Code should be adopted in support of the Council's initiatives to improve further the prevention and pursuit of fraud. A statement of either conformance to the Code or further action required will need to approved by the Committee and signed by the Chief Executive and Leader in order to be contained in the Council's Annual Governance Statement

4. An exercise was undertaken to benchmark the Council's existing suite of counter fraud documents against the expectations of the CIPFA Code to ensure compliance. This has led to the development of three specific policies and strategies:

    - Anti-Fraud and Corruption Policy Statement and Strategy (revised) – Appendix A
    - Anti-Bribery Policy Statement and Procedures (new) – Appendix B

- Anti-Money Laundering Policy (new) – Appendix C

5. The Anti-Fraud and Corruption Strategy (Appendix A) contains at section 10 the developments / actions the Council proposes over the medium term future to further improve its resilience to fraud and corruption. It refers to outputs from both the Fraud Risk Assessment and the revised Protecting the Public Purse 2014 Checklist which will be used proactively to plan counter-fraud activity during 2015-16 including as part of the Internal Audit Plan

6. Other documents have been recently revised by the County Solicitor (Monitoring Officer), for example the Employee Code of Conduct and the Whistleblowing Policy. Therefore, at the end of this process, the majority of the Council's counter fraud documents will be up-to-date and relevant.

Recommendation

7. The Committee is asked to approve the three new policies and to authorise the Director of Corporate Resources to make any minor amendments necessary.

Equality and Human Rights Implications

8. None arising from this report.

Circulation Under the Local Issues Alert Procedure

9. None.

Background Papers

10. Corporate Governance Committee – 24 November 2014 – Risk Management Update, including the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

Appendices

Appendix A – Anti-Fraud & Corruption Policy Statement and Strategy
Appendix B – Anti-Bribery Policy Statement & Procedures
Appendix C – Anti-Money Laundering Policy

Officers to Contact

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APPENDIX A

Anti-Fraud and Corruption

POLICY STATEMENT AND STRATEGY

Document Details:

Owner/Lead Officer: Head of Internal Audit Service, Corporate Resources Department

Date: February 2015

Review Arrangements: Next Review Date - February 2017

Anti-Fraud and Corruption Policy Statement

This Statement sets out Leicestershire County Council's (the Council's) policy in relation to fraud and corruption. It has the full support of both the Council's senior management in the form of the Corporate Management Team (CMT) and elected members through Corporate Governance Committee (CGC). .

The Council takes its responsibilities to protect the public purse very seriously and is fully committed to the highest ethical standards, in order to ensure the proper use and protection of public funds and assets. To achieve the objectives set out within the Council's Strategic Plan 2014-18, the Council needs to maximise the financial resources available to it. In order to do this, the Council has an ongoing commitment to continue to improve its resilience to fraud, corruption and other forms of financial irregularity.

The Council advocates **strict adherence** to its anti-fraud framework and associated policies. Whilst individual circumstances of each case will be carefully considered, in the majority of cases there will be a **zero tolerance** approach to fraud and corruption in all of its forms. The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, partners, service users or members of the general public and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, disciplinary action, dismissal, civil action for recovery and/or referral to the Police and/or other agencies. The required ethical standards are included in our Members' Code of Conduct and Officers' Code of Conduct, both documents forming part of the overall Constitution of the County Council.

The County Council fully recognises its responsibility for spending public money and holding public assets. The prevention, and if necessary the investigation, of fraud and corruption is therefore seen as an important aspect of its duties which it is committed to undertake. The procedures and also the culture of the County Council are recognised as important in ensuring a high standard of public life.

The County Council's general belief and expectation is that those associated with it (employees, members, school governors, service users, contractors and voluntary bodies) will act with honesty and integrity. In particular members and employees are expected to lead by example and will be accountable for their actions.

The County Council will take steps to help ensure high standards of ethical behaviour are adopted in partnerships of which the County Council is a member. This will be done through applying appropriate elements of this Strategy to all partnership working, where it is relevant to do so. With regard to partnership working, responsibility for Codes of Conduct and policies of this nature (and so for enforcement action for breach of those codes or policies) generally lies with the relevant individual organisation in the partnership. Where appropriate, the County Council will draw the attention of the partner organisation to its concerns.

This Policy Statement is underpinned by an Anti-Fraud and Corruption Strategy (the Strategy). The Strategy sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud and corruption. It sets out the key responsibilities with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

…………………………… **Byron Rhodes, Cabinet Lead Member for Resources**

…………………………… **John Sinnott, Chief Executive**

…………………………… **Chris Tambini, Chief Financial Officer**

…………………………… **David Morgan, County Solicitor & Monitoring Officer**

February 2015

Anti-Fraud and Corruption Strategy

1. Introduction

Leicestershire County Council (the Council) advocates **strict adherence** to its anti-fraud framework and associated policies. In the majority of cases this would be a **zero tolerance** approach to all forms of fraud, corruption and theft, arising both from within the Council and externally. The Council recognises that fraud and other forms of financial irregularity can:

- Undermine the standards of public service that the Council seeks to achieve;
- Reduce the level of resources and services available for the residents of Leicestershire; and
- Result in major consequences which reduce public confidence in the Council.

This Strategy defines both the proactive and reactive components of a good practice response to fraud risk management. It sets out the key responsibilities within the Council with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management. The Strategy provides overarching governance to the Council's suite of counter fraud policies and procedures which include: -

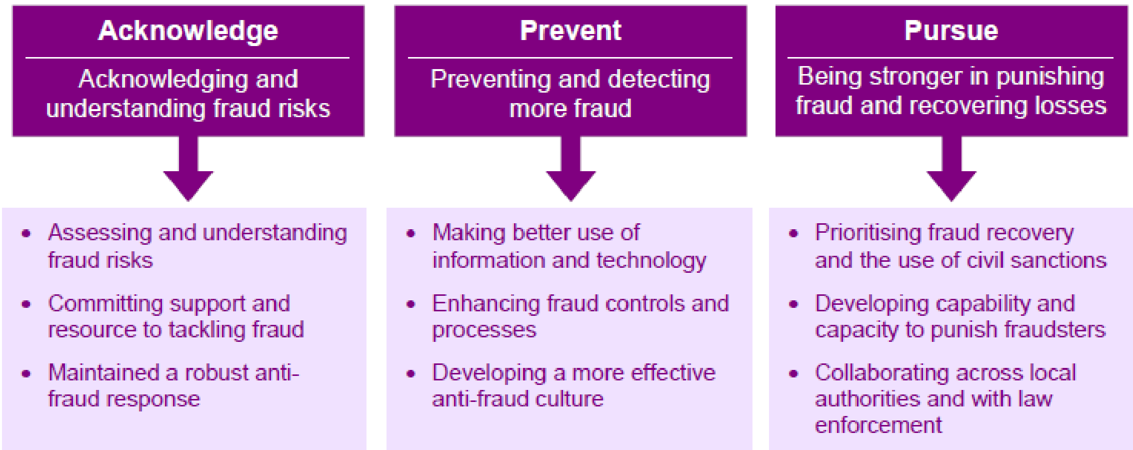
- The Council's Constitution, incorporating the Members' Code of Conduct, Officers' Code of Conduct, Contract Procedure Rules, Financial Procedure Rules.
- Whilstleblowing Policy.
- Gifts & Hospitality Policy.
- Policy on the Declaration of Personal Interests.
- Anti-Bribery Policy.
- Anti-Money Laundering Policy.
- Information Security Policy.

This Strategy adheres to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption 2014 (the Code). The Code requires leaders of public sector organisations to have a responsibility to embed effective standards for countering fraud and corruption in their organisations in order to support good governance and demonstrate effective financial stewardship and strong public financial management. In November 2014, both CMT and CGC resolved to adopt the principles of the Code and report annually on conformance to it.

The five key elements of the CIPFA Code are to:

Acknowledge the responsibility of the governing body – in the Council's case Elected Members and the Corporate Management Team – for countering fraud and corruption	**ACKNOWLEDGE**
Identify the fraud and corruption risks	
Develop an appropriate anti-fraud and corruption strategy	**PREVENT**
Provide resources to implement the strategy	
Take action in response to fraud and corruption	**PURSUE**

The five elements link to three key themes: **Acknowledge, Prevent** and **Pursue**, contained within the Local Government Fraud Strategy: Fighting Fraud Locally.



2. Definitions

What is Fraud?

Fraud is a type of criminal activity, defined by the Serious Fraud Office as:

'abuse of position, or false representation, or prejudicing someone's rights for personal gain'.

Put simply, fraud is an act of deception intended for personal gain or to cause a loss to another party.

The general criminal offence of fraud is defined by the Fraud Act 2006 and can include:

- deception whereby someone knowingly makes false representation
- or they fail to disclose information

- or they abuse a position.

What is Corruption?

Corruption is the deliberate misuse of a position for direct or indirect personal gain.

This includes offering, giving, requesting or accepting a bribe or reward, which influences actions or the actions of someone else. The Bribery Act 2010 makes it possible for individuals to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe.

The Act also created the Corporate Offence of “Failing to prevent bribery on behalf of a commercial organisation” (corporate liability). To protect itself against the corporate offence, the Act requires an organisation to have “adequate procedures in place to prevent bribery”. The Council has a separate Anti-Bribery Policy which discusses bribery and the provisions of the Bribery Act in detail, including advice for staff on escalating concerns. In addition, this Strategy, the Council’s Codes of Conduct and the Whistleblowing Policy, along with the educating of staff (e.g. through induction, e-learning etc.) are designed to meet the requirement.

What is Theft?

Theft is the misappropriation of cash or other tangible assets. A person is guilty of “theft” if he or she dishonestly takes property belonging to another, with the intention of permanently depriving the other of it. The criminal offences associated with theft are predominantly set out in the Theft Act 1968 and the Theft Act 1978.

3. Scope

The Council will not tolerate fraud or corruption (or other forms of financial irregularity) by anyone. Consequently, this Strategy applies to a wide range of persons, including:

- All County Council employees (including volunteers, temporary staff and agency staff);
- Elected Members;
- Staff and Committee Members of Council funded voluntary organisations;
- County Council’s partners;
- LA-maintained schools;
- County Council suppliers, contractors and consultants (whether engaged directly or indirectly through partnership working);
- Service users; and
- Members of the general public.

4. Strategy Aims and Objectives

Through this Strategy the aims and objectives are to:

- Protect the Council's valuable resources by ensuring they are not lost through fraud but are used to provide quality services to Leicestershire residents and visitors;
- Create and promote a robust 'anti-fraud' culture across the organisation which highlights the Council's **zero tolerance** of fraud, corruption and theft;
- Ensure effective Counter Fraud systems and procedures are in place which:
    - Ensure that the resources dedicated to combatting fraud are sufficient and those involved are appropriately skilled;
    - Proactively deter, prevent and detect fraud, corruption and theft;
    - Investigate suspected or detected fraud, corruption and theft;
    - Enable the Council to apply appropriate sanctions and recover all losses; and
    - Provide recommendations to inform policy, system, risk management and control improvements, thereby reducing the Council's exposure to fraudulent activity.
- Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, the Council will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, disciplinary or legal action may be taken
- Ensure the rights of people raising legitimate concerns are properly protected
- Work with partners and other investigative bodies to strengthen and continuously improve the Council's resiliency to fraud and corruption.

5. What is LCC's Approach to Countering Fraud

Managing the Risk of Fraud and Corruption

Whilst all stakeholders in scope have a part to play in reducing the risk of fraud, Elected Members and Senior Management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.

As with any risk faced by the Council, it is the responsibility of managers to ensure that fraud risk is adequately considered within their individual service areas and in support of achieving strategic priorities, business plans, projects and programmes objectives and outcomes. In making this assessment it is important to consider the risk of fraud occurring (i.e. proactive) rather than the actual incidence of fraud that has occurred in the past (reactive). Once the fraud risk has been evaluated, appropriate action should be taken by management to mitigate those risks on an ongoing basis, for example through introducing and operating effective systems of internal control ("first line of defence").

Adequate supervision, recruitment and selection, scrutiny and healthy scepticism must not be seen as distrust but simply as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

Good corporate governance procedures are a strong safeguard against fraud and corruption. The Council's Corporate Governance Committee plays a key role in scrutinising the Council's approach to both fraud and risk management; and its wider resiliency to financial irregularity in general ("second line of defence").

The Council's Internal Audit Service undertakes risk-based assurance work each year centred on a management approved Internal Audit Plan. This assurance work involves a review of systems and procedures, including a review of the management of risk (of both fraud and other types of risk) whereby system vulnerabilities are brought to the attention of management along with recommendations to strengthen procedures ("third line of defence").

6. Fighting Fraud Locally: Acknowledge – Prevent – Pursue

The Council seeks to fulfil its responsibility to reduce fraud and protect its resources by a strategic approach consistent with that outlined in both CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and in the Local Government Fraud Strategy – Fighting Fraud Locally, and its three key themes of Acknowledge / Prevent / Pursue: -

<table>
<tr><td rowspan="3">ACKNOWLEDGE</td><td>Committing Support</td><td>The Council's commitment to tackling fraud threat is clear. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. Staff awareness of fraud risks is through e-learning and other training. Our suite of counter fraud strategies, policies and procedures is widely published and kept under regular review.</td></tr>
<tr><td>Assessing Risks</td><td>We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities. Elected Members and Senior Officers have an important role to play in scrutinising risk management procedures and risk registers.

Also, the Internal Audit Service will carry out assurance work in areas of higher risk to assist management in preventing fraudulent activity.</td></tr>
<tr><td>Robust Response</td><td>We will strengthen measures to prevent fraud. The Internal Audit Service will work with management and our internal partners such as HR, Finance, Legal and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.</td></tr>
</table>

PREVENT	**Better Use of Information Technology**	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will play an active part in the biennial National Fraud Initiative (NFI) data matching exercise.
	Fraud Controls and Processes	We will educate managers with regard to their responsibilities for operating effective internal controls within their service areas. We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Routine Internal Audit Service reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement.
	Anti-Fraud Culture	We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information on all aspects of our counter fraud work.

PURSUE	**Fraud Recovery**	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action.
	Enforcement	We will investigate instances of suspected fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders, or received via the whistleblowing procedure. We will work with internal / external partners/organisations, including law enforcement agencies.

7. Responsibilities

Stakeholder	Specific Responsibilities
Chief Executive	Accountable for the effectiveness of the Council's arrangements for countering fraud and corruption; duties in relation to members' interests.
County Solicitor (Monitoring Officer)	To advise Councillors and Officers on ethical issues, standards and powers to ensure that the Council operates within the law and statutory Codes of Conduct/Practice. Overall responsibility for the maintenance and operation of both Officers' and Members' Codes of Conduct, the Whistleblowing Policy and other policies. Determination of whether a case should be referred to the Police.
Chief Financial Officer (S.151 Officer)	Legal duties with regard to the proper administration of financial affairs including ensuring that the Council's accounting control systems include measures to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost records and a requirement for an adequate and effective internal audit of accounting records and of the system of internal control in accordance with the proper practices in relation to internal control. Additionally, a Head of Profession responsibility to implement appropriate measures to prevent and detect

	fraud and corruption.
Corporate Governance Committee	To monitor the adequacy and effectiveness of the arrangements in place for ensuring an adequate internal control environment and for combating fraud and corruption.
Elected Members	To comply with the Members' Code of Conduct and related Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns accordingly.
External Audit	Statutory duty to ensure that the Council has adequate arrangements in place for the prevention and detection of fraud, corruption and theft.
Head of Internal Audit Service	Responsible for developing and maintaining advice and guidance on the Council's approach to managing the risks of fraud, bribery and corruption. The HoIAS compiles a risk-based annual Internal Audit Plan designed to evaluate the effectiveness of the control environment. Responsible for ensuring that all suspected or reported irregularities are dealt with promptly and in accordance with this Strategy and that action is identified to improve controls and reduce the risk of recurrence. Advises on (or, where appropriate, carries out) investigations.
Senior Management, DMTs, Service Managers	To promote staff awareness and ensure that all suspected or reported irregularities are immediately referred to the County Solicitor (Monitoring Officer) and the Chief Financial Officer (s151 Officer). To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption and theft and to reduce these risks by implementing strong internal controls.
LCC Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud and corruption, and to report via the Whistleblowing procedure any genuine concerns to management or the County Solicitor (Monitoring Officer) or Chief Financial Officer (s151 Officer).
Public, Service Users, Partners, Contractors etc.	To be aware of the possibility of fraud and corruption against the Council and to report any genuine concerns / suspicions.

8. Reporting, Advice, Support

The Council's approach to suspected fraud can be demonstrated in its Fraud Response Plan / Flowchart - see Appendix 1 - Fraud Response Plan

The Council recognises that the primary responsibility for the prevention and detection of fraud rests with management. If anyone believes that someone is committing a fraud or suspects corrupt practices, these concerns should be raised in the first instance directly with line management **or** to the County Solicitor (Monitoring Officer) **or** Chief Financial Officer, in accordance with the Council's Whistleblowing Policy and Financial Procedure Rule 17.

Where managers are made aware of suspected fraud by employees, they have responsibilities for passing on those concerns to the County Solicitor (Monitoring Officer) or Chief Financial Officer. Managers should react urgently to evidence of potential fraud or corruption. Headteachers of LA-maintained schools should also notify their Chair of Governors. Notifications must be treated with the utmost confidentiality. Any person that is implicated in the alleged offence should not be included in the notification procedure.

Employees who wish to raise a serious concern should refer to the detailed Whistleblowing Policy.

The County Solicitor (Monitoring Officer) will refer all concerns in relation to possible financial impropriety to the Chief Financial Officer. Thereafter, it is likely that the Internal Audit Service, in conjunction with other services such as Human Resources, Legal Services, ICT Services, will give advice and support to managers involved in fraud investigation including on evidence gathering, documentation and retention, disciplinary proceedings and, where relevant, referral to the Police.

9. Investigations

Investigations - To avoid potentially contaminating the evidence, managers should not investigate concerns themselves without having sought relevant authority to do so and instead should immediately report all suspicions of fraud or corruption, as detailed above.

In more complex cases, investigations will be carried out by the Internal Audit Service. Otherwise, the Internal Audit Service will give guidance to departments (managers) on how to carry out investigations. In such circumstances the Internal Audit Service will continue to have a 'watching brief' throughout the course of the investigation and will continue to provide advice, where required. **Managers should not carry out their own investigations without first seeking advice from the Internal Audit Service.** Although departments and the Internal Audit Service may undertake interviews there is a local agreement with the Police that these are not conducted under caution. There is a presumption therefore that contact with the Police will occur at a relatively early stage, once there is sufficient evidence to justify it. The outcome of an investigation would typically be a full report produced for the relevant Director which can then be used, if appropriate, in further disciplinary action (or as part of a criminal investigation).

Criminal Offences - The County Solicitor will provide guidance as to whether a criminal offence has occurred. In such cases the Council will seek a prosecution unless the decision is taken, following advice from the County Solicitor, that it would be inappropriate to do so.

Disciplinary Action - The Director (after taking relevant HR advice) will decide whether disciplinary action should be taken against an employee. Cases of fraud or corruption are likely to represent gross misconduct and therefore the employee could be liable to dismissal.

Elected Members - The Chief Executive and the County Solicitor, acting as Monitoring Officer, will advise on action in relation to members.

Compensation - Where a case has been proved, the relevant Director and Chief Financial Officer, with advice from the County Solicitor, will agree whether and how much to pursue as compensation. The Director will also inform the Corporate Resources Insurance Section where it is believed an insurance claim can be made).

Recording – The Head of Internal Audit Service (HoIAS) will maintain a fraud database where summary details of financial irregularities will be recorded.

Reporting - The Head of Internal Audit Service's (HoIAS) routine progress reports to the Corporate Governance Committee will include summary details on investigations into suspected fraud or corruption once the outcomes are finalised especially with any cases that are subject to Police investigation. In addition, the HoIAS also reports annually on fraud and corruption activity through:

- The National Fraud Initiative
- The Audit Commission Annual Fraud and Corruption Survey leading to the annual report on Protecting the Public Purse
- The Local Government Transparency Code

10. Action Plan

This Strategy sets out the developments / actions the Council proposes over the medium term future to further improve its resilience to fraud and corruption. These developments include the following actions:

Action	Implementation Date
To proactively use the results of previous fraud risk assessments, the issues highlighted in Protecting the Public Purse (PPP) 2014 and other intelligence to direct counter fraud resources in the 2015-16 Internal Audit Plan.	February 2015
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance, e.g. CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014).	February 2015
To ensure that fraud awareness is given adequate prominence in the Council's staff induction procedures.	April 2015
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	October 2015
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	October 2015

To be an active participant in the 2015 National Fraud Initiative (NFI) and to robustly investigate suspected cases of fraud identified through NFI.	October 2015
To refresh the Fraud Awareness pages on the Corporate Information Service (CIS) and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	October 2015
To assess and address the fraud risks associated with the Council becoming greater involved as a commissioner of services.	October 2015
To assess and address the risks associated with partnership work, particularly where the Council is the lead accountable body.	October 2015
To work with district council partners to further reduce the risk of fraud in areas where there is joint benefit (e.g. Council Tax benefit).	October 2016

11. Further Information

Further information on relevant Council policy and practice can be found in the following internal documents:

- The Constitution (includes Financial Procedure Rules, Contract Procedure Rules, Members' Code of Conduct and Officers' Code of Conduct);
- Whistleblowing Policy;
- Gifts & Hospitality Policy;
- Anti-Bribery Policy;
- Anti-Money Laundering Policy;
- Information Security Policy;
- LCC's Fraud Response Plan / Flowchart (Appendix 1);
- Risk Management web pages;
- Internal Audit web pages.

The County Council seeks to fulfil its responsibility to reduce fraud and protect our resources by a strategic approach consistent with that outlined in both:

- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption (2014); and
- Local Government Fraud Strategy – Fighting Fraud Locally

12. Strategy Review

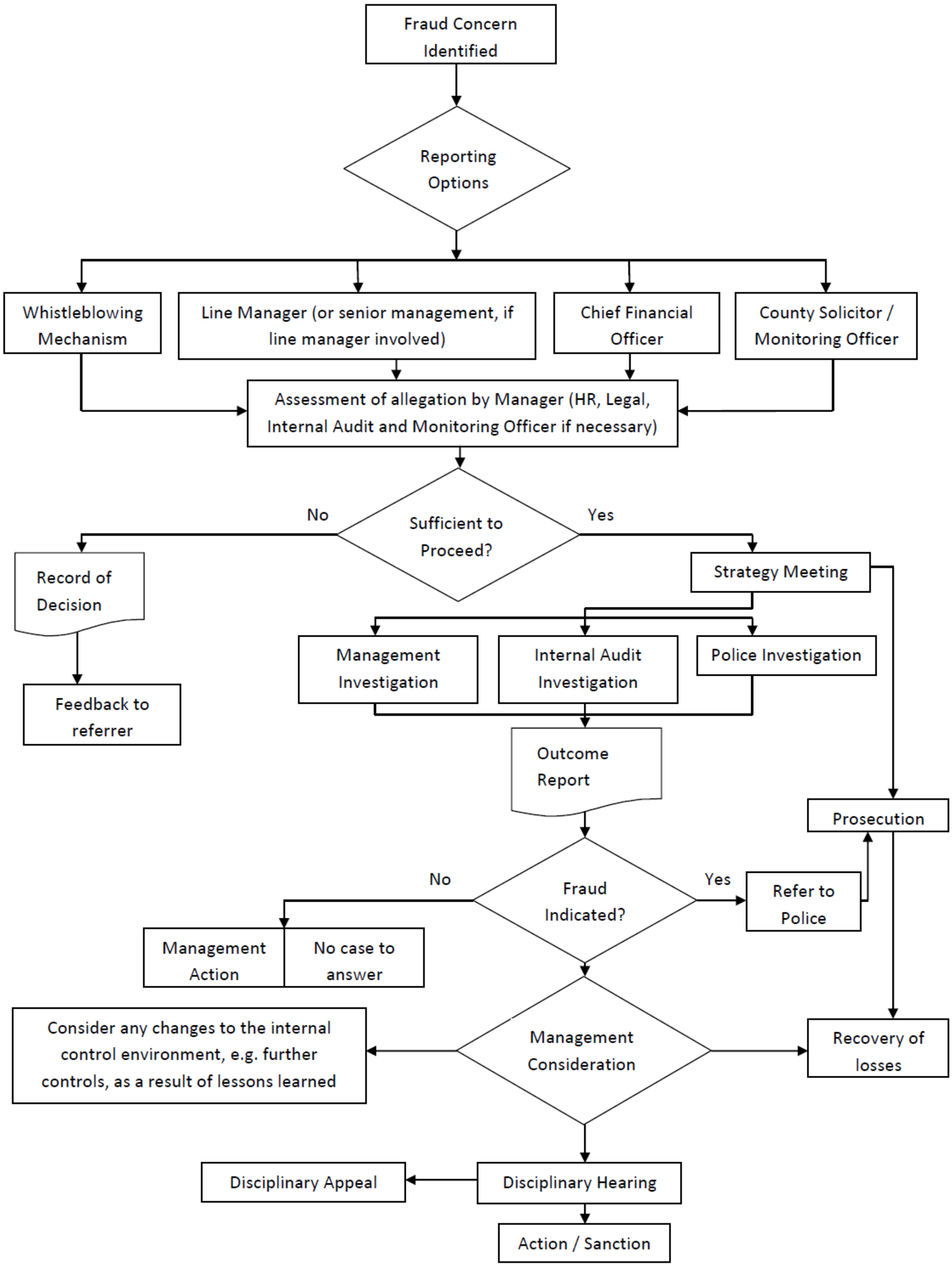
The Chief Financial Officer (s.151 Officer) and the Council's Corporate Governance Committee will ensure the continuous review and amendment of this Strategy, and the Action Plan contained within it, to ensure that it remains compliant with good practice national public sector standards, primarily CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and the Local Government Fraud Strategy – Fighting Fraud Locally, and meets the needs of Leicestershire County Council.

Responsible Officer: Head of Internal Audit Service

Review date: Biennially from February 2015

APPENDIX 1

LCC's Typical Fraud Response Plan



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APPENDIX B

Leicestershire County Council

Anti-Bribery

POLICY STATEMENT AND PROCEDURES

Document Details:

Owner/Lead Officer: Head of Internal Audit Service, Corporate Resources Department

Date: February 2015

Review Arrangements: Next Review Date - February 2017

Anti-Bribery Policy Statement and Procedures

This Statement sets out Leicestershire County Council's (the Council's) policy in relation to bribery. It has the full support of both the Council's senior management in the form of the Corporate Management Team (CMT) and elected members through Corporate Governance Committee (CGC).

The Council takes its responsibilities to protect the public purse very seriously and is fully committed to the highest ethical standards, in order to ensure the proper use and protection of public funds and assets. To achieve the objectives set out within the Council's Strategic Plan 2014-18, the Council needs to maximise the financial resources available to it. In order to do this, the Council has an ongoing commitment to continue to improve its resilience to fraud, corruption (including bribery) and other forms of financial irregularity.

The Council advocates **strict adherence** to its anti-fraud framework and associated policies. Whilst individual circumstances of each case will be carefully considered, in the majority of cases there will be a zero tolerance approach to fraud and corruption (including bribery) in all of its forms. The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, partners or service users and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, disciplinary action, dismissal, civil action for recovery and/or referral to the Police and/or other agencies. The required ethical standards are included in both the Members' Code of Conduct and Officers' Code of Conduct, both documents forming part of the overall Constitution of the County Council.

The County Council fully recognises its responsibility for spending public money and holding public assets. The prevention, and if necessary the investigation, of fraud and corruption (including bribery) is therefore seen as an important aspect of its duties which it is committed to undertake. The procedures and also the culture of the County Council are recognised as important in ensuring a high standard of public life.

The County Council's general belief and expectation is that those associated with it (employees, members, school governors, service users, contractors and voluntary bodies) will act with honesty and integrity. In particular members and employees are expected to lead by example and will be accountable for their actions.

The County Council will take steps to help ensure high standards of ethical behaviour are adopted in partnerships to which the County Council is a member. This will be done through applying appropriate elements of this document to all partnership working, where it is relevant to do so. With regard to partnership working, responsibility for Codes of Conduct and policies of this nature (and so for enforcement action for breach of those codes or policies) generally lies with the relevant individual organisation in the partnership. Where appropriate, the County Council will draw the attention of the partner organisation to its concerns.

This Anti-Bribery Policy Statement is supplementary to the Council's wider Anti-Fraud and Corruption Strategy (the Strategy), which sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud and corruption. The Strategy sets out the key responsibilities with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

Anti-Bribery Policy Statement and Procedures

1. What is Bribery?

Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

2. The Bribery Act

There are four key offences under the 2010 Bribery Act:

- Bribery of another person (section 1)
- Accepting a bribe (section 2)
- Bribing a foreign official (section 6)
- Failing to prevent bribery (section 7)

The Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1) makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

3. Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months, or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

4. Public contracts and failure to prevent bribery

Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK), a company is automatically debarred from competing for public contracts where it is convicted of a corruption offence, including bribery. The Council will, in such cases, exclude organisations convicted of any such offences from participating in tenders for public contracts with it.

5. Policy Statement – Anti-Bribery

Bribery, either directly between two parties or using a third party as a conduit to channel bribes to others, is a criminal offence. Leicestershire County Council (the Council) does not, and will not, pay bribes or offer an improper inducement to anyone for any purpose, nor does it or will it, accept bribes or improper inducements or engage indirectly in or otherwise encourage bribery.

The Council is committed to the prevention, deterrence and detection of bribery. It has a zero-tolerance approach towards bribery.

The Council aims to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

6. Objective of this policy

This policy provides a coherent and consistent framework to enable the Council’s employees (and other ‘relevant persons’) to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

The Council requires that all relevant persons, including those permanently employed, temporary staff, agency staff, consultants, contractors, volunteers, partners and Members:

- Act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible
- Comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities

7. Scope of this policy

This policy applies to all of the Council’s activities. For partners, joint ventures and suppliers, it will seek to promote the adoption of policies consistent with the principles set out in this policy.

Responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members, volunteers and consultants.

8. The Council’s commitment to action

The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date
- Making all employees aware of their responsibilities to adhere strictly to this policy at all times
- Training all employees so that they can recognise and avoid occurrences of bribery by themselves and others
- Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

9. Bribery is not tolerated

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure
- accept payment from a third party where it is known or suspected that it is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party where it is known or suspected that it is offered or provided with an expectation that a business advantage will be provided by the Council in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy.

10. Gifts and Hospitality

This policy is not meant to change the requirements of the Council’s gifts and hospitality policy. This makes it clear that:

- Nominal gifts and hospitality up to a financial value of £25 are often acceptable, depending upon the circumstances
- Reasonable, proportionate gifts and hospitality made in good faith and that are not lavish are often acceptable.

In general terms, however, an employee must:

- Treat any offer of a gift or hospitality if it is made to them personally with extreme caution

- Not receive any reward or fee other than their salary
- Never accept monetary gifts of any kind
- Always refuse offers of gifts or services to them (or their family members) from organisations or persons who do, or might, provide work, goods or services, to the County Council or who require a decision from the County Council
- Always report any such offer to their line manager.

When deciding whether or not to accept an offer of a gift, the context is very important. An offer from an organisation seeking to do business with or provide services to the Council or in the process of applying for permission or some other decision from the Council is unlikely ever to be acceptable, regardless of the value of the gift.

11. Staff responsibilities

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its control. All staff are required to avoid activity that breaches this policy.

As individuals you must:

- ensure that you read, understand and comply with this policy
- raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil legal action and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

12. Raising a concern

The Council is committed to ensuring that there is a safe, reliable, and confidential way of reporting any suspicious activity, and wants each and every member of staff to know how they can raise concerns.

All have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner it is brought to attention, the sooner it can be resolved.

There are multiple channels to help raise concerns. Please refer to the Council's Whistleblowing policy and determine the favoured course of action. Preferably the disclosure will be made and resolved internally (e.g. to a line manager or head of department). Secondly, where internal disclosure proves inappropriate, concerns can be raised with the County Solicitor (Monitoring Officer), the Chief Financial Officer or the External Auditor. Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

Concerns can be anonymous. In the event that an incident of bribery, corruption, or wrong doing is reported, the Council will act as soon as possible to evaluate the situation. It has clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in an investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Staff who raise concerns or report wrongdoing, including those staff who reject an offer made to them that could be perceived as bribery, could understandably be worried about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

The Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

13. Other relevant policies

Further information on relevant Council policy and practice can be found in the following internal documents:

- The Constitution (includes Financial Procedure Rules, Contract Procedure Rules, Members' Code of Conduct and Officers' Code of Conduct)
- Anti-Fraud and Corruption Policy
- Confidential Reporting Procedure (Whistleblowing Policy)
- Gifts & Hospitality Policy
- Anti-Money Laundering Policy

14. Useful links

- The Bribery Act 2010
- Bribery Act guidance
- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption
- Local Government Fraud Strategy – Fighting Fraud Locally

15. Policy review

The Chief Financial Officer (s.151 Officer) and the Council's Corporate Governance Committee will ensure the continuous review and amendment of this policy document, to ensure that it remains compliant with good practice national public sector standards, primarily CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and the Local Government Fraud Strategy – Fighting Fraud Locally, and meets the needs of Leicestershire County Council.

Responsible Officer:	Head of Internal Audit Service
Review date:	Biennially from February 2015

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APPENDIX C

Leicestershire County Council

Anti-Money Laundering

POLICY STATEMENT & PROCEDURES

Document Details:

Owner/Lead Officer: Team Manager – Technical Accounting Team, Strategic Finance Section, Corporate Resources Department

Date: February 2015

Review Arrangements: Next Review Date - February 2017

Anti-Money Laundering Policy Statement and Procedures

This Statement sets out Leicestershire County Council's (the Council's) policy in relation to money laundering. It has the full support of both the Council's senior management in the form of the Corporate Management Team (CMT) and elected members through Corporate Governance Committee (CGC).

The Council takes its responsibilities to protect the public purse very seriously and is fully committed to the highest ethical standards, in order to ensure the proper use and protection of public funds and assets. The Council has an ongoing commitment to continue to improve its resilience to fraud, corruption (including bribery and money laundering) and other forms of financial irregularity.

The Council advocates **strict adherence** to its anti-fraud framework and associated policies. Whilst individual circumstances of each case will be carefully considered, in the majority of cases there will be a zero tolerance approach to fraud and corruption (including bribery and money laundering) in all of its forms. The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, partners or service users and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, disciplinary action, dismissal, civil action for recovery and/or referral to the Police and/or other agencies. The County Council's general belief and expectation is that those associated with it (employees, members, school governors, service users, contractors and voluntary bodies) will act with honesty and integrity.

This Anti-Money Laundering Policy is supplementary to the Council's wider Anti-Fraud and Corruption Strategy (the Strategy), which sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud and corruption. The Strategy sets out the key responsibilities with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

Anti-Money Laundering Policy Statement and Procedures

1. Introduction

1.1 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

2. What is Money Laundering?

2.1 Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- Acquiring, using or possessing criminal property (section 329);
- Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

2.2 Money laundering is the process of channelling ‘bad’ money into ‘good ‘money in order to hide the fact the money originated from criminal activity. Money laundering often occurs in three steps: first, cash is introduced into the financial system by some means ("placement"), the second involves a financial transaction in order to camouflage the illegal source ("layering"), and the final step entails acquiring wealth generated from the transactions of the illicit funds ("integration"). An example is where illicit cash is used (placed) to pay for the annual non-domestic rates on a commercial premises (possibly also a large overpayment), and then within a very short time the property is vacated (layering). A refund is made to the individual from the Council, 'integrating' the source of the money.

Most money-laundering offences concern far greater sums of money since the greater the sum of money obtained from a criminal activity, the more difficult it is to make it appear to have originated from a legitimate source or transaction.

2.3 Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. **A key requirement is for employees to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO).**

3. Scope of the Policy

3.1 This Policy applies to all employees of Leicestershire County Council ('the Council') and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

3.2 The Policy sits alongside the Council's suite of documents governing counter fraud, including the Whistleblowing Policy, Employee Code of Conduct, Members' Code of Conduct and Anti-Fraud and Corruption Strategy.

3.3 Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Policy.

4. What are the obligations on the Council?

4.1 Organisations conducting "relevant business" must:

- appoint a Money Laundering Reporting Officer ("MLRO") to receive disclosures from employees of money laundering activity (their own or anyone else's);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

4.2 Not all of the Council's business is "relevant" for the purposes of the legislation. It is mainly accountancy and financial; and company and property transactions undertaken by Legal Services. However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the Council; therefore, all staff are required to comply with the reporting procedure set out in section 6 below.

5. The Money Laundering Reporting Officer

5.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Team Manager – Technical Accounting Team, Strategic Finance Section who can be contacted as follows:

Team Manager – Technical Accounting Team
Strategic Finance Section
Corporate Resources Department
Leicestershire County Council
County Hall
Glenfield
Leicestershire
LE3 8RB

Email: 🖰 finance@leics.gov.uk
Telephone: ☏ 0116 305 7627 (direct line)

5.2 In the absence of the MLRO, the Head of Corporate Finance, is authorised to deputise (☏ 0116 305 5998).

6. Disclosure Procedure

Cash Payments

6.1 **No payment to the Council should automatically be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £5,000.** This does not, however, mean that cash transactions below this value will be valid and legal and should not arise any suspicion. Professional scepticism should remain at all times.

6.2 Staff who collect cash payments are asked to provide the details of any cash transaction over £5,000 to the MLRO so that precautionary checks can be performed.

6.3 The Council, in the normal operation of its services, accept payments from individuals and organisations. If an employee has no reason to suspect or know that money laundering activity is taking/has taken place and if the money offered is less than £5,000 in cash as payment or part payment for goods/services offered by the Authority then there is no need to seek guidance from the MLRO.

If a member of staff has reasonable grounds to suspect money laundering activities or proceeds of crime, or is simply suspicious, the matter should still be reported to the MLRO. If the money offered is £5,000 or more in cash then payment must not be accepted until guidance has been received from the MLRO even if this means the person has to be asked to wait.

6.4 Any officer involved in a transaction of this kind should ensure that the person provides satisfactory evidence of their identity personally, through passport/photo driving licence plus one other document providing evidence of current address in the form of a bank statement, credit card statement, mortgage or insurance details or a utility bill. Where the other party is a company, this can be done through company formation documents or business rate bill.

Reporting to the Money Laundering Reporting Officer (MLRO)

6.5 Any employee who becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, must disclose this promptly to the MLRO or deputy. **The disclosure should be at the earliest opportunity of the information coming to your attention, not weeks or months later. Should you not do so, then you may be liable to prosecution.**

6.6 The employee must follow any subsequent directions from the MLRO or deputy and must not make any further enquiries themselves into the matter. Additionally, they must not take any further steps in the transaction without authorisation from the MLRO or deputy.

6.7 The employee must not disclose or otherwise indicate their suspicions to the person(s) suspected of money laundering. They must not discuss the matter with others or note on a file that a report has been made to the MLRO in case this results in the suspect becoming aware of the suspicion.

Consideration of the disclosure by the Money Laundering Reporting Officer

6.8 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency (NCA).

6.9 The MLRO or deputy must, if they so determine, promptly report the matter to the NCA on their standard report form and in the prescribed manner. Up to date forms can be downloaded from the NCA website at:

http://www.nationalcrimeagency.gov.uk/ (main NCA website)

https://www.ukciu.gov.uk/(osvifg55vxdphzrs40egnj45)/saronline.aspx (a direct link to the NCA's electronic referral form)

6.10 All disclosure reports referred to the MLRO or deputy and reports made to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years. The Money Laundering Disclosure Form (Appendix 1) should be used by the MLRO to facilitate the recording of any action taken.

6.11 The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

7. Record Keeping

7.1 The MLRO will keep a record of all referrals made to him and of any action taken / not taken. The precise nature of these records is not set down in law but should be capable of providing an audit trail during any subsequent investigation.

8. Guidance and Training

8.1 In support of this policy, the Council will:

- make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation; and
- give targeted training to those most likely to encounter money laundering.

9. Risk Management and Internal Control

9.1 The risk to the County Council of contravening the anti-money laundering legislation will be assessed on a periodic basis and the adequacy and effectiveness the Anti-Money Laundering Policy will be reviewed in light of such assessments.

10. Further Information

10.1 Further information can be obtained from the MLRO and the following sources:

- National Crime Agency (NCA) – www.nationalcrimeagency.gov.uk
- CIPFA - www.cipfa.org/membership/practice-assurance-scheme/anti-money-laundering
- CCAB - Anti-Money Laundering (Proceeds of Crime and Terrorism) – Guidance for Accountants – www.ccab.org.uk (main site) or www.ccab.org.uk/documents/20140217%20FINAL%202008%20CCAB%20guidance%20amended%202014-2-17pdf.pdf (direct link)
- The Law Society - Anti-Money Laundering Guidance and Advice - www.lawsociety.org.uk/advice/anti-money-laundering/

11. Policy review

The Chief Financial Officer (s.151 Officer) and the Council's Corporate Governance Committee will ensure the continuous review and amendment of this policy document, to ensure that it remains compliant with good practice national public sector standards, primarily CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and the Local Government Fraud Strategy – Fighting Fraud Locally, and meets the needs of Leicestershire County Council.

Responsible Officer: Team Manager – Technical Accounting Team (Money Laundering Reporting Officer)

Review date: Biennially from February 2015

12. Appendices

Appendix 1 – Money Laundering Disclosure Form (proforma for use by MLRO)

APPENDIX 1

MONEY LAUNDERING DISCLOSURE FORM

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MONEY LAUNDERING REPORTING OFFICER (MLRO)

Date report received: ………………………………………………..

Date receipt of report acknowledged: ………………………………………………..

<u>CONSIDERATION OF DISCLOSURE:</u>

Action Plan:

<u>OUTCOME OF CONSIDERATION OF DISCLOSURE:</u>

Are there reasonable grounds for suspecting money laundering activity:

If there are reasonable grounds for suspicion, will a report be made to the NCA?

Yes/No (please select the relevant option)

If yes, please confirm date of report to the NCA:……………………………………. and complete the box below:

Details of liaison with NCA regarding the report: **Notice Period: ………………………. To ……………………….** **Moratorium Period: …………………… To ……………………….**

Is consent required from the NCA to any ongoing or imminent transactions which would otherwise be prohibited acts?

Yes/No (please select the relevant option)

If yes, please enter full details in the box below:

Date consent received from NCA: ……………………………………………….

Date consent given by you to employee: ……………………………………

If there are reasonable grounds to suspect money laundering but you do not intend to report the matter to NCA, please set out below the reason(s) for non-disclosure:

[Please set out reasons for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

……………………………………………………………….

Other relevant information:

Signed: ………………………………………………………………………….

Dated: ………………………………………………………………………….

THIS REPORT IS TO BE RETAINED FOR AT LEAST FIVE YEARS.

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 20TH FEBRUARY 2015

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 31st December 2015.

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 slowed marginally from its growth in the first half of the year, but the growth was still robust by both historic UK standards and relative to how most other economies are currently faring. The growth remains based on consumer spending and the housing market, with manufacturing continuing to lag. Forecasts for economic growth in 2015 and 2016 were revised down as a result of the narrow nature of the factors that are leading the recovery, but the significant fall in the oil price that happened towards the end of the year is expected to be positive for growth and forecasts might ultimately be revised upwards again.

5. Unemployment levels continued to fall and, for the first time in many years, wage growth was higher than inflation. Although wage growth outstripping inflation was more down to the fall in inflation than any major change to wage growth, survey evidence suggests that wage growth will accelerate and that real pay growth will occur for at least the next two years. Labour productivity levels in the UK, however, continue to be disappointing and an improvement in productivity will be key to whether employers can afford the higher wages that the surveys suggest will follow.

6. Consumer Price Inflation in December 2014 was just 0.5%, its joint-lowest level since this index commenced over 25 years ago. The significant fall in petrol prices and an intense supermarket price war were key factors in the fall of inflation, and there is a distinct possibility that inflation will fall further in the period ahead (and it may even turn negative for a short while). If the UK does experience deflation it is unlikely to be damaging in the same way as the deflation that threatens Eurozone,

which is due to lack of demand and risks becoming ingraining into expectations and encouraging consumers to postpone spending.

7. The US economy continues to show healthy growth, and their Quantitative Easing programme came to an end in October 2014. In comparison the Eurozone is close to recession and is likely to commence a huge Quantitative Easing programme early in 2015.

<u>Action Taken during September Quarter</u>

8. The balance of the investment portfolio decreased from £190.4m at the end of September to £164.1m at the end of December 2014. This fall in the balance is normal during this time of the year, and particularly in December, as it is a period during which relatively low levels of grant income and precept are received. 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 0.98%) matured during the quarter and was renewed for a fresh 1 year period at a rate of 1%. Four loans, totalling £25m, to local authorities that were originally placed for 1 year at an average rate of 0.608% also matured during the quarter.

10. The December quarter saw many local authorities become short of cash and the rates of interest that they were willing to pay for borrowing increased meaningfully as a result of the change in the demand/supply balance, which is a repeat of what happened in 2013. Advantage was taken of this situation and £72.2m in new loans were lent to 9 different local authorities at rates between 0.49% and 0.71%. The majority of these loans will mature either before or soon after the 2015/16 financial year, at which time it is possible that an expanded list of acceptable counterparties will become available (subject to approval of the change in methodology by the County Council). Given the current position of money markets it is expected that better rates will be available from some of the additional counterparties than the rates available from local authorities, hence the wish to have the majority of the loans maturing at around the commencement of the new financial year.

11. A 3 month loan to HSBC for £15m matured and was renewed for a further 3 month period at a slightly higher rate (0.56% from 0.556%). The overall impact of the activity on the average rate was to increase the average rate being earned from 0.596% at the end of September to 0.644% at the end of December. Part of the reason for the increase was the movement of loans from Money Market Funds to Local Authorities at higher rates, but the fall in the overall balance also played a major part as this meant that there was much less money held in Money Market Funds. As the rates available within Money Market Funds are below the average rate earned elsewhere within the portfolio, higher Money Market Fund balances will always bring down the average rate.

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

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	80.2
Money Market Funds	18.9
	164.1

13. At the quarter end the loans to Local Authorities were amounts of £10m to each of Staffordshire County Council, Birmingham City Council, Lancashire County Council, London Borough of Islington and Plymouth City Council, £8.2m to Knowsley MBC, £8m to Exeter City, £5m to each of Herefordshire Council and Salford City Council and £4m London Borough of Newham. With the exception of the loan to Lancashire (maturing in November 2015), all of these loans will mature in either mid-April or before.

14. 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)

15. Subject to approval by the County Council as part of the Annual Investment Strategy, the list of acceptable counterparties will be meaningfully increased from 1st April 2015. The Corporate Governance Committee received a report about this proposed change in November 2014.

16. 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%

17. 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 at the end December 2014 there had been 31 loans made totalling £289,660 and the average interest rate on these loans was 8.6%.

Resource Implications

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

Equal Opportunities Implications

19. There are no discernable equal opportunity implications.

Recommendation

20. 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 3057656, email colin.pratt@leics.gov.uk
Chris Tambini - telephone 0116 3056199, email chris.tambini@leics.gov.uk

Agenda Item 12

CORPORATE GOVERNANCE COMMITTEE
20 FEBRUARY 2015

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 Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan. The Committee is also tasked with monitoring the implementation of 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 November 2014 to 31 January 2015.

5. Eight maintained schools were audited in the period. Three received opinions of '…*well above the (measured) standard*', four received opinions of '…*above the standard'* and one of *'…reached 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.** For assurance audits, the 'opinion' is what level of assurance can be given that material risks are being managed. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance recommendation would not normally get a classification above partial.

8. **Appendix 2** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some movement has occurred to a previously reported recommendation are shown in **bold font.** Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.

9. To summarise movements within Appendix 2: -

   a. One new HI recommendation (Children and Family Services (C&FS) request for Health and Safety information) has been added;
   b. Two HI recommendations have been closed (Adults and Communities (A&C) Liquidlogic Adults System (1 of 4) and Corporate Resources (CR) Employee annual leave recording)
   c. Implementation dates for eight HI recommendations have been further 'extended' to allow for stabilisation or progression of arrangements and pending the conclusion of a follow up audit (A&C Liquidlogic Adults System (3 of 4) C&FS Sponsored Academies (2), CR 'M-Star' (2) and CR Pension Fund Contribution Banding)
   d. Regarding the three HI recommendations in respect of developer contributions (s106) that are listed on the last page (7) of the Appendix as 'on hold', the Head of Internal Audit Service is in ongoing discussions with the County Solicitor and senior Corporate Resources managers to align what work needs to be done now (current compliance) and in the short term future (a re-assessment of the Authority's approach).

10. Some planned audits of payables and receivables functions in Adults and Communities were postponed whilst efforts were underway by Strategic Finance staff to strengthen the respective control environments. Internal Audit resource was instead used to assist with investigating and rectifying errors.

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

11. Mr Parsons paid the remaining sum owing (£660.00 including £160.00 Court costs) on 5 December. The County Solicitor is now satisfied that the debt has been fully discharged.

Resource Implications

12. None

Equal Opportunities Implications

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

Recommendation

14. That the contents of the report be 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 c.c. and reports to the Corporate Governance Committee on 14 June, 23 September and 25 November 2013 and 10 February, 12 May, 23 September and 24 November 2014 – Investigation into allegations concerning a former Members' conduct

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1 - Summary of Final Internal Audit Reports issued during the period 1 November 2014 to 31 January 2015
Appendix 2 - High Importance Recommendations

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Summary of Final Reports Issued from 1st November 2014 - 31st Janaury 2015

Appendix 1

Department	Job	Final Report	Opinion/Action	HI Recommendation
Adults & Communities	Erroneous payment to resident's personal bank account	16-Dec-14	Investigation	No
Adults & Communities	Analysis of resident's personal funds spend	18-Dec-14	Investigation	No
Adults & Communities	Office cash shortages	05-Dec-14	Investigation	No
Chief Executives	Better Care Fund incl role of Health and Wellbeing Board - phase one	18-Nov-14	Substantial	No
Chief Executives	Local Welfare Provision - Counter Fraud	04-Nov-14	Substantial	No
Chief Executives	Performance Management	05-Dec-14	Substantial	No
Children & Families	Health and Safety - Vehicle Maintenance	01-Dec-14	Partial	Yes
Consolidated Risk	Risk management - Framework Design & Governance & Operational Delivery	08-Jan-15	Substantial	No
Consolidated Risk	Impact of the Welfare Reform Act - stage report	28-Jan-15	Substantial	No
Corporate Resources	Control of Information Security Breaches	23-Oct-14	Substantial	No
Corporate Resources	ISRA - SirsiDynix Symphony Library Management System	30-Oct-14	Substantial	No
Corporate Resources	ISRA - Swivel Authentication Platform	30-Dec-14	Substantial	No
Corporate Resources	Wide Area Network Replacement Project	12-Nov-14	Substantial	No
Corporate Resources	Mobile Device Management	18-Dec-14	Substantial	No
Corporate Resources	Treasury Management	09-Jan-15	Substantial	No
Environment & Transport	LAFARGE (Tarmac) contract draw down	12-Nov-14	Substantial	No
Public Health	Re-design/Transformation (MTFS requirements)	11-Nov-14	Full	No
Non audit duties	Assist Strategic Finance to investigate reasons for, and rectify payables errors and issues			

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High Importance Recommendations

Audit Title (Director)	Summary of Finding and Recommendation	Management Response	Action Date (by end of)	Confirmed Implemented
Reported February 2015				
Health and Safety in maintained schools (C&FS)	Internal Audit Service was requested to follow up on a recommendation from a Health and Safety Executive Improvement Notice that full inventories exist of all vehicles and plant, and that records can demonstrate fully that all vehicles/plant have been/are being serviced and maintained in accordance with manufacturers' instructions. None compliance to the Notice could result in penalties, compensation awards, adverse publicity and legal action (and costs) against the County Council. There was a poor response from maintained schools, even after reminders and further guidance. It was recommended that the C&FS H&S representatives should work closely with the Corporate Health & Safety Unit to drive forward compliance with the HSE Improvement Notice.	Agreed	January 2015 Follow up on 3 February revealed there had been some improvement, but information is still required from 40 schools. The Assistant Director (Commissioning and Development) has proposed a number of ways to obtain the outstanding information. Extend from January to March 2015	

Reported November 2014				
Liquidlogic Adults System (LAS) project phase 2 (A&C)	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. Recommended: - 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 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.	Agreed (see previous column for detail)	Originally Dec. 2014 **There has been considerable progress on priority areas needed to meet the initial Care Act requirements on 1 April 2015, but still not yet able to sign off all of the HIs as 'completed'. Some risk has been re-phased (into Phase 3), and Internal Audit Service has been invited to comment on proposals due to be presented to the Project Board at the end of February.** **Extend from December 2014 to February 2015**	1. Yes 2. 3. 4.

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Sponsored Academies - Revenue & Capital Implications (C&FS/CR)	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. Recommended that the ongoing responsibilities of LCC as the landlord should be defined 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. 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.	 Agreed Agreed	Originally Jan. 2015 **Substantial progress has been made with implementing both recommendations, which is planned to be presented to, and ratified by the Corporate Schools Group in mid-March** **Extend from January 2015 to March 2015**	

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Reported May 2014				
'M-Star' – Managed Service For Temporary Agency Resources (CR)	'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. Recommended: - 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	Agreed At the time of final report some progress had already been made	Originally July 2014 Extended to Oct. 2014 Extended to Jan. 2015 **Corporate HR has met with all DMT's and in some situations SMT's to provide further analysis for those sections. All Directors are aware of the HI areas, and a HR report will be submitted to all DMT's and SMT's whose areas have requested this detail on a monthly basis in order to try and reduce both non-compliance areas.** **Corporate HR plan to attend further DMT's in April 2015 to discuss the progress on both HI areas Extend from January 2015 to April 2015**	

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Reported November 2013				
Pension Fund contribution 'bands' (Pension Fund)	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. Recommended: - 1. that the report should be reconfigured 2. a framework for sample testing should be agreed and implemented to cover future pension banding changes.	Agreed	Originally Sept. 2013 Extended to June 2014 Extended to Oct. 2014 Extended to Jan. 2015 1. The report was produced **2. A draft framework has been produced but it has still not been agreed between the Head of EMSS and its two partners.** **Extend from January 2015 to March 2015**	1. Yes 2. **Pending**

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Reported February 2013				
Employee annual leave recording (CHR)	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. 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.	Agreed in principle subject to: - Certain staff groups needing to be excluded; Development of recording leave by hours rather than days.	Originally March 2013 Extended to Jan. 2014 Extended to Mar. 2014 Extended to Jan. 2015 **Audit checks on a relatively small sample proved that ORACLE is being used, although (due to a lack of confidence in the robustness of the self-serve module) this can sometimes be after a traditional leave card has been completed, thereby duplicating effort.** **Whilst the original HI recommendation can be closed down, the recent audit has recommended issuing a further corporate instruction on the sole use of self-serve.**	**Yes**

‘On hold’ pending new internal audit work

Reported February 2012				
Developers Contributions (Section 106) (CEx) in conjunction with all departments	Departmental records have not been consistent in providing a clear trail of income and expenditure. Recommended: - 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	Agreed	March 2012 Agreed to extend to April 2013 **Suspended June 2013**	1. Met 2. Data migration errors have now been addressed. Work underway on validation checks and introducing systems to capture spending data. 3. Not met
Developers Contributions (Section 106) (CEx) in conjunction with all departments	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.	Agreed	February 2012 Agreed to extend to April 2013 **Suspended June 2013**	Partly met A group is established but await the data migration cleansing to finalise methodology.
Developers Contributions (Section 106) (CEx)	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.	Agreed	March 2012 Agreed to extend to April 2013 **Suspended June 2013**	Not yet in place

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE
20 FEBRUARY 2015

REPORT OF THE COUNTY SOLICITOR

COVERT SURVEILLANCE AND REGULATION OF INVESTIGATORY POWERS ACT 2000

Purpose of Report

1. The purpose of this report is:

   (i) to advise the Committee on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period of 1 October to 31 December 2014;

   (ii) to ask the Committee to agree to receive annual reports on the use of RIPA, replacing the current quarterly reporting arrangements;

   (iii) to ask the Committee to continue to review the RIPA Policy Statement on an annual basis to ensure it remains fit for purpose.

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 to ensure that it is being applied consistently with the local authority's policy and that the policy remains fit for purpose. Elected members should not, however, be involved in making decisions on specific authorisations.

3. Since October 2000 the County Council has had statutory responsibilities under RIPA to ensure there is appropriate oversight for the authorisation of County Council officers who are undertaking covert surveillance governed by RIPA.

4. This Committee at its meeting on 24 November 2014 agreed that the Policy Statement endorsed by Cabinet on 13 December 2013 remained fit for purpose.

Use of RIPA

5. For the period from 1 October to 31 December 2014, authorising officers in the Chief Executive's Department received the following:

- One application for directed surveillance;
- Two applications to use a covert human intelligence source;
- One application to obtain communications data.

6. Magistrates approved all of the above authorisations and were satisfied that the County Council's submissions met all the necessity and proportionately requirements.

7. These surveillance authorisations were required to enable the Trading Standards Service to:

   - Undertake age restricted test purchases of alcohol and tobacco products from retailers within the County;
   - Investigate the supply of counterfeit goods including illicit tobacco.

Illegal Sales of Butane, knives and fireworks

8. 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 European Convention of Human Right (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.

9. For the period from 1 October 2014 to 30 September 2014 an authorisation was granted to undertake nine covert test purchase attempts relating to fireworks, butane or knives, none of which resulted in in a sale.

New Guidance.

10. On 10 December 2014 revised versions of the two codes of practice under part 2 of the Regulation of Investigatory Powers Act 2000 (RIPA) came into force. This is a result of two statutory instruments made on the 19 November 2014, namely the Regulation of Investigatory Powers (Covert Surveillance and Property Inference: Code of Practice) Order 2014 and the Regulation of Investigatory Powers (Covert Human Intelligence Sources: Code of Practice) Order 2014.

11. The revised codes take into account changes which took effect on 1st November 2012; namely magistrates' approval for council surveillance and a new six-month custody threshold test for directed surveillance. As a consequence of the implementation of an additional layer of judicial approval the revised codes remove the requirement for elected members to receive

quarterly reports on the use of RIPA and propose reporting should be on a *regular* basis.

12. The revised codes do retain the requirement for elected members of a local authority to review the RIPA policy at least once a year to ensure it remains fit for purpose.

13. In December 2014 The Office of Surveillance Commissioners (OSC) also published new guidance concerning the use of RIPA. Authorising officers within Regulatory Services have reviewed the OSC guidance and the revised codes of practice, all of which are now available to all employees via the County Council intranet. The authorising officers are satisfied that the County Council procedures are in accord with current best practice.

Recommendation

That the Committee:

a) Notes the contents of this report and the use of RIPA powers for the period 1 October to 31 December 2014;

b) Agrees to replace the current quarterly reporting structure with an annual report on the use of RIPA which will also include the annual review of the RIPA Policy Statement.

Equal Opportunities Implications

14. None.

Background papers

Report to the Corporate Governance Committee on 24 November 2014 – Regulation of Investigatory Powers Act 2000 Annual Report

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

Circulation under the local issues alert procedure

15. None.

Officer to contact

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