

Meeting: Corporate Governance Committee

Date/Time: Friday, 12 June 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. G. A. Boulter CC Mr. T. J. Richardson CC
Mr. G. A. Hart CC Mr. S. D. Sheahan CC
Mr. A. M. Kershaw CC Mr. R. J. Shepherd CC
Mr. K. W. P. Lynch CC

AGENDA

<u>Item</u>	<u>Report by</u>
1. Appointment of Chairman. <i>Mr. A.M. Kershaw CC was nominated as Chairman elect at the County Council meeting on 19 May 2015.</i>	
2. Election of Deputy Chairman.	
3. Minutes of the meeting held on 20 February 2015.	(Pages 3 - 8)
4. Question Time.	
5. Questions asked by members under Standing Order 7(3) and 7(5).	
6. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
7. Declarations of interest in respect of items on the agenda.	
8. External Review of the MTFS.	Director of (Pages 9 - 36)



	Corporate Resources	
9. Risk Management Update.	Director of Corporate Resources	(Pages 37 - 58)
<i>A presentation on the risks associated with The Care Act 2014 will be provided as part of this item.</i>		
10. Annual Treasury Management Report 2014/15.	Director of Corporate Resources	(Pages 59 - 64)
11. Quarterly Treasury Management Report	Director of Corporate Resources	(Pages 65 - 70)
12. Draft Annual Governance Statement 2014/15.	Director of Corporate Resources	(Pages 71 - 96)
13. Internal Audit Service Quarterly Progress Report.	Director of Corporate Resources	(Pages 97 - 110)
14. Internal Audit Annual Report 2014/15.	Director of Corporate Resources	(Pages 111 - 134)
15. Internal Audit Service Audit Plan 2015-16	Director of Corporate Resources	(Pages 135 - 146)
16. Date of next meeting.		
17. Any other items which the Chairman has decided to take as urgent.		



Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Friday, 20 February 2015.

PRESENT

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

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

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

35. Minutes.

The minutes of the meeting held on 24 November 2014 were taken as read, confirmed and signed.

36. Question Time.

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

37. 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).

38. Urgent Items

There were no urgent items for consideration.

39. Declarations of interest.

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

Mr Shepherd CC declared a personal interest in item 6, 'External Audit – Annual Grant Certifications', as a member of the teachers' pension scheme. Mr Lynch CC declared a personal interest in item 6 as his wife was a member of that scheme, and Mr Jennings CC also declared a personal interest in this item as both he and his wife were members of the teachers' pension scheme.

40. External Audit of Annual Grant Certifications.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the Annual Grants Certification Report 2013/14 for approval. A copy of the report, marked 'Agenda Item 6' is filed with these minutes.

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

RESOLVED:

That the Annual Grants Certification report 2013/14 be approved.

41. External Audit Plan 2014/15.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the external Audit Plan 2014/15 for consideration. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The Committee was advised that the Statement of Accounts were rounded to the nearest £100,000 and this was why it was recommended that the reporting limit for 'trivial' misstatements be set at that figure. Matthew Elmer advised the Committee that PwC would look into whether any misstatements were isolated or pervasive.

RESOLVED:

(a) That the update provided by PricewaterhouseCoopers be noted.

(b) That the reporting limit of £100,000 for 'trivial' misstatements be retained.

42. Treasury Management Strategy Statement and Annual Investment Strategy.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to enable a review of the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

The Committee noted that, following comments by Members at the previous meeting regarding ethical investments, consideration had been given to amending the list of counterparties once the updated list was available in April 2015. The list would be circulated to Members when it was available. However, the County Council did not have a policy on ethical investments.

RESOLVED:

That the Treasury Management Strategy Statement and Annual Investment Strategy 2015/16 be noted.

43. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risk areas and the measures being taken to address them. The report also provided an update on related risk management matters and counter fraud initiatives. A copy of the report, marked 'Agenda Item 9' is filed with these minutes.

The Committee also received a presentation on risks around the ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS. A copy of the slides forming the presentation is filed with these minutes.

Presentation – Risk around ability to deliver savings and efficiencies through service redesign and transformation.

Arising from the presentation the following points were noted:

- (i) Decommissioning services was one of a number of options and would not be undertaken without understanding the impact on other Council services. Options would be analysed through the business case and a view taken on feasibility.
- (ii) In future there would be a greater emphasis on commissioning; however, commissioning would not always be the best option and therefore other options would still be considered. Where commissioning was identified as the best option the level of support and expertise would be strengthened.
- (iii) Concerns were raised regarding the realisation of benefits for the County Council and in particular the Supporting Leicestershire Families programme where savings being made were largely for the benefit of other agencies. The Committee was assured that the new Risks & Benefits Manager would consider each project to identify opportunities where more could be done to realise benefits.
- (iv) Risks associated with the Transformation Programme were being aligned with the Corporate Risk Register.

The Risk Register

Arising from discussion the following points were noted:

- (v) Risk No. 2 on the cost of sponsorship to the County Council arising from academy conversion did not include the risk regarding schools in Oadby going through age range changes. That would be a separate risk as it was likely to have an impact on the primary schools in the area which were still maintained by the County Council.
- (vi) Other authorities assessed risk appetite in the same way as Leicestershire County Council. A member of the Corporate Resources Department was a member of the Public Risk Management Association known as 'ALARM' which met regularly to compare approaches to risk across the sector.
- (vii) Concerns were noted regarding an inability to match-fund transport schemes put forward by the Leicester & Leicestershire Enterprise Partnership and a consequent threat to service delivery and improvement. These concerns would be taken forward by the Director of Corporate Resources.

RESOLVED:

- (a) That the current status of strategic risk, the addition of new risks facing the Council and the updated Corporate Risk Register be approved.
- (b) That the following be noted:

- (i) The content of the revised Risk Management Policy and Strategy;
 - (ii) The contents of the Risk Maturity Assessment Summary and the associated action plan;
 - (iii) The risk impact and likelihood scoring criteria and escalation trigger points;
 - (iv) The contents of the risk map incorporating the corporate risks (November 2014);
 - (v) The contents of the Protecting the Public Purse 2014 report.
 - (vi) The Council's requirements under the Local Government Transparency Code 2014.
- (c) That a presentation be provided at the next meeting of the Committee on the risks associated with the Care Act 2014.

44. Anti-Fraud and Corruption Framework.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present three new/updated policies and strategies that will form part of the Council's overall suite of counter fraud documents. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

Arising from discussion the following points were noted:

- (i) All the County Council's counter fraud documents had been updated except the cyber security policy. Members would be sent an email advising on progress with updating this.
- (ii) Whilst it was a responsibility of managers to make sure the policies were implemented and adhered to, explicit reminders were sent to all staff. The communications to Council staff included:
 - (i) the Managers Digest,
 - (ii) the E-Comms learning (mandatory for all staff)
 - (iii) Annual Governance work including stopping and asking staff
 - (iv) Internal Audit
- (iii) Action would be taken to ensure that those Council staff without regular access to Information Technology were made aware of the policies. This could be done through the Performance and Development Review process but further consideration would be given to the most appropriate method.
- (iv) Counter Fraud audits would take place to assess whether the policies were making a difference.

RESOLVED:

- (a) That the following policies be approved:

- (i) Anti-Fraud and Corruption Policy Statement and Strategy;

(ii) Anti-Bribery Policy Statement and Procedures;

(iii) Anti-Money Laundering Policy;

(b) That the Director of Corporate Resources be authorised to make any necessary minor amendments to the above policies.

45. Quarterly Treasury Management Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the actions taken in respect of treasury management in the quarter ended 31 December 2015. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

In response to a question, the Committee were informed that whilst the economic circumstances of other countries did not impact directly on the Authority's portfolio, officers did monitor relevant situations.

RESOLVED:

That the Quarterly Treasury Management update be noted.

46. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to summarise the Internal Audit Service work since the last report to the Committee, and provide an update on the investigation into the former Leader of the County Council, Mr David Parsons. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

RESOLVED:

That the update on the work of the Internal Audit Service be noted.

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

The Committee considered a report of the County Solicitor, the purpose of which was to advise on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period of 1 October to 31 December 2014, and to ask the Committee to receive annual reports on the use of RIPA, replacing the current reporting arrangements. A copy of the report, marked 'Agenda Item 12' is filed with these minutes.

RESOLVED:

(a) That the Authority's use of RIPA for the period of 1 October to 31 December 2014 be noted;

(b) That the current quarterly reporting structure be replaced with an annual report on the use of RIPA which will also include the annual review of the RIPA Policy Statement.

48. Date of next meeting.

The next meeting of the Committee would be held on Friday 12 June 2015.

10.00 - 11.15 am
20 February 2015

CHAIRMAN



CORPORATE GOVERNANCE COMMITTEE – 12 JUNE 2015
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
EXTERNAL REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY
2015/16 – 2018/19

Purpose of the Report

1. The purpose of this report is to present the key findings from a review undertaken by the Council's external auditor, PricewaterhouseCoopers (PwC), on the Medium Term Financial Strategy (MTFS) 2015/16 – 2018/19.

Background

2. The County Council approved the MTFS 2015 on 18 February 2015. The external auditor, PwC, is required by the Use of Resources Code to carry out sufficient and relevant work in order to conclude on whether proper arrangements are in place to secure economy, efficiency and effectiveness in the use of resources and financial resilience.
3. As part of this process they have undertaken a review of the approved MTFS 2015 and their report is attached as an Appendix. The PwC audit manager will attend the meeting of this Committee to present their findings.

Recommendation

4. The Committee is asked to consider any issues raised by the auditor in their report.

Equalities and Human Rights Implications

5. None.

Circulation Under Local Issues Alert Procedure

6. None.

Background Papers

The Medium Term Financial Strategy 2015 approved by County Council on 18 February 2015.

Officers to Contact

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Appendices

PwC Medium Term Financial Strategy Report 2015



Leicestershire County Council

May 2015

Medium Term Financial Strategy report

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

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. 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 letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

Use of Resources

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

In accordance with recent guidance issued by the Audit Commission, in 2014/15 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for prioritising resources.

The focus of these criteria for 2014/15 will be on whether:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements. As part of our work in this area we have undertaken a review of your Medium Term Financial Strategy.

Background

On 20 October 2010 the coalition government published the Spending Review 2010, which set out government department budgets for the period 2011/12 to 2014/15. The impact of the reductions in central government funding on individual local authorities in the two final years of this period was finalised in December 2012.

The Chancellor's Autumn Statement was given on 5 December 2014 and it described the plans as being in the year 5 of a 10 year fiscal consolidation. It included the following key headlines:

- Economic growth forecasts of 3% for 2014/15 and 2.4% for 2015/16;
- The deficit was due to be eliminated after 2017/18;
- A small cash surplus predicted in 2018/19; and
- Business rates again capped at 2% rather than linked to RPI inflation.

The provisional Local Government Finance Settlement was released later in December 2014. The key points raised were that:

- The 'spending power' of the Council is to rise by 1.6% in 2015/16 (primarily due to the Better Care Fund);
- Revenue Support Grant will fall by 23.8% to £55.8m in 2015/16; and
- The New Homes Bonus would be £3.4m.

Medium Term Financial Strategy

In our audit plan presented to you in January 2015, we highlighted a specific audit risk in relation to your savings requirement over the next few years. You will be required to make around £87m of savings and service reductions over 4 years (2015/16 – 2018/19).

The Council took prompt action in 2010 to cut costs in advance of the Comprehensive Spending Review. You have been planning ahead for the impact of the economic environment for a number of years, and are on track to deliver the £18m of savings planned to be achieved during 2014/15.

We agreed in the audit plan that we would review your MTFS, including how you manage the plan and comparing it with other similar plans. The areas of focus for this work are:

- Programme management;
- Progress to date;
- Assumptions;
- Sensitivity analysis;
- Reserves; and
- Economy, efficiency and effectiveness.

Section I: Progress to date

Progress to date

The Authority has made significant strides over the past five years to identify savings and deliver more efficient services. There has been a well-established Change Management Programme and Organisational Efficiency Programme which has helped deliver a balanced budget and achieve demonstrable value for money over a number of years.

You have continued to focus on maximising efficiency savings. Previous examples have included reductions in management and associated costs through reducing the layers of management, exploiting new technology and a further review of employee terms and conditions. You are also planning further efficiencies over the MTFS period, including reductions in senior management and administration costs (£5 million), better commissioning and procurement (£12 million) and service re-design (£14 million).

The scale of the challenge over the next few years is likely to be 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. This is particularly true for the delivery of your challenging savings target in 2015/16. The delivery of more challenging transformational savings than has been the case to date is also required. There will also be a greater level of service reductions than have been experienced to date – the MTFS forecasts that up to £35m (40%) of the £87m savings requirement over the next four years will be delivered through service reductions. You estimate that your proposals would lead to a reduction of up to 700 posts over the four-year period; you need to ensure that corporate memory is not lost as a result.

During 2014/15 you have continued to deliver savings and you reported to members in March this year a forecast net under-spend against the updated budget of around £13.6 million before carry forwards. This was for a variety of reasons including contingency budgets which have not been required and the achievement of efficiencies ahead of plan. This gives you further flexibility to invest to save, for example through the £25m street lighting project. There is continued evidence of proactivity and looking forward, with in-year projects identified and progressed, enabling required future savings to be realised.

The overall underspend for 2014/15 masks some overspending within the Council. The Adults and Communities Department in particular continues to experience increased demographic and demand pressures which resulted in a forecast overspend of around £1.5m.

Link to your MTFS

Progress to date continues to put you in a good position to address future challenges. For example, the earmarked reserves you have established for 'invest to save' projects and other future commitments mean that you can continue planning for the reduction in your grant from central government over the next few years.

However, the challenge remains significant and is growing. This should not (and in our view is not) being underestimated. Your MTFS for 2015/16 and beyond was approved at the February Council meeting. This highlights that in 2015/16, for example, you will be required to deliver savings of around £31.9 million, or around 9% of your net budget. This is a significant increase from the £18m savings you have delivered in 2014/15, and represents by far the most challenging requirement you have faced over the past five years.

Section II: Programme management

Programme Management

You have effectively managed savings programmes over a number of years and have a proven track record.

Governance structures in each department have overseen delivery of past plans, and our recent work suggests these remain fit-for-purpose. There continues to be:

- strong leadership from your Directors who have taken responsibility for delivering the required savings and service reductions;
- agreed priorities which have influenced spending decisions;
- a well-established reporting framework with clear accountability to ensure that projects down to a granular level are delivered; and
- business partners in each Directorate to support the delivery of savings projects and improve information to support decision making.

Involvement of Members

Members are involved through each of the lead members and the review of corporate performance against capital and revenue budgets at relevant committees. Members also have a significant involvement in the development of the Medium Term Financial Strategy through a number of means:

- meetings with members and briefings for individual political parties;
- detailed scrutiny of the plans for Adult & Communities and Children & Family Services at separate scrutiny meetings. This also includes scrutiny of Environment & Transport and Public Health;
- detailed scrutiny of Chief Executive and Corporate Resources plans by the Scrutiny Commission;
- scrutiny at a summary level by the Scrutiny Commission;
- discussion of the proposals at Cabinet meetings; and
- approval of the final MTFS at the Council meeting in February 2015.

Members have also been involved in the development of the financial strategy which underpins the MTFS as part of the Transformation programme.

Transformation

Over the past 18 months the Council has developed and implemented arrangements, supported by appropriate resource, to oversee a transformation programme. This reflects the challenges facing the Council and the need for future savings to be transformational, rather than through traditional means which have served the Council well over the past few years.

During 2013 an all-party 'Transformation Board' for members was established to engage with officers on the medium term transformation of the way the Council operates. The governance arrangements around the transformation programme have developed well over the past 12 months; this now comprises:

- The Transformation Board – meets on at least a quarterly basis. It was established as a cross-party group that is member led.
- The Transformation Delivery Board – meets on at least a monthly basis to oversee the process and manage risk.
- The Transformation Team – responsible for the day to day running of the Transformation Programme, led by business partners working with individual Directors.

The transformation programme is being supported by significant resources, and this investment is critical if the required transformation is to be delivered. The transformational schemes with the largest savings attached to them over the life of the MTFS, are as follows:

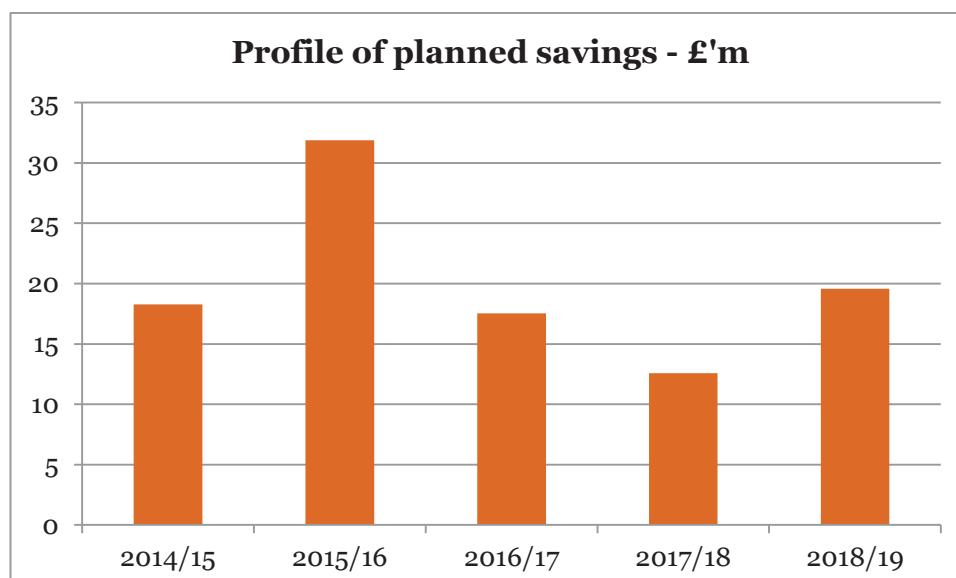
- Remodelling Early Help services - £3.090 million;
- Early intervention and prevention - £2.5 million;
- Preventative expenditure to be identified and absorbed into the ring fenced budget - £5 million;
- Revised approach to Highways Activities and Maintenance - £6.670 million;
- Recycling and Household Waste Site provision - £2.795 million; and
- Various reviews of Corporate Services - £7.165 million.

These are significant transformational schemes which will require ongoing support, robust challenge and effective project management if they are to be delivered. The infrastructure the Council has put in place has the potential to facilitate delivery of these schemes.

In overall terms, we think that your programme management arrangements are good. The changes to your arrangements, in particular the increased resource you have allocated to delivering the transformation agenda, is important and necessary given the scale of the challenge which remains significant.

Profile of Planned Savings

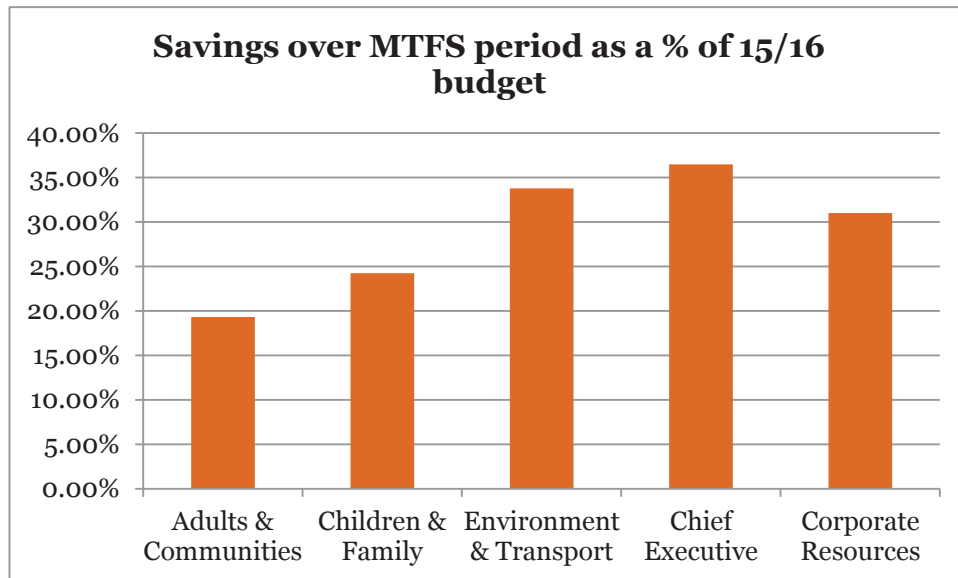
The challenge in 2015/16 is greater than in 2014/15, and indeed than in later periods of the MTFS. It is a critical year in the delivery of savings and transformational change. The majority of the savings for 2016/17 and later years are in the early stages of development and require either significant transformation or tough reductions in service levels to be implemented:



There are difficult actions which need to be taken if the planned savings are to be realised over the medium

term. The lower savings figure for 2014/15 provided you some space to plan for and deliver future required savings. In particular, 2015/16 will be very demanding; you have included an £8 million contingency in your budget for each year of the plan to help manage financial risk and a central contingency for inflationary pressures, which is £10 million in 2015/16. The figure for 2018/19 includes the £4.7m budget shortfall; this is a reduction from the £12.5 million budget shortfall in the final year of your 2014 MTFS.

The savings also impact some areas of the Council more than others. The following graph illustrates the total savings required in each department, over the lifetime of this MTFS, as a percentage of their 2015/16 net budget:



The relatively lower requirement for Adults and Communities reflects a number of factors - the significant uncertainty regarding funding for care, pressure from changing demographics and the results of the consultation process which prioritised many services for older people. The savings for Adults and Communities also includes £10 million of addition income for the impact of the Better Care Fund. If this was removed the percentage savings would be lower at 11.7%.

Delivery of 2015/16 Savings

The MTFS includes a number of significant service reduction and efficiency schemes which will be particularly influential in meeting your targets. The largest of these schemes in 2015/16 are as follows:

Department	Scheme	2015/16 £'m	Comments
Children and Family Services	T3 - Remodelling Social Care	1.200	<p>The project aims to deliver system change across three key service areas:</p> <ul style="list-style-type: none"> the structure of locality social care services; provision of placements for children with complex needs and behaviours; and commissioning and use of Independent fostering agencies. <p>Changes in phase 1 of the remodelling project to alter the service have been completed and deliver the savings for 2015/16.</p>
	T8 - Remodelling Early Help	1.890	<p>A restructuring has already secured delivery of the savings for 2015/16.</p> <p>Phase 2 of transformation will be undertaken during 2015/16 in order to deliver further savings in 2016/17</p>

Department	Scheme	2015/16 £'m	Comments
			through the development of co-commissioning and service integration.
	D9 – Release Early Help budget	2.100	It was anticipated that the expansion of the early education offer to the 40% most deprived 2 year olds would be unfunded, this was subsequently funded by the Department for Education. This has released a recurrent saving of £2.1m.
	Cumulative savings of £13.380m per annum need to be made by 2018/19. The largest element is the assumed £3.090 million by 2017/18 from the remodelling of early help services.		
Adults and Communities	I22 - Better Care Fund	10.000	<p>The Better Care Fund (BCF) is a pooling of health and social care resources to support the provision of integrated services. The Leicestershire Better Care Fund Plan has been approved by the Health and Wellbeing Board.</p> <p>The BCF Plan outlines the ambition for improvement in Leicestershire against a set of performance metrics which include a reduction in emergency admissions to hospital. This metric is linked to 'Pay for Performance' whereby £3m of the fund is only payable to the County Council if there is a 3.5% (1,911) reduction in total, non-elective, general and acute admission. To militate against this risk to the Council, funds have been earmarked from the health integration fund to cover any loss of income resulting from underperformance.</p>
	Cumulative savings of £25.615m per annum need to be made by 2018/19. The largest element is the assumed £10 million income from the Better Care Fund from 2015/16 onwards.		
Public Health	T9/10/18 - Expenditure managed by Public Health absorbed into the ring fenced budget	1.750	Some expenditure within the Public Health remit has been allocated within ring fenced budgets, producing a saving. This includes spending on statutory services such as health checks, non-mandatory services such as physical activity and smoking cessation and other areas of health improvement.
	Cumulative savings of £5m per annum need to be made by 2018/19. The largest scheme is the one noted above.		
Environment and Transport	T6 -Recycling credits	1.440	The use by district councils of County Council facilities for green waste, resulting in transformational savings.
	Cumulative savings of £23.475m need to be made by 2018/19. The largest scheme is a revised approach to Highways Maintenance and Activities which will save £6.270m by 2018/19 through service reductions and efficiency savings.		
Chief Executive	No individual schemes above £1m due to be realised in 2015/16.		
	Cumulative savings of £3.6m need to be made by 2018/19. The largest scheme is a reduction of funding and support to businesses which will save £555,000 in 2015/16.		
Corporate Resources	No individual schemes above £1m due to be realised in 2015/16.		
	Cumulative savings of £7.165m need to be made by 2018/19. The largest schemes are:		
	<ul style="list-style-type: none"> Operational property review – £1.770m; Operational ICT review - £2.140m; and Improved performance and growth of trading services - £1.150m. Further review of strategic support to Departments £1.695m 		

The majority of the largest schemes have been already agreed or are subject to consultation for implementation in 2015/16. The delivery needs to be effectively monitored and slippage identified at an early stage for mitigating actions to be achieved. Your arrangements should enable this.

Section III: Assumptions

Key Assumptions

The MTFS is underpinned by a number of key assumptions. These include:

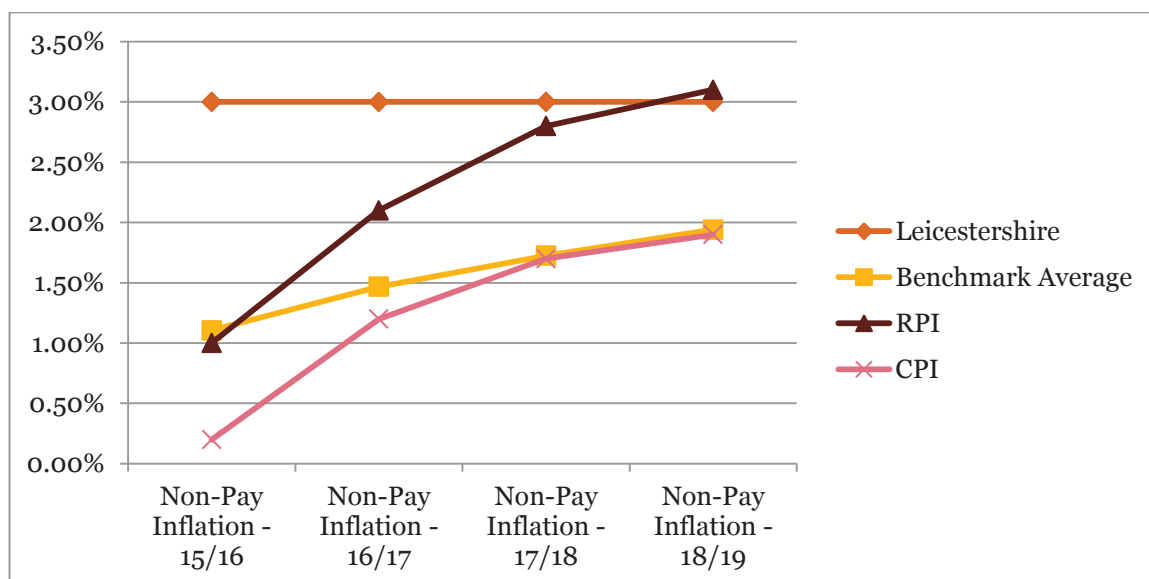
- Inflation – for both pay and non-pay expenditure;
- Growth – your estimate of future cost and budget pressures from changes in demand and volume;
- Efficiency savings – the level and timing of the savings you need;
- Council tax; and
- Use of reserves.

Each of these assumptions has varying degrees of inherent uncertainty. Assumptions applied to forecasts can often have a significant impact on balancing budgets. You have a history of delivering good financial management although the economic climate for Local Authorities continues to be challenging. With so many assumptions being applied there is an ongoing risk that one of the influencing factors may vary significantly from the assumptions you have applied.

We have reviewed the assumptions in your MTFS and compared them to all of our other Upper Tier External Audit clients. We have also taken into account our wider understanding of the sector. A summary of our findings is included below.

Inflation – non-pay costs

You have applied higher non-pay inflation assumptions for the whole MTFS period than our benchmark group, showing prudence in your estimation of the potential costs for non-pay items. You have assumed 3% inflation across the MTFS period. This is above current Treasury projections for CPI, the government's preferred measure of inflation, and generally below RPI in later years. You are also anticipating higher inflationary costs than the average of our benchmark group:

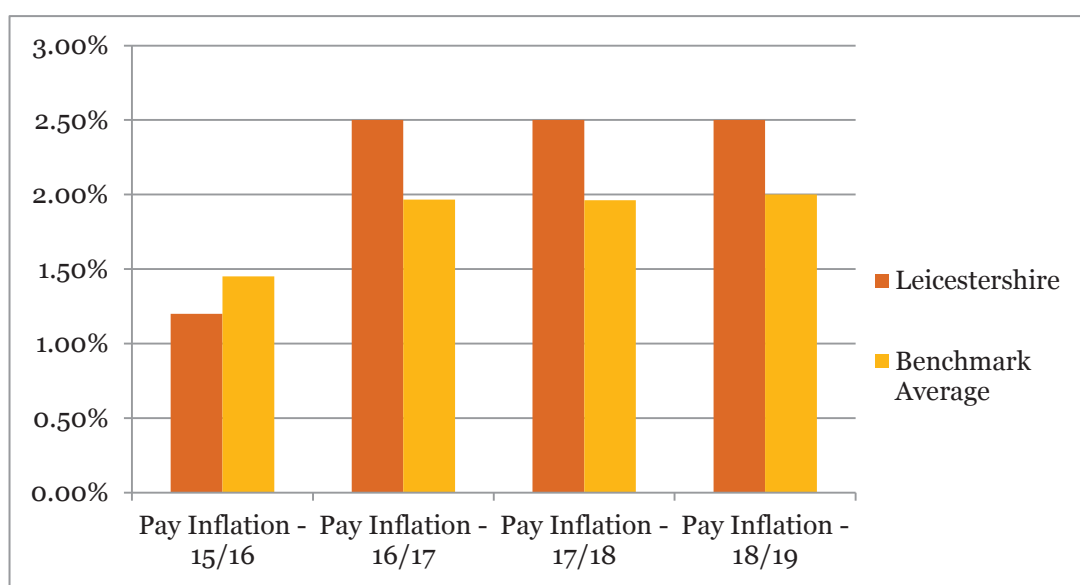


A 1% increase in inflation above your assumptions would result in an overspend of approximately £3m in 2014/15. You have also included some specific inflationary items to address cost pressures significantly above your general inflation assumptions.

Inflation – pay costs

The majority of the Local Authorities in our benchmark group have assumed pay inflation in 2014/15 and 2015/16 in line with the agreed local government pay settlement. The assumption of pay varies across our benchmark group in later years of the plan. The range of pay costs modelled by other Authorities is consistent at 2% over the last 3 years.

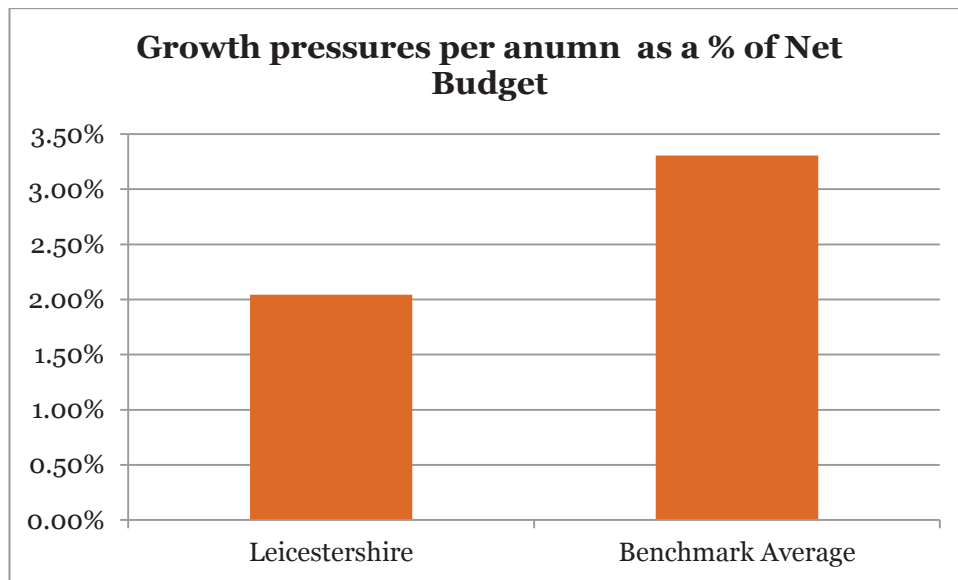
You have modelled a 2.5% increase for the later 3 years. You are at the higher end of the range. Your rationale is that after below inflation pay increases for a number of years there will be significant cost pressures for pay and on-costs, including employer pension contributions. We believe this continues to be a reasonable assumption for planning purposes:



With pay costs representing over 40% of Leicestershire County Council net expenditure, a 1% increase in this assumption would represent additional cost to the Authority of approximately £1.6m in 2015/16.

Growth pressures

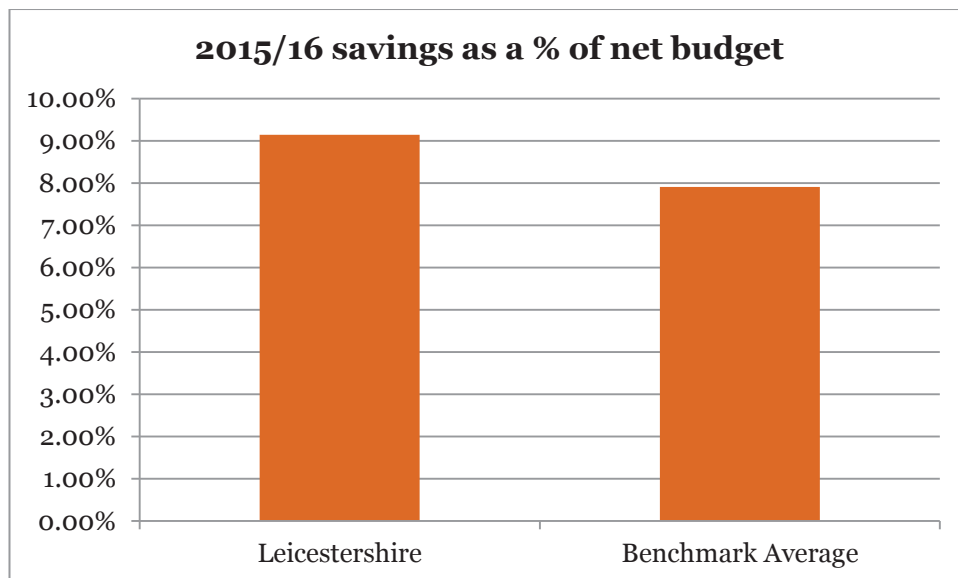
The growth and demand pressures you have modelled in your MTFS, when reviewed as a percentage of your net budget, are slightly lower than our benchmark group. The growth you have identified in the current MTFS is nearer to 2%:



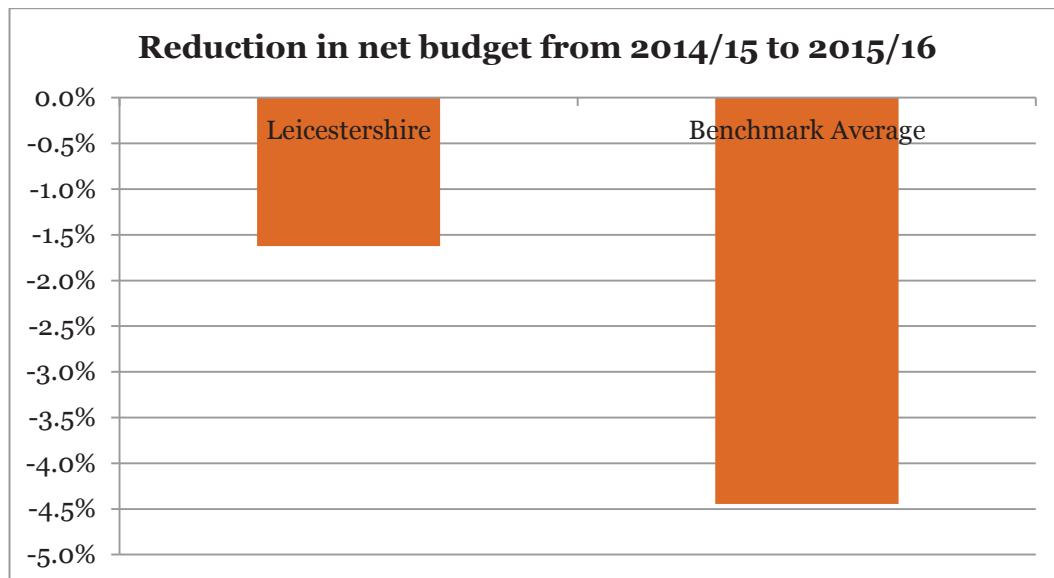
Of the £28.5m growth modelled over the life of the MTFS, by far the largest proportion relates to Adult Social Care (£22.4m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs. This continues a trend of the past 2 years where demographic and demand pressures have contributed to an overspend in the Adult and Social Care budget in both 2013/14 and 2014/15.

Total Savings

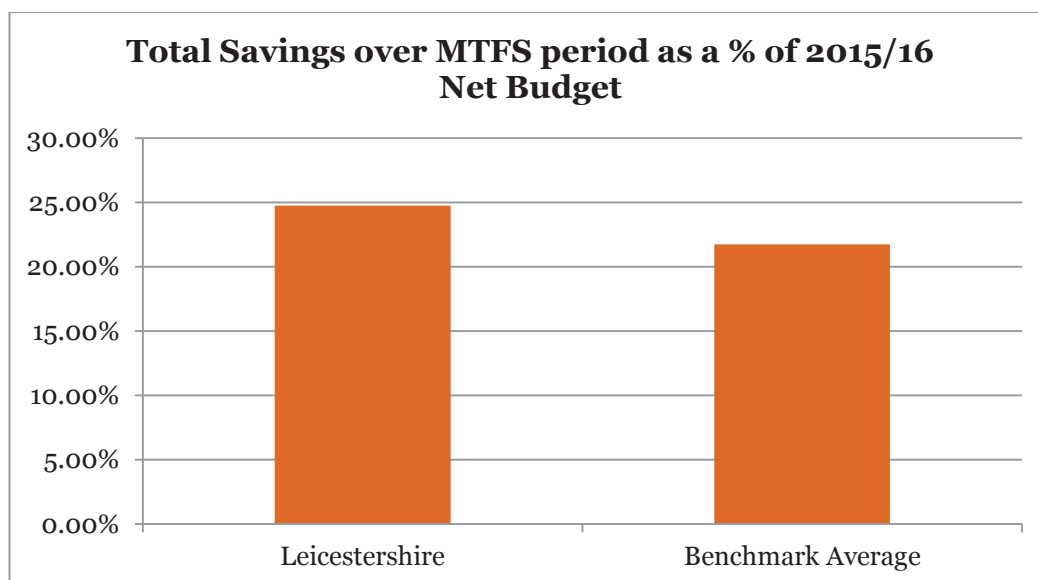
The levels of savings you are planning to make in 2015/16 to deliver a balanced budget are slightly above our benchmark group. This partly reflects the use of general and earmarked reserves in a number of Councils in our benchmark to deliver a balanced budget:



Your net budget is reducing next year by a lower level compared with our benchmark group:



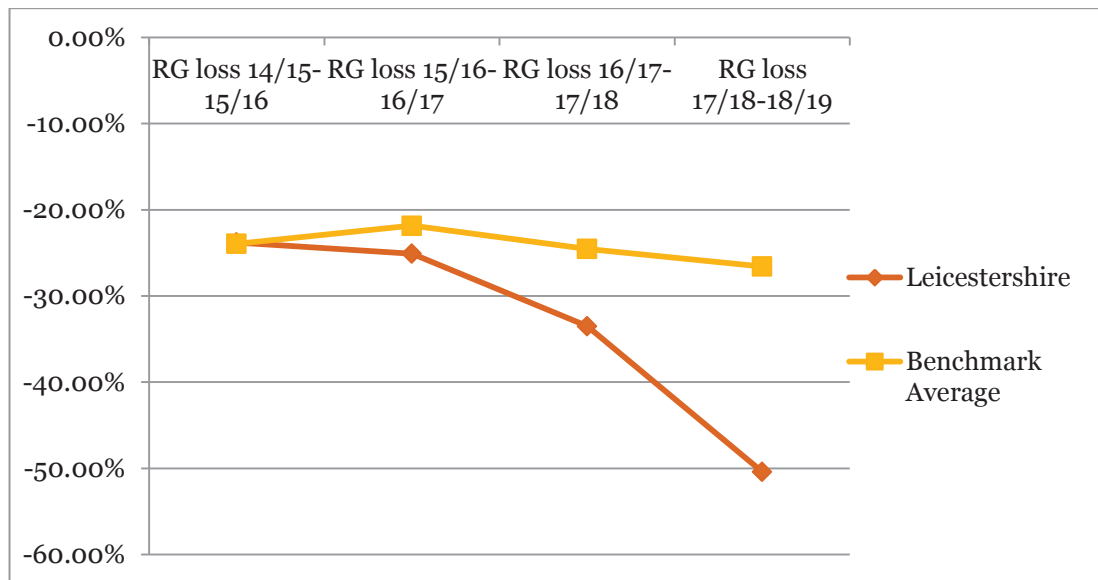
The levels of savings you are making over the period from 2015/16 to 2018/19 as a whole are slightly higher than for our benchmark group. This primarily reflects the fact you have modelled a full MTFS covering the whole 4 years, and have assumed a continued significant reduction in the level of funding available, when compared with others:



In overall terms, however, relative to your peers you are making similar savings or reductions over the course of your MTFS. The scale of savings being forecast for future periods has become more consistent in the sector over time, as the expectation of ongoing reductions in revenue funding has become more established. However, the level of savings you are planning to make in 2015/16 are clearly challenging.

Funding

The provisional level of revenue support grant (RSG) is known for 2014/15 and 2015/16, but has not yet been disclosed for later years. You have assumed a similar continued reduction in revenue funding for later periods of the plan when compared with our benchmark group. The variation from our benchmark group is also explained by the significant reduction in your revenue support grant towards a zero level; as the grant reduces each year, the percentage reductions become greater. You anticipate that in 2018/19, your grant will only be worth £13.8 million:

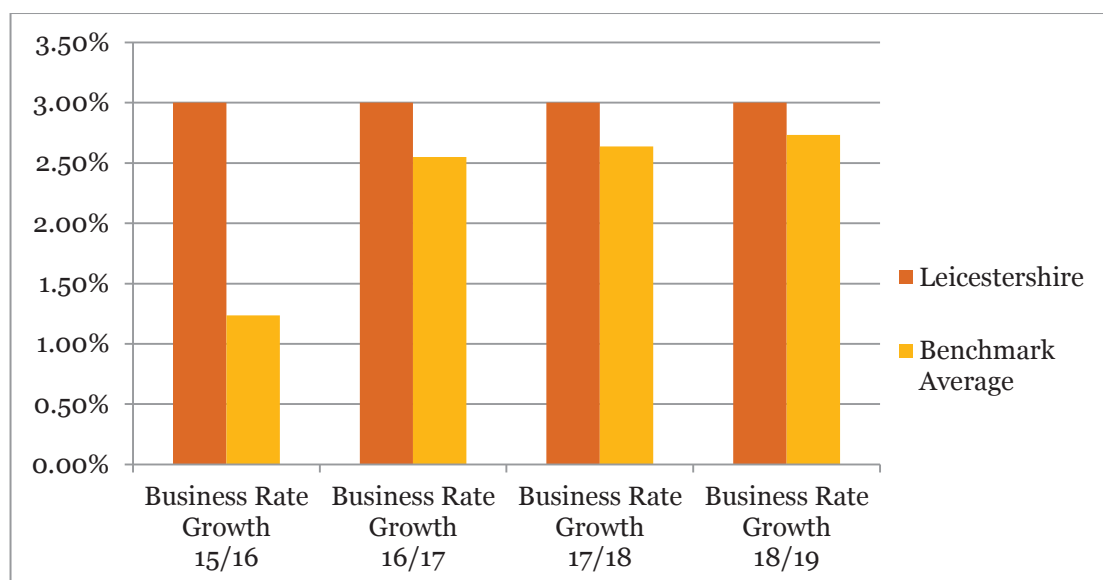


On a cash basis your forecast represents a significant reduction on a cash basis (figures are in £millions):

2014/15	2015/16	2016/17	2017/18	2018/19
70.762	55.754	41.754	27.754	13.754

Business Rates

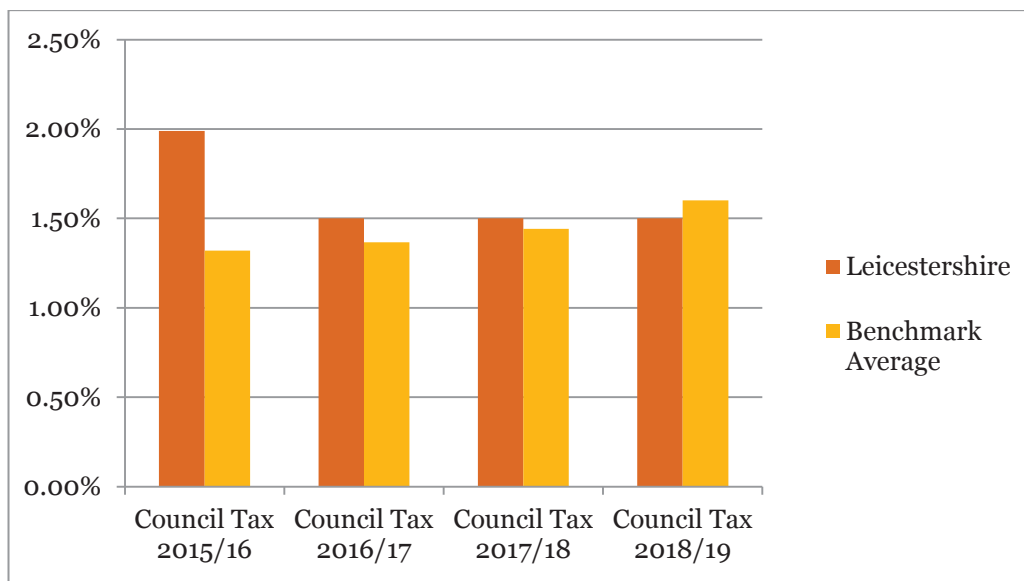
You have also made assumptions about the level of business rates which will be received following the localisation of this income stream. This is significant because the government has introduced the ability for Councils to retain a certain proportion of increases in business rates each year. You have made a more ambitious assumption on the level of business rate growth when compared to our benchmark group, although it is in a reasonable range and is consistent with your inflation assumptions. You have therefore not assumed real terms growth in business rates:



Council Tax

You have decided on a 1.99% increase in Council tax for 2015/16, with an increase of 1.5% also modelled in subsequent years for planning purposes. The majority of Councils are planning a Council Tax increases in

each year of their MTFS, and the average increase is around 1.5%. Only a minority of Councils in our benchmark group are freezing council tax:



Use of Reserves

See section IV of this report for more details.

Sensitivity Analysis

Sensitivity analysis of your inflation assumptions was performed to give an idea of what total expenditure would look with a 1%, 2%, 3% and 4% increase and decrease in inflation. In broad terms, a 1% increase in inflation above your assumptions would result in a cost pressure of approximately £3.5m in 2015/16.

Summary of Assumptions

You have generally made prudent assumptions in your MTFS when compared with other similar authorities. This means that you are in a comparatively more favourable position to respond to the challenges which the MTFS presents.

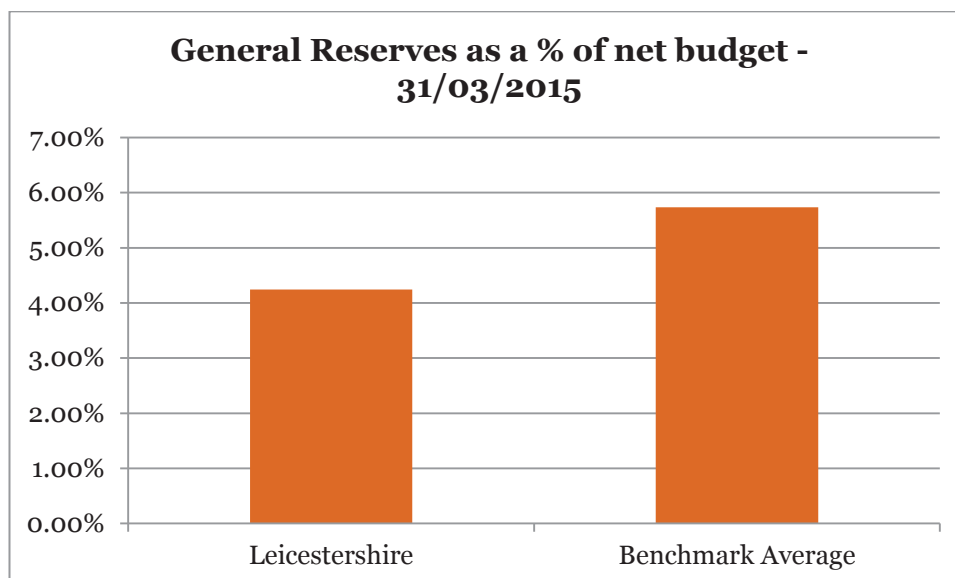
You need to ensure that you continue to monitor your progress against the plan, paying particular attention to changes in the original assumptions you have made.

Section IV: Reserves

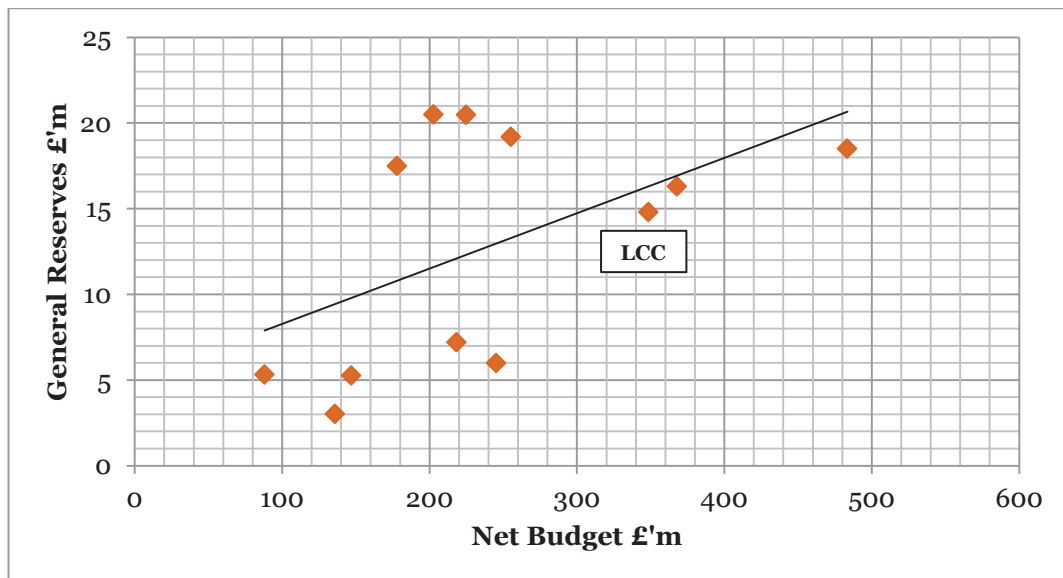
Reserves – General Fund

You have a policy to maintain your general fund at a level consistent with the risks you face, which has historically been at 2-3% of net expenditure. Given the increased level of risk in continuing to deliver significant levels of savings over the next few years, and the risks associated with policy developments, you have opted to increase this to between 4% and 5% of net expenditure. Your general reserve has historically been at the lower end of our benchmark group, and this is an appropriate change given the change in the risk profile over time.

Your forecast for the end of the 2014/15 financial year is to be holding £14.8m of general fund reserves, which represents 4.24% of your net spend. The policies in our benchmark group of Local Authorities ranges from 2% of net expenditure to around 7% of net expenditure. Your level of General Reserves remains relatively low when compared to others, but the gap is smaller than in previous years:



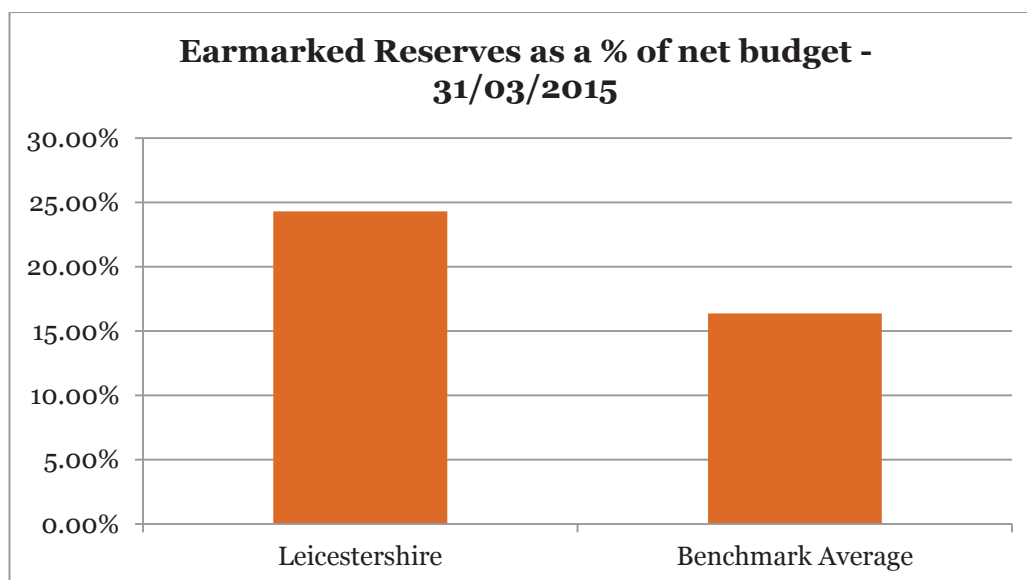
Your policy is within our expectation for the level of general fund reserves which we would independently expect you to hold. In addition, you hold a higher level of earmarked reserves than the Local Authorities in our benchmark group which mitigates this difference to some degree. The following graph shows the level of general reserves the authorities in our upper tier benchmark group held relative to their net budget:



Reserves – Earmarked Reserves

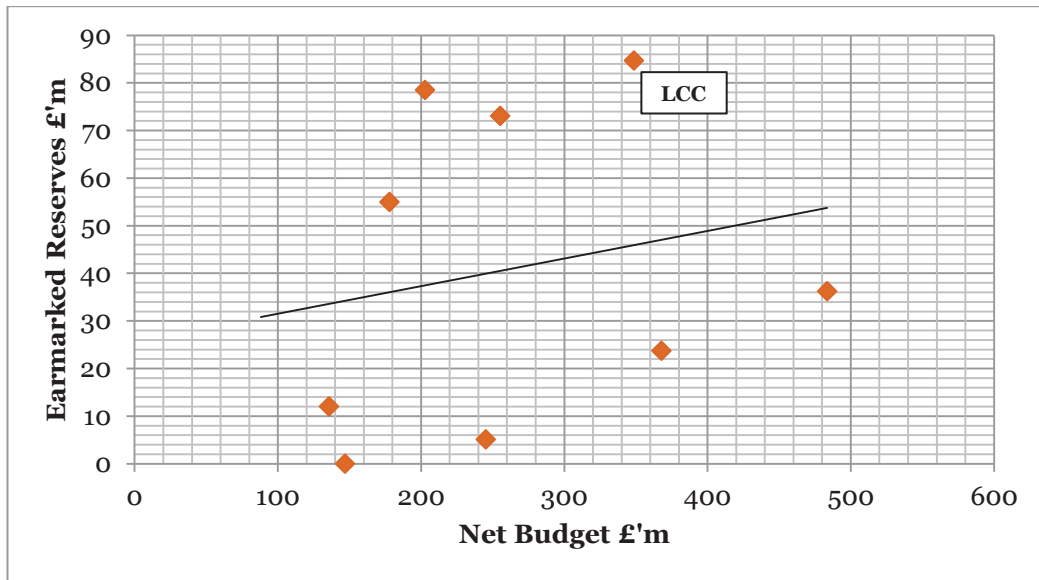
During the past 12 months you have undertaken a detailed review of your earmarked reserves to ensure that all reserves held were in relation to identified future spend, cost pressures and invest to save schemes. This review involved members and resulted in some changes to earmarked reserves being made to reflect future plans.

Your earmarked reserves start the MTFS period remains higher than the average for our benchmark group. These are being held to manage the transition period, fund specific cost pressures and to deliver the transformation programme which you have set out in your MTFS. The costs associated with this transformation, such as severance costs, are being met through the use of these reserves rather than recurrent spending:



The level of earmarked reserves is being held to manage specific future costs identified and address the medium term financial risks which you face. This includes the potential impact of future budgets, the localisation of business rates, uncertainty around funding the Dilnot Commission recommendations and other future changes to public policy. The MTFS estimates that £56 million of the £84.7 million earmarked funds balance will be used over the next 4 years, primarily to deliver the transformation programme.

The following graph shows the level of earmarked reserves the authorities in our upper tier benchmark group held relative to their net budget:



Section V: Economy, Efficiency and Effectiveness

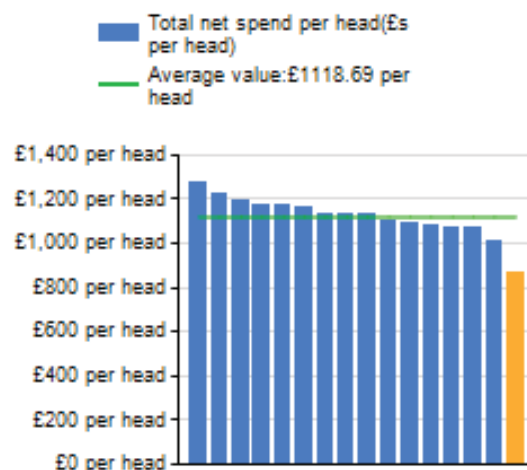
Economy, Efficiency and Effectiveness

The Authority has a responsibility to challenge economy, efficiency and effectiveness in everything it does. This is performed in each department and evident as part of your response to the identification of specific savings compared to service reductions.

Value for Money Profile

We have reviewed the Audit Commission Value for Money (VfM) profile for the Authority. Please note that this section contains comparators with your statistical nearest neighbours. These are the other County Councils which are most like Leicestershire County Council. This is a different benchmark group to that used for the analysis in previous sections of the report, which focussed on our other audit clients. The most recently available information is for the 2013/14 financial year.

Your planned net expenditure per head for 2014/15 was the lowest in the benchmark group:

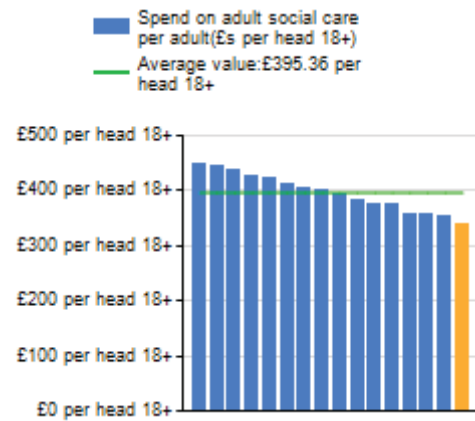


Financial Resilience: The specific measures identified in the 'financial resilience' section of the VFM profile show that during 2013/14 against your statistical nearest neighbours:

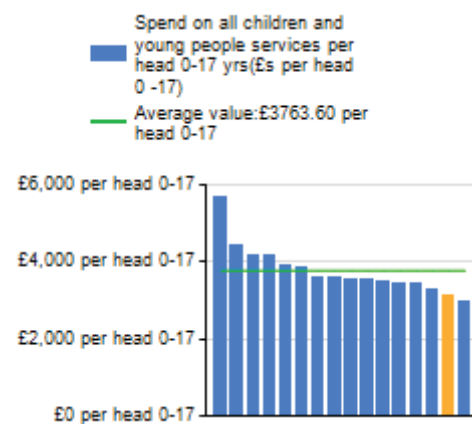
- Council tax requirement was in the middle third at £220.317m against an average of £269.966m;
- Income from fees and charges was in the middle third at 8.98% of total spend (compared with 7.46% in 2012/13). The average was 7.89%;
- Non-school reserves are in the highest third at 20.6% of net expenditure;
- Spend on management and support (back office) services as a proportion of total service spend was significantly lower than at other County Councils, being at 1.3% compared to an average of 4.8%; and
- The total value of assets is in the lowest 10%.

This indicates a broadly positive, financially resilient position. There is a low relative planned spend in most areas, low management support & back office costs and average levels of income from fees and charges. The level of your reserves was explored in a previous section of the report.

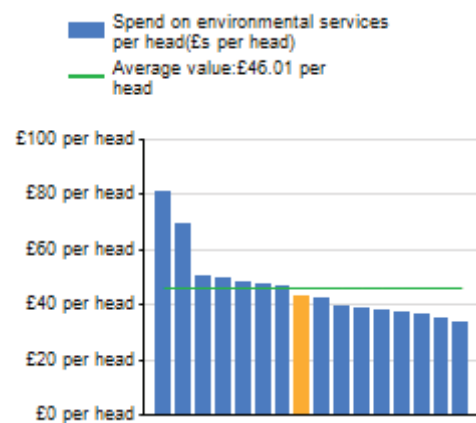
Adult and Social Care (ASC): spending per person on ASC is in the lowest 10% and is the lowest in your benchmark group by a clear margin. This is particularly the case in services for older people (lowest 10%) and adults with learning disabilities (lowest 20%). There is average spend on adults with mental health needs and those with a physical disability.



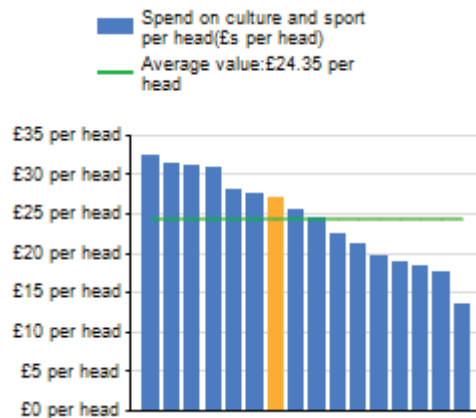
Spend on children's services and young people aged 0 - 17: planned spending per young person is in the lowest 20% of your benchmark group. This is reflected across all key areas of spend, such as social services, looked after children and special educational needs:



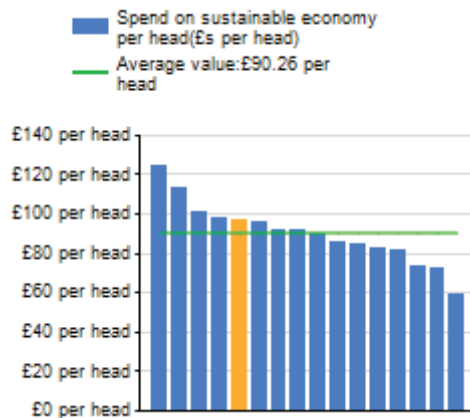
Environmental Services: spend on environmental services has decreased from being well above average in 2005/06 to at or below since 2007/08:



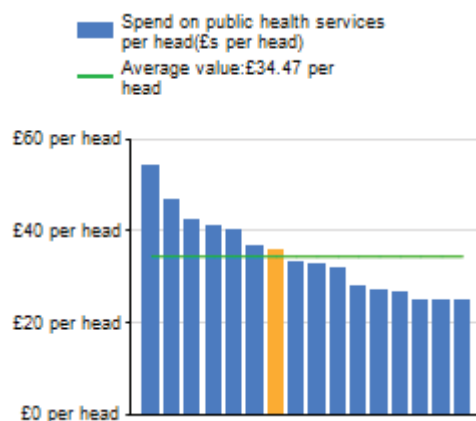
Culture and Sport: spend per person is above average when compared with the benchmark group. This benchmark reflects your provision of a museums service; in most other County Council areas in the benchmark group the museums service is typically provided at District Council level.



Sustainable Economy: total spend on sustainable economy activities is above average, as is the total spend on highways and roads which is above average for the benchmark group and in the highest 20%. The direction of travel is improving compared with the prior year - spending per head reduced by 16%:



Public Health: spending on public health services is slightly above average. Your spend on physical health as a service for adult and children is in the highest 5%, significantly above average:



Outliers reporting: The Audit Commission tool identifies any significant outliers from their data. The most relevant are as follows:

- The number of adults with mental health needs aged 18-64 receiving direct payments is in the highest 10%;
- The number of weeks residents aged 18-64 with mental health needs spent in own provision residential placements is in the highest 5%;
- Income from libraries, museums and archives, and from arts, tourism and the historic environment, are all in the highest 5% as a percentage of spend;
- Spend on street cleaning, planning, planning policy, museums and galleries, trade waste, conservation and listed buildings and local safeguarding board are all in the top 5%;
- Schools budget spending by schools per pupil is in the lowest 10%.

No other significant outliers were identified which would impact on our Value for Money conclusion.

Overall: Your spend tends to be below average in the largest areas when compared to other County Councils, particularly for Adult and Social Care and Services for Young People. You also typically continue to produce good performance when performance indicators are reviewed.

Prioritisation of resources

You undertook an extensive consultation process over the past 12 months in preparation for the 2014 MTFS and through your scrutiny process to involve members in challenging the 2015 MTFS. You identified clear priorities in this process and these have influenced the decisions you made in your most recent MTFS.

Your MTFS shows that you have, in broad terms, prioritised your services in the areas of greatest need.

Section VI: Conclusions

Conclusions

You have set a challenging and robust MTFS. The key points we have noted are:

- You have demonstrated in the past that you have robust programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the challenge, particularly during 2015/16, is more significant than what you have faced to date. This is something you recognise through the establishment of the Transformation Programme and the additional resources you have put in place;
- You have applied a number of prudent assumptions in setting your MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help you to meet manage the financial risks which exist over the plan period;
- The Audit Commission value for money profile, whilst backwards looking, continues to show a number of key areas where the Authority is providing services which can demonstrate value for money when compared with other County Councils;
- You have set aside a prudent level of earmarked reserves and contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS. These reserves will be required to effectively deliver the transformation you require; and
- Up to 700 posts may be lost as a result of the changes needed over the next 4 years. You need to ensure that corporate memory is retained during this process, and that gaps in controls do not arise as a result.

In conclusion, we have reviewed your MTFS and the assumptions which lie behind it. We have compared you with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. Our work in this particular area has not identified any issues which would lead to an unqualified value for money conclusion.

However, despite the preparation you have undertaken and the prudent assumptions you have made, there continues to be a risk around delivery of your MTFS. The main risks you face as an organisation to non achievement of your medium term financial strategy are consistent with those we reported to you in 2014 and can be summarised as follows:

Risk

Slippage: you may not be able to identify or achieve the savings you want either from a service reduction or through efficiencies.

Timing: The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS.

Assumptions: We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to be incorrect, this would have a significant impact on your ability to deliver a balanced budget over 4 years.

Policy: Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

Appendix: Scope of Work

In our audit plan we set out our areas of focus for the year. One of these was the significant savings requirement to balance your budget over 4 year period.

We agreed to undertake a review of your Medium Term Financial Strategy (MTFS). This work will be done as part of our work on Use of Resources. In particular, this will contribute towards our assessment of you against the Audit Commission's criteria for 2014/15 which consider whether you have proper arrangements in place for:

- securing financial resilience; and
- challenging how you secure economy, efficiency and effectiveness.

Our proposed areas of focus are as follows:

Area of Focus	Proposed work.
Programme management	Review the governance structure in place to deliver your plans (including extent of Member involvement), the level and extent of accountability including escalation of issues, and how your monitoring and reporting will work.
Progress to date	<ul style="list-style-type: none"> • Undertake a detailed review of how you have managed your 14/15 savings programme; • Investigate the reasons behind any significant variations from the plan; and • Consider how this is connected with the forward-looking MTFS.
Assumptions	Review the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities.
Sensitivity analysis	<ul style="list-style-type: none"> • Apply sensitivity analysis to key assumptions; and • Consider the impact of potential changes to key assumptions and the rigour behind the MTFS.
Economy, efficiency and effectiveness	<ul style="list-style-type: none"> • Assess how you have prioritised resources as part of the MTFS; and • Update our understanding of your arrangements to review the value for money which your services provide and the actions you have taken in response.
Reserves	Consider the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

We intend to undertake this work during March 2014 in conjunction with the finance team. We plan to meet with the following people to discuss the points of focus outlined above:

- Judith Spence and Chris Tambini;
- Mick Connell and Business Partner (Adults and Communities);
- Lesley Haggard and Business Partner (Children and Family Services); and
- Phil Crossland and Business Partner (Environment and Transport).

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CORPORATE GOVERNANCE COMMITTEE
12 JUNE 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. 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 report covers:
 - a) The Corporate Risk Register (CRR) – an update including the addition and removal of risks
 - b) Updates on Business Continuity and Insurance
 - c) Mitigating the risk to cyber security

Corporate Risk Register (CRR)

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

The CRR is designed to capture strategic risk that applies corporately or to specific departments, 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.

Although the format of the register largely remains unchanged, three additional columns have been incorporated in order to begin to implement the recommendations arising from the Risk Maturity Assessment Action Plan reported to this Committee in February 2015.

The first additional column 'Risk Response' requires risk owners to consider and record their thought processes around managing the particular risk towards the desired residual risk position, and specifically is it to be: -

- Tolerated – they are content to accept the level of risk and undertake no further mitigating actions. The risk is still subject to ongoing review
- Treated – put in place further controls measures that reduce the likelihood and/or impact of the risk to acceptable levels. The vast majority of risks will fall within this category
- Terminated – the risk will be removed by either stopping or reducing the scale or scope of the function
- Transferred – the risk will be insured, or outsourced

This enables risk owners to determine whether the cost of implementing further mitigating actions and controls is merited when compared to the risk reduction benefits achieved. Where further actions or additional controls are identified to treat the risk, two further additional columns have been inserted to assign actions to appropriate risk owners along with suitable timescales for implementation, thereby improving accountability for completing the action(s).

It is acknowledged that the changes above are work in progress.

4. Key changes since the CRR was last presented to the Committee on 20 February 2015 are:

i. Addition of new risks:

- Risk 3 - Community Infrastructure Levy (CIL). The government set a date by which CIL ought to be introduced (1st April 2015), however this was optional. After 1 April 2015, regardless of whether a CIL is introduced in a Local Planning Authority area, the use of s106 planning obligations (what the developer has agreed to do) will be restricted in use to 5 obligations for any infrastructure project. The position in Leicestershire is that CIL has not been introduced by district councils, thereby resulting in restriction of the pooling of section 106 contributions and potentially both a financial risk and one off legal challenge.
- Risk 4 - Insurance, the costs arising from uninsured risks is increasing.
- Risk 5 - Impact of the Care Act 2014 on the long term Council delivery strategies (but see removed risk 3 below).
- Risk 6 - Better Care Together (BCT), there are a number of strategic risks associated with the health and social care economy's 5 year plan and strategic outline case (but see removed risk 4 below).
- Risk 17 - Child Sexual Exploitation, the risk is concerned with the impact of both historic and newly identified child sexual exploitation cases on resources and the Council's reputation.

ii Removal of risks:



- Previous Risk 3 - Proposals in the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council. There is continuing work around Phase 1, and monitoring systems have been set up to ensure that new / revised policies are effective. The risk has been rescored from 25 to 12. See also paragraph 5 below.
- Previous Risk 4 - Health and Care Partners failing to deliver integrated care to the local population (including via the Better Care Fund (BCF) plan). This risk has been maintained at 12 and has been removed from the Corporate Risk Register (CRR) i.e. a score below that required to be included in the CRR
- Previous risk 10 - Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively;
 - LAS Project Phase 2 Project- risks to operational business as usual and compliance with reporting requirement of the Care Act 2014. A number of mitigating controls are now in place and the risk has been re-scored and reduced from 15 to 8
 - Leicestershire Highways Operations (LHO) - Financial Information System Implementation Project. A number of mitigating actions were completed during 2014/15. Permanent staff are now in place and regular monitoring is in place through Project Board. The risk score has been reduced from 15 to 12
- Previous risk 14 - Police and Crime Commissioner (PCC). Improved partnership relationships with the PCC through the development of the Strategic Partnership Board and regular meetings now in place with the PCC and LCC officers. Score reduced from 15 to 12.
- Previous risk 17 - Reduced recycling performance. The risk has been redefined in 2015/16 to cover significant reduction (>5%) in recycling performance rather than just a reduction in recycling performance. Score reduced from 15 to 10.
- Previous risk 18 - Risk to the County Council surrounding transfer of nine Elderly Persons Homes to Leicestershire County Care Limited (LCCL) and repayment of the capital sum for the transfer. See note 7 below for further information




5. At its meeting on 20 February 2015, the Committee requested that a presentation be provided on the following risk :





Proposals in the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council.




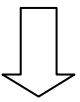
As explained above, that particular risk area has since been mitigated, so the presentation will concentrate on the revised risk.


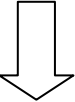
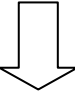

6. The most up-to-date position of the risks on the CRR is shown in the table below. The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that: -
- A horizontal arrow shows there's not much movement expected in the risk
 - A downward pointing arrow shows there's expectation the risk will be mitigated towards 'medium' and would likely be removed from the register
 - 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 MTFS including the ability to deliver savings through service redesign and transformation as required in the MTFS.	25	In the light of the election result the MTFS assumptions need to be reviewed to identify the impact of government policy on the County Council. Demand led budgets particularly in Adults and Children's services remain a risk. The Transformation Programme is key to the delivery of the MTFS. Programme governance continues to develop with a clear focus on practical delivery of savings.	 Expected to remain high/red
C&FS	2	Cost of school sponsorship to LCC prior/post to conversion	16	There has been a significant slowing of academy conversions in recent months. In terms of sponsorship and meeting the costs of deficit budgets, this largely relates to secondary schools. Shephed Hind Leys and High School are the only remaining outstanding secondary schools awaiting sponsorship conversion later during the year (and having a sizeable deficit budget). Following an internal audit report,	 Expected to remain high/red

				action has been taken to develop procedures to determine the priority of sponsorship schools in the context of other demands on the capital programme. Oversight of sponsorship capital requirements is undertaken through the Corporate Schools Group	
CE	3	Funding and reputation risks: CIL Regulations (1 April 2015) are now in force which restrict the pooling of section 106 contributions	20 (New)	Community Infrastructure Levy (CIL) charging schedules are not in place by District Councils. Analysis for S106 contributions (since 2010) is underway for schools. This will be extended to other areas also. Further work is necessary to review all s106 agreements where there has been more than 5 obligations for an infrastructure project or type of infrastructure with a view to determine categorisation and reach agreement with the Local Planning Authority	 Expected to remain high/red
CR	4	The cost arising from uninsured risks increases	16 (New)	Municipal Mutual Insurance Ltd (MMI) latest results indicate a worsening position, although they have sufficient funds to be able to service claims for several years	 Expected to remain high/red
Health & Social Care Integration					
A&C	5	Impact of the Care Act 2014 on the long term Council delivery strategies	20 (New)	Draft guidance has been received from Department of Health. LCC has responded to the consultation on the draft guidance. Preparatory planning is taking place.	 Expected to remain high/red

CE / A&C	6	Better Care Together (BCT) - there are a number of strategic risks associated with the health and social care economy's 5 year plan and strategic outline	16 (New)	<p>The BCT programme is developing:</p> <ul style="list-style-type: none"> • Delivery plans (outcomes and milestones for the next 12-18 months) • Update planned at next all member briefing in July and Health & Wellbeing Board (HWB) meeting in July. • Public consultation planned in the Autumn • Scheme of Delegation has been shared and feedback provided by LCC • Further clarity on the governance arrangements between BCT programme and HWBs. Meeting with BCT Independent Chair and BCT programme Director being arranged to progress this. • Majority of the Leicestershire Better Care Fund deliverables are aligned to the urgent care and frail older people's work streams. 	 Expected to move to medium/amber
All	7	Challenges caused by the Welfare Reform Act.	25	Note : No change to previous reported position	 expected to remain high/red
ICT, Information Security					
CR	8	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Significant progress has been made over the last 12 months to mitigate number of disaster recovery risks	 Expected to move to medium/amber
CR	9	Continuing risk of failure of information security.	16	Whilst a number of actions have been taken to tighten governance and controls, it will be essential to continue a programme of communication and training for staff, and to embed security as part of operational activities.	 Expected to move to medium/amber

All	10	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.	15	Good progress has been made over the last 9 months, and the appointment of a new Head of BI and the establishment of the Centre of Excellence in July 2015 are important milestones. A new data and BI Strategy will be approved over the next 3 months.	 Expected to remain high/red
CR	11	Insufficient capacity to provide Information & Technology solutions.	16	Future savings requirements will have an impact on the availability of resources, and demand management and new ways of delivering I&T solutions will be required	 Expected to remain high/red
C&FS	12	Retention of children's case files beyond Data Protection Act (DPA) requirements	16	No change – risk will be reviewed 23.10.15 with Caldecott Guardian.	 Expected to remain high/red
Transportation					
E&T	13	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	No change to current risk score. However a review of planning responses across the authority is now being undertaken by the Head of Planning which should reduce the residual risk score.	 Expected to move to medium/amber

Partnership Working					
C&FS	14	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond 2015/16.	15	Entering Phase two of the Troubled Families Programme, taking into account the completion of Phase one	 Expected to remain high/red
E&T	15	LLEP-insufficient funding for transport schemes to deliver economic growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council	20	No change to current risk score. Further actions undertaken during 2014/15 have reduced the residual risk position for 2015/16 however the risk still remains for future years.	 Expected to move to medium/amber
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
Safeguarding					
C&FS	17	Non-recent child sexual exploitation in the context of Leicestershire County Council following the prosecution of Frank Beck and the Kirkwood Enquiry	25 (New)	Strategic Group chaired by the Assistant Chief Constable is attended by Directors of Children's Service for Leicestershire, Leicester City & Rutland and other senior officers. The Group ensures effective planning and responses. Further planning is underway for known events e.g. National Enquiry	 Expected to remain high/red

Leicestershire County Care Ltd (LCCL)

7. A specific update has been provided against this risk quarterly. The current risk score is 12 and the risk rating assigned is Amber.
The full deferred payment has been received (£1.62m excluding interest), but there remains £330,000 payable on or before 31/12/2016. This was agreed as part of the re-negotiation of the deferred purchase agreement.

Other Risk InformationMunicipal Mutual Insurance Ltd.

8. Leicestershire County Council was insured by Municipal Mutual Insurance (MMI) between 1969 and 1992. MMI entered into administration in 1992 and became the subject of a Scheme of Arrangement with its creditors. In November 2012 the County Council was notified that there would not be a solvent run off of claims owing to high claim numbers and an adverse decision in the Supreme Court.
9. In order to restore the company's balance sheet the Scheme Administrator imposed a levy of 15% on all claims paid to date and on all future claims. The County Council made a payment of £2.2 million in respect of all claims settled at the levy date and continues to meet the 15% liability for claims currently being dealt with.
10. The financial position of the MMI continues to deteriorate. The balance sheet showed net liabilities of £76.2 million at 30th June 2014 compared to £28.9 million at 30th June 2013. These figures take into account the levy of 15% imposed on Scheme Creditors by the Scheme Administrator on 1st January 2014. There is an increasing likelihood that the levy percentage will be increased, although it is uncertain when this will occur.

Independent Insurance Co. Ltd.

11. Leicestershire County Council was insured with Independent Insurance between 1993 and 1997 at which point the insurer entered provisional liquidation. Since this time legal liability claims have continued to be registered with the company. The company is insolvent and unable to pay its creditors in full. The company is proposing to implement a Scheme of Arrangement as provided for in sections 895 to 901 of the Companies Act 2006.
12. The provisional liquidators, PricewaterhouseCoopers LLP, are proposing the Scheme as a means of making dividend payments to creditors in respect of their claims against the company. The realistic alternative to the Scheme would be a liquidation of the company. This is considered a less attractive alternative to a Scheme of Arrangement for the principal reason that funds can be distributed to creditors earlier in the Scheme than would be the case in a liquidation of the company.

13. Initial indications are that Leicestershire County Council is likely to receive 14 to 15 pence in the pound in respect of all outstanding claims.

Business Continuity (BC)

Business Continuity and Resilience Team

14. Following the departure of the Business Continuity Manager, the BC Team were amalgamated into the Resilience Partnership Team, reporting to the Resilience Manager

Schools

15. A 'Loss of School' (impact of major closure) plan has been created in conjunction with Corporate Resources. This plan is 'owned' by Children & Family Services.
16. Consideration is currently being given to options for the BC team to offer Business Continuity advice and support to both County controlled and Academy status schools.

Supplier BC Assurance

17. A list of existing critical suppliers was compiled in December 2014 and their BC resilience procedures are being reviewed during 2015.
18. The BC Assurance Process is currently being integrated into the eTendering process with a view to going live from June 2015.

Work Area Recovery

19. No further work is currently planned at County Hall. However, work is being undertaken with Nottingham City Council to support them in developing effective work areas recovery arrangements for the East Midlands Shared Service staff based at Langley House in Nottingham.

New Data Centre

20. The BC team are now integrated in to the planning process for the new Data Centre to ensure that adequate BC measures are built in throughout the full project lifecycle, and into the Data Centre itself.

Incident Monitoring & Exercises

21. The Ebola situation continues to be monitored, but is not considered a major risk to the UK at the moment. There will be no further updates on this unless the situation changes significantly.
22. A 'white powder' incident in the post room at Harborough DC was eventually proven to be a hoax. However, this has resulted in a review of advice and procedures in all of our local authorities.

23. Several BC exercises have taken place, involving various teams and different types of exercise.
24. An integrated Training and Exercising Schedule for Business Continuity and Emergency Planning has been developed for 2015/16. This includes a programme of Elected Member briefings and an opportunity to attend an Elected Members training/exercise event in September 2015.

Mitigating the risk to cyber security

25. At the 20 February Committee, Members considered a report of the Director of Corporate Resources, which introduced three new and updated policies and strategies that now form part of the Council's overall suite of counter fraud documents. The report stated that the majority of the Council's counter fraud documents were now up to date and relevant. Members enquired on the position with a specific cyber-security policy i.e. one of the suggested policies in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, which the Council has adopted.
26. Internal Audit Service conducted an exercise mapping current Council policies, procedures and guides against the Government's '10 Steps to Cyber Security: Advice Sheets' (detailed cyber security information and advice across 10 critical technical and procedural areas). The conclusion was that whilst there isn't a specific cyber security policy, the requirements are covered in a number of other policies and guidance and particularly the recently re-launched Information Security and Acceptable Use Policy, Internet Blocking Policy and the Information Security E-learning Package.
27. Additionally, cyber security risk is mitigated by specific current controls in two corporate risks, number 7, '.....maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage is vital', and number 8, '... The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security'. Information Communication and Technology (ICT) health checks and penetration tests are undertaken as a requirement to meet the annual PSN accreditation. The health check is undertaken by an accredited external supplier independent of the council. Furthermore all ICT changes, new processes and systems go through the rigorous information security risk assessment process to ensure that ICT security risks are managed to an acceptable level and that mitigating controls are implemented where possible. Nevertheless, the risk owners remain vigilant and have proposed further actions/additional controls to both risks.
28. The Internal Audit Plan contains audits that cover cyber security risk which are undertaken by a highly qualified and experienced ICT Auditor.

Recommendation

29. 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) 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.

Equality and Human Rights 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

							Current Risk Score			Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>		Residual Risk			Action Owner / (Date)	Action Complete (Yes or No)
Dept.	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	I	L	Risk Score		Further Actions / Additional Controls	I	L	Risk Score		
All	1	Risk around the MTFS including the ability to deliver savings through Service Redesign/ Transformation as required in the MTFS.	<ul style="list-style-type: none"> Chancellor Autumn Statement 2014 projected austerity and 2018/19, requiring LCC to find £90m 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 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Negative impact on all services as further service cuts will be required to reduce deficit <p><u>Reputation</u></p> <ul style="list-style-type: none"> Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted <p><u>Financial</u></p> <ul style="list-style-type: none"> Loss of income Restricted funding from other sources 	Chief Executive/ All Directors	<ul style="list-style-type: none"> MTFS approved 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 Improvement to Transformation programme including governance Focus on A & C overspend 	5	5	25	Treat	<ul style="list-style-type: none"> Greater emphasis on commissioning, active communities and demand management Review MTFS assumptions in the light of the election result Review savings due to the possibility of front loading funding reductions in 2016/17 and 2017/18 <p><u>Transformation Programme</u></p> <ul style="list-style-type: none"> Review of Programme Design to be undertaken in collaboration with Corporate Finance with focus on strengthening and implementing design principles, processes and governance to ensure the effective and timely development of project proposals and business cases. Paper outlining proposed revised approach to be submitted to Transformation Delivery Board by May 2015. In alignment with the outcome of Programme Design Review, the PMO will review current programme reporting and develop and implement a reporting regime which provides Transformation Delivery Board with a clear and relevant view on progress of all appropriate projects/change initiatives from concept development to benefits realisation – timescale for delivery to align with Programme Design Review 	5	5	25	Chief Executive / All Directors	Ongoing

C&FS	2	Local Authority legal requirements to meet deficit budgets from maintained schools being required to become a sponsored academy, and pressure to meet capital and other revenue costs pre and post conversion	<ul style="list-style-type: none"> Sponsors are seeking building repairs/updates before agreeing to sponsor schools Central agenda/strategy pushes for more conversion Deficit budgets return to the Local Authority at the point of conversion. No identified funding source to support sponsorship projects 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Local academy strategy objectives unachievable If sponsorship projects are approved Capital programme slippage and delays to other major schemes <p><u>People</u></p> <ul style="list-style-type: none"> Displaced children needing to be relocated if school closes Stress/pressure on pupils, parents, teachers <p><u>Reputation</u></p> <ul style="list-style-type: none"> Sponsor schools walk away from arrangements unless demands met If the school continues to sustain underperformance (and no sponsor found) then the DfE could direct LCC to close the school. <p><u>Financial</u></p> <ul style="list-style-type: none"> Demand on limited Dedicated School Grant (revenue) resources Diversion of capital funding from other schools If schools close there will be a negative impact on the transport budget as the LA will have to transport children to other schools. 	Director - Children & Family Services / Assistant Director Education & Learning	<ul style="list-style-type: none"> £2.5 million held in Dedicated Schools Grant reserves (Revenue) which has funded deficits to date with a further £2 million set aside in Reserves. 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	16	Treat	<ul style="list-style-type: none"> Capital Implications - Embed new arrangements for Capital Planning and Delivery Groups designed to better assess and co-ordinate demands on the capital programme. This will include subsequent development of criteria to challenge the inclusion of schemes. This reflects recommendations arising from Internal Audit report and subsequent Corporate Resources analysis of capital programme management Revenue Implications – funding has been set aside within the Dedicated Schools Grant Reserve to meet the cost of any deficits on conversion 	4	4	16	Head of Strategy- Education Sufficiency / Finance Business Partner	31/12/2015	50
CE	3	Funding and reputation risks: CIL Regulations (1 April 2015) are now in force which restrict the pooling of section 106 contributions	<ul style="list-style-type: none"> No CIL in place by District Councils Regulations now in force (6th April 2015) 	<p><u>Financial</u></p> <ul style="list-style-type: none"> Failure to secure funds putting LCC at financial risk <p><u>Reputation</u></p> <ul style="list-style-type: none"> Possible need for challenge / defend challenge in high court 	County Solicitor/ Head of Planning, Historic & Natural Environment	<ul style="list-style-type: none"> Agreed positions established with District Councils 	5	4	20	Treat	<ul style="list-style-type: none"> Analyse data of s106 contributions since 2010 Re Categorisation and agreement reached with LPAs 	5	3	15	Head of Planning, Historic & Natural Environment (on going)		
CR	4	The cost arising from uninsured risks increases	<ul style="list-style-type: none"> Latest estimates from MMI indicate an increasing liability Proposed settlement from the Independent only 15p per £1 of claims 	<p><u>Reputation</u></p> <ul style="list-style-type: none"> Amounts involved are large and LCC is currently the MMI's largest creditor (£2.2m) <p><u>Financial</u></p> <ul style="list-style-type: none"> Currently provided for a 15% levy with MMI, will be reviewed by MMI in 2 years. Liability insurance increased significantly at last renewal (>50%) due to insurer's perceived risk. If correct LCC is exposed to the deductible amount and potential future increases 	Assistant Director – Strategic Finance & Property/ Finance Manager	<ul style="list-style-type: none"> Detailed review of MMI claims undertaken before payments made Significant uninsured loss fund created to mitigate against the consequences MMI and similar situations Risk management work continues to minimise claim numbers, education to departments regarding maintenance of controls 	4	4	16	Treat	<ul style="list-style-type: none"> Fund audit due this year to establish if reserve holding is sufficient Review reserve levels in light of future claims 	4	4	16	Assistant Director – Strategic Finance & Property / Finance Manager	December 2015	

A&C	5	Impact of the Care Act 2014 on the long term Council delivery strategies	<ul style="list-style-type: none"> Increase to LCC responsibilities & costs All service users (existing & new) requiring a 'care account' Cap on total lifetime care costs paid by individuals Extension to financial means test. More people entitled to financial support Leicestershire more affluent therefore more of the costs which are currently self-funded will pass to tax paper Additional costs are hard to quantify precisely due to lack of information on service users who currently fund and manage their own care Uncertainty about formula used to allocate funding 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Double the number of service users eligible Concerns on how well changes will be understood by staff / service users / public <p><u>People</u></p> <ul style="list-style-type: none"> Significant staffing and ICT resource implications Required additional staffing at a time where workforce planning to be reduced <p><u>Financial</u></p> <ul style="list-style-type: none"> Council will have insufficient funds to pay for the care that it has to provide under the Care Act. Major impact on substantial savings / efficiencies required Additional operating costs associates (increased assessment activity / care accounts) Significant reduction in income from charges More deferred payments for care costs Extension to financial means test resulting in reduced income and cash flow Protections for self-funders resulting in additional cost for Council 	Assistant Director – Strategy & Commissioning / Assistant Director – Promoting Independence	<ul style="list-style-type: none"> Modelling is continuing to scope the impact on the budget using actual figures and best practice from other authorities, regional and national networks. Council is part of the National pilot undertaking further work to refine the financial model. Care Act funding has been allocated for sufficient fte staffing to meet carer and prison assessments in 2015/16 to allow for probable inaccuracies in modelling Leicestershire & Rutland Safeguarding Adults Board monitoring impact of new responsibilities A fair price mechanism with the sector has been agreed. Programme Board. Director of Adults & Communities is Programme Sponsor. Representation on Board from corporate departments Programme Initiation Document being compiled to identify scope and will be signed off by Programme Board LGA / ADASS stocktakes compare progress with other Councils Participation with national and regional working groups Staff information and training programme in place Participation in the DoH national eligibility survey looking at the impact of the Care Act <p>Care Act Programme Board agreed May 28th 2015:</p> <ul style="list-style-type: none"> Light touch approach to undertaking care and financial reviews Approach to self-funders should be a minimalist one that does not develop dependency on the Council but promotes self-care and support. Aligned to the Adult Social Care Strategy of promoting independence whilst being affordable and robust Council should seek to 	4	5	20	Treat	<ul style="list-style-type: none"> Preparation for detailed planning to identify "must haves" for implementation and development of Programme Initiation Document Care Act funding will be allocated for sufficient fte staffing to meet self funder assessments in 2015/16 to allow for probable inaccuracies in modelling Continue modelling exercise on scoping financial impact of Act, including obtaining best practice from other local authorities Work is taking place to look at where and why additional payments are made for services. Care Act Programme will become a Transformation project and will report into the Transformation Delivery Board Gateway Reviews are planned to provide independent scrutiny on how the Programme is being managed and identify possible improvements/recommendations Internal Audits of specific key risks Review of risks as national information becomes available and ongoing as part of programme management. Experienced Central Planner allocated to programme to assist with planning, delivering the Critical Path and supporting work programmes. Risk Workshop planned in conjunction with Transformation Unit 	4	5	20	Head of Service – Care Act Finance November 2015
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						charge self-funders the full cost of the services involved in arranging their care. • Targeting “easy to reach” service users first, i.e. residential homes										
CE / A & C	6	Better Care Together - There are a number of strategic risks associated with the health and social care economy's 5 year plan and strategic outline (investment) case.	• Breakdown in maintaining a strong vision and joint partnership working across LLR	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> BCT programme outcomes are not delivered and the programme fails leading to reputational risks, partnership breakdown and financial instability within the health and care economy BCT care pathway changes fail to maintain safe, high quality clinical care The shift of care from acute to community settings is not modelled or implemented effectively leading to unforeseen pressure in other parts of the health and care economy <p><u>Financial</u></p> <ul style="list-style-type: none"> The investment case within the SOC is not fully supported, leading to gaps in the financial plan/assumptions for delivering the programme The savings from BCT are not achieved, leading to gaps in the financial plan/assumptions for delivering the programme. A notional figure of £5m impact on ASC has been highlighted within the Strategic Outline Case. <p><u>People</u></p> <ul style="list-style-type: none"> Partners are unable to provide sufficient staffing resource to deliver the programme leading to failure to deliver at the required pace and scale Lack of LLR integrated workforce plans <p><u>Reputational</u></p> <ul style="list-style-type: none"> The communication and engagement plan for BCT is ineffective leading to lack of public support or opposition to the plans 	Director- Adults & Communities/Dir ector of Health and Care Inclusion / Assistant Director – Strategy & Commissioning	<ul style="list-style-type: none"> Representation from the LA on the LLR Partnership Board and BCT Delivery Board and workstreams where appropriate. BCF schemes have been included within the workbooks where appropriate. Business cases currently being developed across LLR for a couple of schemes with links into BCT. BCT update included in all-member briefings on a regular basis. BCT reports to HWBB and Cabinet approving the 5 year plan and the Strategic Outline Case. 	4	4	16	Treat	<p>The following additional controls have been provided by BCT:</p> <ul style="list-style-type: none"> During February, as the Programme progresses from the design to implementation phase, the BCT Programme's governance arrangements are to be enhanced to strengthen the Programme's link with the Chief Officers Group and with the BCT Implementation Group. The Programme is strengthening its programme controls by undertaking a task and finish exercise that will closely triangulate BCT programme planning, risk management, performance management, communications and engagement. In addition the Programme is currently providing support to clinical and enabling work streams that ensure they are ready to commence implementation of their plans from April. As part of the Programme's communication and engagement activities, there will be an extensive public awareness campaign planned to take place in Spring. 	4	3	12	Director- Adults & Communities & Director of Health and Care Inclusion Ongoing	52

All	7	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act	<ul style="list-style-type: none">Decreased incomeContinual economic climateHigh unemployment/Reduction in wage increasesChanges in the benefit systemIntroduction of Universal Credit transfers responsibility to vulnerable peopleInadequate information for business cases jeopardising robust decision makingMore demand for advice servicesNo central funding for Local Welfare Provision post April 2015	<p><u>Service Delivery</u></p> <ul style="list-style-type: none">Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies <p><u>People</u></p> <ul style="list-style-type: none">Families less able to maintain independenceDifficulty in identifying and implementing effective preventative measures'Hard to reach' groups slip through the net <p><u>Reputation</u></p> <ul style="list-style-type: none">Cases of hardship / lack of support in mediaPotential inspectionPublic confused as to which Agency has responsibility <p><u>Financial</u></p> <ul style="list-style-type: none">A&C debt increasesDemand led budgets under more pressureRisk of litigation / judicial review	Director of Adults & Communities / Assistant Director – Strategy & Commissioning/ Assistant Chief Executive	<ul style="list-style-type: none">Social Fund claims are lower due to more focused eligibility criteriaA&C finance team monitoring impact of benefit changes on departmental income and debt recoveryDebt strategy plan approved and being implementedInformation booklet on major WRA changes developed and circulated to all A&C staff and shared with CYPSLCC agreed contribution towards the districts hardship funds to assist people in financial difficultyAdditional contingency help for non-collection of council tax	5	5	25	Treat	<ul style="list-style-type: none">Options to mitigate loss of Local Welfare Fund being exploredMaintain awareness of legislative changes and timing of WRA roll-out	5	4	20	Director of Adults & Communities / Assistant Director – Strategy & Commissioning / Assistant Chief Executive	August 2015	53
CR	8	The County Council's services have a growing dependence on ICT systems and infrastructure. Hence maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage is vital.	<ul style="list-style-type: none">Business evolution and dependencies cause additional load on existing infrastructure, reducing resilience to failureRecovery plans are currently fragmented	<p><u>Service Delivery</u></p> <ul style="list-style-type: none">Unable to deliver critical servicesDisruption to day to day operationsLoss of key informationLoss of self-service customer facing options / Public unable to use all access channel <p><u>People</u></p> <ul style="list-style-type: none">Alternate business continuity arrangements likely to result in backlogs of work <p><u>Reputation</u></p> <ul style="list-style-type: none">Negative stories in pressKey partners impacted may influence contract renewal <p><u>Financial</u></p> <ul style="list-style-type: none">Potential penaltiesAdditional costs related to internal and external recovery	Assistant Director – Information & Technology / Assistant Director – Customer Services & Operations Roderick	<ul style="list-style-type: none">DR Framework signed offDR Strategy and Testing Policy in placeDR Governance group establishedDR Test Programme agreedSingle points of failure largely addressedBusiness critical systems identifiedServer virtualisation programme completeService BC plans developed for all critical services.	5	3	15	Treat	<ul style="list-style-type: none">Continue review of current plans to ascertain gaps, to put forward improvement proposalsNotification of all planned changes that may impact infrastructureData Centre replacement project underwayCompletion of first year of planned DR test	4	3	12	Design & Commissioning Manager December 2015 Assistant Director – Information & Technology April 2016		

CR	9	The responsibility to protect the confidentiality, integrity, availability and accountability of information means there is a continuing risk of failure of information security.	<ul style="list-style-type: none"> Increased information sharing Increased demand for flexible working increases vulnerability of personal, sensitive data taken offsite. More hosted technology services Greater emphasis on publication of data and transparency Greater awareness of information rights by service users Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence. 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Diminished public trust in ability of Council to provide services Failure to comply with Public Service Network (PSN) Code of Connection standard would result in the Council being disconnected from PSN services, with possible impact on delivery of some vital services. <p><u>People</u></p> <ul style="list-style-type: none"> Loss of confidential information compromising service user safety <p><u>Reputation</u></p> <ul style="list-style-type: none"> Damage to LCC reputation <p><u>Financial</u></p> <ul style="list-style-type: none"> Financial penalties 	Director – Corporate Resources & Transformation/ Assistant Director – Information & Technology	<ul style="list-style-type: none"> New , simplified Information Security and Acceptable Use policy signed off PSN compliance achieved Regular penetration testing and enhanced IT health checks in place Improved guidance about data transfer tools Simplified Security and Acceptable Use Policy approved Communication plan re information security Mobile device management implemented 	4	4	16	Treat	<ul style="list-style-type: none"> New security governance arrangements to be introduced PSN compliance requirements built into BAU Actions from external tests build into BAU Personal responsibility for information security to be built into new staff terms and conditions 	4	3	12	Assistant Director – Information & Technology Sept 2015 Head of ICT Operations June 2015	
All	10	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	<ul style="list-style-type: none"> No clearly defined corporate Business Intelligence (BI) function Insufficient BI on customers and cost of services Reduced research, performance and finance support for projects Inadequate data quality and data sharing Demand influenced by unmanageable external environment Range of cultural, Information Management, technology and skills issues Incorrect predictions for growth (and decline) For e.g. Waste 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Inadequate information for business cases Jeopardise importance of robust and effective evidence based decision making Transformation priorities not being met <p><u>People</u></p> <ul style="list-style-type: none"> Difficulty in identifying and implementing effective preventative measures Less productivity through duplication of work <p><u>Reputation</u></p> <ul style="list-style-type: none"> Inaccurate returns to central government Unable to comply with increasing number of data sets required under the Transparency Agenda <p><u>Financial</u></p> <ul style="list-style-type: none"> Risk of litigation/judicial review 	Assistant Director – Information & Technology / Assistant Chief Executive	<ul style="list-style-type: none"> Data and BI Enabler Programme underway Data and BI Board will provide ongoing governance Recruitment to new Head of BI complete TOM for CoF for Data and BI agreed 	5	3	15	Treat	<ul style="list-style-type: none"> Development of Data Framework model Development of technology roadmap for reporting and BI New mode for engagement with Transformation projects embedded New Centre of Excellence established New Data and BI strategy to be developed 	5	3	15	Team Manager, Information & Data June 2015 Design & Commissioning Manager June 2015 Alasdair Peers Sept 2015 Assistant Chief Executive July 2015	

All	11	Insufficient capacity to provide Information & Technology solutions to support major change projects	<ul style="list-style-type: none"> Imbalance of IT resources versus IT requirements Demand outweighs supply Loss of knowledge and lack of continuity as a result of staff turnover and/or inadequate investment in skills and competencies Difficulties in recruitment 	<u>Service Delivery</u> <ul style="list-style-type: none"> Departmental and corporate objectives not met or delayed Delays to project delivery <u>Financial</u> <ul style="list-style-type: none"> Failure to support delivery of efficiency programme and ICT replacement projects 	Director – Corporate Resources & Transformation/ Assistant Director – Information & Technology	<ul style="list-style-type: none"> I&T work programme provides forward visibility of demand Use of external contractors to fill specific skills gaps Analysis of likely future demand 	4	4	16	Treat	<ul style="list-style-type: none"> Improved forward planning through implementation of JIRA Identification of key skills and workforce plan to retain, develop and recruit these Development of demand management approaches 	4	4	16	Design & Commissioning Manager Business Partner (Corporate Resources)	
C&FS	12	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> <ul style="list-style-type: none"> Service delivery adversely affected by out of date data <u>People</u> <ul style="list-style-type: none"> Details of Vulnerable people at risk of disclosure <u>Reputation</u> <ul style="list-style-type: none"> Potential adverse media attention and public lack of confidence <u>Financial</u> <ul style="list-style-type: none"> Potential financial penalties 	Assistant Director – Commissioning & Development / Head of Strategy – Business Support	<p>Legal Services' view is that any fines for not retaining data when it should be retained for example in litigation, would be greater than if data is kept securely for longer than legally required.</p> <p>Data securely held</p>	4	4	16	Treat	Review policy annually to see if position has changed	4	4	16	Assistant Director – Commissioning & Development / Head of Strategy – Business Support 23. 10.15	55
E&T	13	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.	<ul style="list-style-type: none"> 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 	<u>Service Delivery</u> <ul style="list-style-type: none"> 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) <u>People</u> <ul style="list-style-type: none"> Undue pressure on staff as expert and specific knowledge required Safety issues/congestion/accidents for residents if schemes not properly planned and approved <u>Reputation</u> <ul style="list-style-type: none"> Difficulties to maintain reputation of being a quality and fair Highways Authority Developments in the wrong location <u>Financial</u> <ul style="list-style-type: none"> Increase in legal costs 	Director – Environment & Transport	<ul style="list-style-type: none"> 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	15	Treat	<ul style="list-style-type: none"> 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 Review of planning responses across the authority 	3	9	9	Head of Service Transport Policy & Strategy, Head of Planning, Historic & Natural Environment Ongoing	

				<ul style="list-style-type: none">Loss of developer contributionPublic funds needed to address impact of developers													
C &FS	14	Improved outcomes and financial benefits of Supporting Leicestershire Families (SLF) are not achieved, leading to inability to financially sustain the SLF service beyond 2015/16	<ul style="list-style-type: none">New phase two outcomes frameworks requires large data collectionNew framework includes much broader measures to achieve in order to pull down TFU monies	<u>Service Delivery</u> <ul style="list-style-type: none">Reduction in families supportedIncrease in reactive service demand <u>People</u> <ul style="list-style-type: none">Families and individuals do not achieve their potential <u>Reputation</u> <ul style="list-style-type: none">Loss of confidence in place based solutions <u>Financial</u> <ul style="list-style-type: none">Related services unable to reduce budgets if demand not decreased	Director – Children & Family Services / Assistant Director-Children’s Social Care	<ul style="list-style-type: none">Data project underway to increase provision, quality and from a range of servicesTraining for workers to achieve optimum outcomes with families at earliest opportunityLeicestershire has now completed phase one of PBR and pulled down additional funding into the pooled budgetSLF Service is now fully up and running and merged into C&F ServicesWhole family working is being rolled out across a range of Services	5	3	15	Treat	<ul style="list-style-type: none">Opportunities to nationally ring fence budgets to be discussed with partners/servicesMeasuring outcomes to demonstrate reduced demand.Cost benefits analysis to be shared with partners to progress further conversation around future fundingLeicestershire to enter PBR phase two early therefore enabling us to draw down additional money into the pooled budget	5	3	15	Assistant Director-Children’s Social Care / Head of Supporting Leicestershire Families	31 December 2015	
E&T	15	Insufficient /unknown funding for transport schemes to deliver economic growth and LTP3/Strategic Plan & availability of match funding.	<ul style="list-style-type: none">Changes to local and national funding streams (i.e. SEP)Lack of available match fundingLack of / insufficient future plan	<u>Service Delivery, People and Reputation</u> <ul style="list-style-type: none">A transport system that does not support population and economic growth, LTP3/Strategic Plan <u>Financial</u> <ul style="list-style-type: none">Major impact on funding sourcesUnknown funding for development of future schemes	Director – Environment & Transport	<ul style="list-style-type: none">Fed into MTFS / LLEP / SEP processesDevelopment of Enabling growth action planEngagement with centre and LLEP to develop more coherent working relationshipsWorking with SCG, Leicester and Leicestershire Transport Advisory Group and Leicester City to increase the prominence of transport investment in delivery of economic benefitsContinuing to understand future DfT funding models in order to optimise opportunities availableContinuing to develop future plan	5	4	20	Treat	<ul style="list-style-type: none">Continued engagement with centre and LLEP to develop more coherent working relationshipsContinue to work with SCG, Leicester and Leicestershire Transport Advisory Group and Leicester City to increase the prominence of transport investment in delivery of economic benefitsContinue to understand future DfT funding models in order to optimise opportunities availableContinue to develop future plan	4	3	12	Director – Environment & Transport	Ongoing	
All	16	The Authority does not obtain the required value and level of performance from its providers /suppliers	<ul style="list-style-type: none">Lack of robust contract management /performance measures for in-house servicesRobustness of supply chainReduced funding and resourcesStaff turnover leading	<u>Service Delivery</u> <ul style="list-style-type: none">Business disruption due to cost and time to re-tender the contractStandards/quality not met resulting in reduced customer satisfactionRelationships with providers/suppliers deteriorate <u>People</u> <ul style="list-style-type: none">Additional workload where	Director – Corporate Resources & Transformation / Assistant Director – Corporate	<ul style="list-style-type: none">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	5	3	15	Treat	<ul style="list-style-type: none">Approach to Supplier continuity assurance (based on plans for business critical services) underwayContract Management Toolkit and training interventions being developed as part of the Effective Commissioning Enabler (Transformation Programme)Roll out of e-tendering to help	4	3	12	Head of Commissioning and Procurement Support	September 2015	

			to lack of continuity in contract management <ul style="list-style-type: none">Insufficient investment in contract management skills and competencies	disputes arise <ul style="list-style-type: none"><u>Reputation</u><ul style="list-style-type: none">Customer complaints<u>Financial</u><ul style="list-style-type: none">VfM/ Efficiencies not achievedIncreased costs as LCC has to pick up the service againUnfunded financial exposure (MMI)	Services & Transformation	contract and relationship management; and to managing liabilities at the outset of the procurement.					make contract KPI's and management more visible. <ul style="list-style-type: none">Commissioning support model is being developed to help strengthen arrangements.New Commissioning & Procurement Strategy identified range of additional measures to be implemented					
CFS	17	<ul style="list-style-type: none">Impact of non-recent child sexual exploitation in the context of Leicestershire County Council following the prosecution of Frank Beck and the Kirkwood EnquiryAs LCC's ability to identify child sex exploitation improves the volume of work for operational teams and the associated care costs will outstrip available resource	<u>Historic</u> <ul style="list-style-type: none">Leicestershire's employment of Frank Beck and the resultant reputational damage following his conviction and the Kirkwood EnquiryNational profile of post Saville enquiry of sexual exploitation by people in positions of trust <u>Current</u> <ul style="list-style-type: none">Partnership agencies (e.g. Leicestershire Police and the County Council) improve the identification of child sexual exploitation	<u>Service Delivery</u> <ul style="list-style-type: none">Possible increase in the volume of work <u>People</u> <ul style="list-style-type: none">Possible increase in workload <u>Reputation</u> <ul style="list-style-type: none">Potential adverse media and political riskPossible financial impact <u>Financial</u> <ul style="list-style-type: none">Possible financial impact <u>Service Delivery</u> <ul style="list-style-type: none">Increase in the volume of work <u>People</u> <ul style="list-style-type: none">Increase in workloads <u>Reputation</u> <ul style="list-style-type: none">Potential adverse media and political risk <u>Financial</u> <ul style="list-style-type: none">Increased cost of care placements	<u>Reputation</u> Chief Executive <u>Reputation & Service Delivery</u> Director - Children & Family Services <u>Legal</u> County Solicitor <u>Financial</u> Director - Corporate Resources	<ul style="list-style-type: none">Strategic Group chaired by the Assistant Chief Constable which is attended by Directors of Children's Service for Leicestershire, Leicester City & Rutland and other senior officers. The Group ensures effective planning and responses to issuesAdditional resources employed and embedded into Leicestershire Police force.New operational guidance and governance arrangements in place	5	5	25	Treat	<ul style="list-style-type: none">Further planning for known events e.g. National EnquiryUnderstand fully the emerging care costsEffective Council wide approach	5	5	25	<u>Reputation</u> Chief Executive <u>Reputation & Service Delivery</u> Director - Children & Family Services <u>Legal</u> County Solicitor <u>Financial</u> Director - Corporate Resources Ongoing & 31 st December 2015	57

Department

A&C =

Adults & Communities

CE =

Chief Executives

CR =

Corporate Resources

E&T =

Environment and Transport

PH =

Public Health

All =

Consolidated risk

C&FS =

Children and Families Services

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CORPORATE GOVERNANCE COMMITTEE – 12TH JUNE 2015

ANNUAL TREASURY MANAGEMENT REPORT 2014/2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. To report on the action taken and the performance achieved in respect of the treasury management activities of the Council in 2014/15.

Policy Framework and Previous Decisions

2. Under the CIPFA Code of Practice it is necessary to report on treasury management activities undertaken in 2014/2015 by the end of September 2015. This report will be referred to Cabinet prior to the end of September 2015.

Background

3. The term 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”.

4. The Director of Corporate Resources is responsible for carrying out treasury management on behalf of the County Council, under guidelines agreed annually by the County Council.

Treasury Management 2014/2015

5. There were no departures from the Treasury Management Policy Statement which was agreed by the full Council on 19th February 2014 in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.
6. The list of available counterparties to whom surplus funds can be lent is based on credit ratings assigned to each institution by independent agencies. The ratings required to become an acceptable counterparty for the authority are very high, and as a result there were very few acceptable counterparties during 2014/15. A revised policy in respect of acceptable counterparties was agreed towards the end of the financial year, and became effective on 1st April 2015. The new policy will increase the number of acceptable counterparties without any meaningful increase in risk, and will give much greater flexibility in the management of surplus funds which will assist in improving the interest earned.

7. The action taken in respect of lending during 2014/15 was relatively subdued, mainly as a result of the low number of acceptable counterparties. Market rates of interest remained low as a result of the benign outlook for any increase in the base rate and the plentiful supply of cheap liquidity that has been injected into the financial system as a result of action taken by the Bank of England.
8. On the debt portfolio, no new loans were taken and one loan of £7.5m matured in April 2014. A total of £0.5m was also repaid in respect of three Equal Instalments of Principal loans. It continues to be considerably more advantageous to finance some of the historic capital expenditure by using internal cash resources – at a cost of the loss of interest that would be earned (c. 0.5%) – than it is to ‘externalise’ this debt by further borrowing.

Position at 31st March 2015

9. The Council’s external debt position at the beginning and end of the year was as follows:-

	Principal	31 st March 2015 Average Rate	Average Life	Principal	31 st March 2014 Average Rate	Average Life
Fixed Rate Funding						
- PWLB	£180.1m	6.33%	33 yrs	£188.1m	6.17%	31 yrs
-Market	£ 2.0m	8.12%	2 yrs	£ 2.0m	8.12%	3 yrs
Variable Rate Funding:						
- Market (1)	£103.5 m	4.37%	1 yr	£103.5 m	4.37%	1 yr
Total Debt	£285.6m	5.63%	21 yrs	£293.6m	5.55%	20 yrs

- (1) The lenders all have an option to increase the rates payable on these loans on certain pre-set dates, and if they exercise this option we can either repay or accept the higher rate. The average life is based on the next option date.
10. The position in respect of investments varies throughout the year as it depends on large inflows and outflows of cash. Over the course of the year the loan portfolio (which includes cash managed on behalf of a large number of schools with devolved banking arrangements) varied between £160m and £226m, and averaged £196m.

Debt transactions in 2014/2015

11. The Council began the year with approximately £22.9m of internal debt – in other words, money that would otherwise have been available to lend on the money markets was being used to fund the historic capital programme. During the year debt of £8.0m matured and was not replaced. After adjusting for Minimum Revenue Provision (MRP) - a charge that is intended to ensure that loans raised to finance capital expenditure is paid off over the longer term – internal debt of £11.8m remained at 31st March 2015. There is a strong possibility that the internal debt will have been entirely repaid within the next two financial years, and that an ‘overborrowed’ position will replace it. Given the large penalties that would currently be incurred by prematurely repaying existing debt (the most practical way of avoiding becoming overborrowed), there is little that can be done to reduce this possibility.
12. Internal debt remained a very attractive option, as it was funded at the loss of interest that would otherwise be earned on lending the extra cash if it had been available – this ‘cost’ averaged around 0.45% in 2014/15. Most of the internal debt

comes as a result of previous premature repayments of loans, where the average rate of debt being paid was 4.44%.

13. Holding internal debt will become less attractive as the interest rates available for lending cash in the money markets rise, but given the possibility of the internal debt being replaced with an overborrowed position in the near future there is no reason to currently consider further external borrowing. Early repayment of existing debt is a more likely option, if it becomes a cost-effective.
14. The savings made by the proactive management of the debt portfolio in recent years have been substantial but will only be able to be fully quantified when the internal debt position has been fully closed out. On current projections this will happen within the next two financial years. The debt portfolio will continue to be managed on a medium/long term view and not with the aim of maximising short-term savings.
15. Although proactive management of the debt portfolio had been carried out for many years (and had generated significant on-going savings) prior to 2009, the transactions had always involved the replacement of debt that matured in a specific period with new debt of a different maturity and the repayment and replacement was generally simultaneous or within a relatively short period of time. In early 2009 there were two separate repayments, for a total of £99.2m, where some of the loans were not replaced with new debt and some were replaced with debt with a relatively short maturity (between 2 and 8 years) period and a much lower interest rate; it is the non-replacement of some of the loans (and the fact that some of the replacement loans have now matured) that has created the current internal debt position. Approximately £16.0m in interest had been saved in the period between the 2009 repayments and the end of the 2014/15 financial year.

Investment Undertaken in 2014/15

16. Bank base rates reached 0.50% in March 2009 and have stayed at this level since. The global economic outlook has improved in the last year, but an increase in UK base rates is not generally expected until at least the end of 2015 and some economists believe that an increase will not happen until well into 2016. Even when base rates do start to rise, the market considers it probable that the increases will be relatively modest and that the increases will be gradual over a protracted period of a number of years.
17. The future outlook for base rates, combined with the extra cash injected into the financial system by Bank of England, has impacted negatively onto the rates available when lending.
18. The loan portfolio produced an average return of 0.59% in 2014/15, compared to an average base rate of 0.50% and the average 7 day LIBID index (representative of what could be achieved if only short-term loans within the money market were made) of 0.35%. This level of out performance is mainly the result of a single counterparty – Bank of Scotland – who offer above-average rates of interest for longer term (i.e. 1 year) loans, but use of money market funds and loans to local authorities at rates that became attractive for a short period (due to a demand/supply imbalance of available funds) also added a modest degree of value.

Longer Term Performance of Portfolios

19. The loan portfolio has achieved out performance of both the average base rate and the local authority 7 day deposit rate in every one of the last 20 years, which is when the figures started to be produced. The level of the out performance is flattered somewhat by the significant out performance achieved both during and in the immediate aftermath of the credit crunch, but even without this the record is impressive. The average rate of interest earned in the last 20 years is 4.47%, which compares to an average base rate and the average LIBID index which have both produced a return of 3.77%.
20. The variability of balances makes it difficult to calculate the excess interest that the out performance has achieved over the whole of the 20 year period for which performance records are available, but it is estimated to be at least £25m. Half of this added value came in the five financial years from 2008/09 to 2012/13, which can be categorised as the start of the financial crisis and the period in which a number of loans placed during the financial crisis were earning interest that (relative to base rates) were extraordinary.
21. The action taken on the debt portfolio, or rather the lack of action, increased the average rate of external debt over the course of the year as the maturing loan was at a lower rate (2.38%) than the portfolio average. In reality the maturity of this loan was actually positive to the authority as instead of paying 2.38% in external debt, it was effectively refinanced at 0.45% (the cost of not having the cash available for lending).

Summary

22. Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium/long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in significant savings, and the significantly decreased amount of internal debt in recent years has reduced the risks associated with the possibility of rising short-term interest rates. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
23. The loan portfolio has produced an exceptional level of out performance in the period in which performance figures have been calculated. At present it is difficult to add significant 'value' as a result of the cheap liquidity that has been injected into the financial system, although the revision of the list of acceptable counterparties (effective from 1st April 2015) will assist in providing extra flexibility and enhanced returns for negligible extra risk. A period in which there begins to be differentiation in the expectations of the pace and extent of future base rate rises, which looks to be almost upon us, will also give greater scope to enhance returns.

Recommendation

24. The Committee is asked to note this report.

Resource Implications

25. Treasury management is an integral part of the County Council's finances. Interest generated by treasury management activities of approximately £1.5m was earned in 2014/15 and the interest paid on external debt was c. £15.8m.

Equalities and Human Rights Implications

26. None.

Background Papers

Report to County Council on 20th February 2013 – 'Medium Term Financial Plan': Appendix L 'Treasury Management Strategy Statement and Annual Investment Strategy 2013/14'.

Circulation under local issues alert procedure

None.

Officers to Contact

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CORPORATE GOVERNANCE COMMITTEE – 12TH JUNE 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 March 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 continued to show meaningful growth and the positive impact from the fall in oil price is likely to feed through into consumer spending for some time to come. Consumer Price Inflation has fallen to zero and is expected to go into negative territory in the coming months, before trending higher towards the end of 2015. There is real wage growth within the economy – albeit that nominal wage growth is still low – and unemployment continues to fall steadily. Economists expect the first increase in UK base rates to occur in late 2015 or early 2016, although increases are expected to be muted and gradual. Global growth – particularly in the Eurozone – is likely to remain a major influence on the UK economy.
5. US economic growth continues to be amongst the strongest in the world, and the first interest rate increase from the Federal Open Market Committee is widely expected to be in 2015. The fall in the oil price will undoubtedly have a negative impact on US economic growth – the US has been a net exporter of oil for some time, mainly due to their huge reserves of oil sands – but the rebound in the oil price from a low of below \$50 a barrel to over \$65 will assist greatly in the profitability of some major areas of production.
6. After much publicity, major quantitative easing commenced in the Eurozone during the March quarter. The early signs are that the quantitative easing programme has boosted confidence of a recovery, but it will take some time to see how effective the programme is in terms of boosting growth and employment. Youth unemployment in some parts of the Eurozone is at levels of 20% and employment growth among the young would have a disproportionately positive impact onto consumer spending.

Action Taken during March Quarter

7. The balance of the investment portfolio increased very marginally over the quarter and stood at £165.0m at the end of the quarter, an increase of £0.9m from the opening position. 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.
8. 4 different loans of £5m each with Bank of Scotland (originally for 1 year and at rates of 0.95%) matured during the quarter and were renewed for a fresh 1 year period at a rate of 1%. A 1 year loan with Exeter City Council (at 0.64%) also matured, as did 5 other loans (originally for periods of between 1 and 3 months) with other Local Authorities. These shorter-term loans totalled £42.2m and all were at 0.5% or very close to this rate, and the lack of counterparties meant that all the Local Authority maturities were invested in Money Market Funds at an average of 0.05% lower than they had previously been earning.
9. A 3 month loan to HSBC for £15m matured and was renewed for a further 3 month period at an almost identical rate (0.56%) and one Local Authority requested an early repayment of a loan that was originally due to mature in early April. This request was accepted, given that the compensation payable for the early repayment was slightly more than the interest that was lost as a result of the early repayment. The overall impact of the activity on the average rate was that it decreased from 0.64% to 0.62%, mainly as a result of the increased amount invested in Money Market Funds at rates that were below the portfolio average.
10. The loan portfolio at the end of March was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	25.0
Money Market Funds	<u>75.0</u>
	<u>165.0</u>

11. At the quarter end the loans to Local Authorities were amounts of £10m to each of Birmingham City Council and Lancashire County Council, and a £5m loan to Salford City Council.
12. In February 2015 the County Council approved a change in the policy used to select acceptable counterparties for the lending of surplus balances, which became effective from 1st April 2015. This policy had previously been considered by the Corporate Governance Committee, and the list that is relevant at the time of writing this report is attached as an appendix to this report. Since April action has been taken which has improved the average rate of interest earned by 0.10%.
13. There are also five further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS). These do not form part of the treasury management portfolio, but are listed below for completeness:

5 year loan for £2m, commenced 5th September 2012 at 2.72%
 5 year loan for £1.4m, commenced 27th November 2012 at 2.19%
 5 year loan for £2m, commenced 12th February 2013 at 2.24%
 5 year loan for £2m, commenced 1st August 2013 at 2.31%
 5 year loan for £1m, commenced 31st December 2013 at 3.08%

14. The Leicestershire Local Enterprise Fund has been making financing available to small and medium sized Leicestershire companies, via an association with Funding Circle, since December 2013. There are a number of hurdles that companies must clear before being able to access this funding, and any loans made will be classed as 'service investments'. As such, these loans are not covered within the Treasury Management Policy but at the end of March 2015 there had been 38 loans made totalling £351,940 and the average interest rate on these loans was 8.5%.

Resource Implications

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

Equality and Human Rights Implications

16. There are no discernible equality and Human Rights implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

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APPENDIX

List of acceptable counterparties for lending of surplus funds**UK part State-Owned institutions - maximum limit £50m for 1 year**

Lloyds Banking Group (including Bank of Scotland and Lloyds)

Royal Bank of Scotland Group (including Nat West and Royal Bank of Scotland)

UK institutions - maximum limit £30m for 1 year

HSBC (including HSBC Bank USA and The Hong Kong and Shanghai Banking Corporation. These overseas subsidiaries both have individual limits of £15m for 1 year)

Standard Chartered

NB. Bank of New York Mellon (international) Ltd is classed as a subsidiary of Bank of New York Mellon. The overall limit for the group is £15m for 6 months

UK institutions - maximum limit £20m for 6 months

Barclays

Close Brothers

Coventry Building Society

Merrill Lynch International

Nationwide

Santander UK Group (including Abbey National Treasury Services and Cater Allen)

Sumitomo Mitsui Banking Corporation Europe Ltd

NB. Citibank International is classed as a subsidiary of Credit Suisse AG. The overall limit for the group is £10m for 6 months

NB. Credit Suisse International is classed as a subsidiary of Credit Suisse AG. The overall limit for the group is £10m for 6 months

NB. UBS Ltd is classed as a subsidiary of UBS AG. The overall limit for the group is £10m for 6 months

Abu Dhabi/U.A.E. (maximum limit to all banks within country is £30m)

National Bank of Abu Dhabi (£15m for 1 year)

Australia (maximum limit to all banks within country is £30m)

Australia & New Zealand Banking Group (£15m for 1 year)

Commonwealth Bank of Australia (£15m for 1 year)

Macquarie Bank (£10m for 6 months)

National Australia Bank (£15m for 1 year)

Westpac Banking Corporation (£15m for 1 year)

Belgium (maximum limit to all banks within country is £30m)

BNP Paribas Fortis (£10m for 6 months)

*NB. Classed as part of a BNP Paribas together with French parent.
£10m limit is for the group*

KBC Bank NV (£10m for 6 months)

Canada (maximum limit to all banks within country is £30m)

Bank of Montreal (£15m for 1 year)

Bank of Nova Scotia (£15m for 1 year)

Canadian Imperial Bank of Commerce (£15m for 1 year)

National Bank of Canada (£10m for 6 months)

Royal Bank of Canada (£15m for 1 year)

Toronto Dominion Bank (£15m for 1 year)

Denmark (maximum limit to all banks within country is £30m)

Danske Bank (£10m for 6 months)

Finland (maximum limit to all banks within country is £30m)

Nordea Bank Finland (£15m for 1 year)

*NB. Classed as part of a group with Nordea Bank (included in Swedish banks).
£15m limit is for the group.*

Pohjola Bank (£15m for 1 year)

France (maximum limit to all banks within country is £30m)

BNP Paribas (£10m for 6 months)

*NB. Classed as part of same group as BNP Paribas Fortis (included in
Belgian banks). £10m limit is for the group*

Credit Agricole Corporate and Investment Bank (£10m for 6 months)

) Part of Credit Agricole group. £10m limit

Credit Agricole (£10m for 6 months)

) is for the group.

Credit Industriel at Commercial (£15m for 12 months)

Germany (maximum limit to all banks within country is £30m)

BayernLB (£10m for 6 months)

DZ Bank (Deutsche Zentral-Genossenschaftsbank) (£15m for 1 year)

Deutsche Bank AG (£10m for 6 months)

Helaba (Landesbank Hessen-Thüringen Girozentrale (£10m for 6 months)

Landesbank Baden Württemberg (£15m for 12 months)

Landesbank Berlin AG (£10m for 6 months)

Landwirtschaftliche Rentenbanken (£15m for 1 year)

NRW.BANK (£15m for 1 year)

Luxembourg (maximum limit to all banks within country is £30m)

Banque at Caisse d'Epargne de l'Etat (£15m for 1 year)

Clearstream Banking (£15m for 1 year)

Netherlands (maximum limit to all banks within country is £30m)

Bank Nederlandse Gemeenten (£15m for 1 year)

Cooperative Centrale Raiffeisen Boerenbank (Rabobank Nederland) (£15m for 1 year)

ING Bank (£10m for 6 months)

Nederlandse Waterschapsbank (£15m for 1 year)

Norway (maximum limit to all banks within country is £30m)

DnB Bank (£15m for 12 months)

Qatar (maximum limit to all banks within country is £30m)

Qatar National Bank (£15m for 1 year)

Saudi Arabia (maximum limit to all banks within country is £30m)

Arab National Bank (£10m for 6 months)

Riyad Bank (£10m for 6 months)

Samba Financial Group (£15m for 1 year)

Singapore (maximum limit to all banks within country is £30m)

DBS Bank (£15m for 1 year)

Overseas Chinese Banking Corporation (£15m for 1 year)

United Overseas Bank (£15m for 1 year)

Sweden (maximum limit to all banks within country is £30m)

Nordea Bank AB (£15m for 1 year)

NB. Classed as part of a group with Nordea Bank Finland. £15m limit for group.

Skandinaviska Enskilda Banken (£15m for 1 year)

Svenska Handelsbank (£15m for 1 year)

Swedbank (£15m for 1 year)

Switzerland (maximum limit to all banks within country is £30m)

Credit Suisse (£10m for 6 months).

NB Group limit of £10m/6 months to include UK subsidiary

UBS AG (£10m for 6 months)

NB Group limit of £10m/6 months to include UK subsidiary

USA (maximum limit to all banks within country is £30m)

Bank of New York Mellon (£15m for 1 year)

NB Group limit of £15m/1 year to include UK subsidiary

Bank of America N.A. (£10m for 6 months)

BOKF NA (£10m for 6 months)

Citibank International (£10m for 6 months)

NB Group limit of £10m for 1 year to include UK subsidiary

HSBC Bank USA (£15m for 1 year)

NB to be included as part of UK Group limit £30m/1 year

JPMorgan Chase (£15m for 1 year)

Northern Trust Company (£15m for 1 year)

Silicon Valley Bank (£10m for 6 months)

State Street Bank and Trust Company (£15m for 1 year)

U.S. Bancorp (£15m for 1 year)

Wells Fargo Bank (£15m for 1 year)



CORPORATE GOVERNANCE COMMITTEE – 12 JUNE 2015

**JOINT REPORT OF THE DIRECTOR OF CORPORATE
RESOURCES AND THE CHIEF EXECUTIVE**

ANNUAL GOVERNANCE STATEMENT 2014/15

Purpose of the Report

1. The purpose of this report is to:
 - (a) Outline the background and approach taken to produce the County Council's 2014/15 Annual Governance Statement (AGS);
 - (b) Present the draft AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council.

Background

2. Regulation 4(2) of The Accounts and Audit (England) Regulations 2011 requires each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS in accordance with the CIPFA/SOLACE document 'Delivering Good Governance in Local Government' fulfils the statutory requirement. The AGS encompasses the governance system that applied in both the authority and any significant group entities during the financial year being reported.
3. The AGS is an important statutory requirement which enhances public reporting of governance matters.
4. To ensure that the AGS reasonably reflects the Committee's knowledge and experience of the Council's governance and control framework and that the conclusions and future challenges are appropriate, CIPFA guidance requires high level input from the Committee into the AGS. The draft 2014/15 AGS is attached as Appendix 1 and any comments by the Committee will be duly considered and incorporated as appropriate.
5. The draft statement has already been considered by a senior management group comprising the Monitoring Officer, the Chief Financial Officer, the Head of Democratic Services and the Head of Internal Audit Service.

Approach

6. The review of the effectiveness of the County Council's system of internal control and overall corporate governance arrangements requires the sources of assurance, which the Council relies on, to be brought together and reviewed, from both a departmental and corporate view.
7. During 2014-15 responsibility for compilation of the AGS transferred to the Internal Audit Service. The Public Sector Internal Audit Standards (PSIAS) allows for the Head of Internal Audit Service to assist management in drafting the AGS. The process followed as explained below, has not changed significantly from the previous year.
8. To ensure the AGS presents an accurate picture of the governance arrangements for the whole Council, each Director was required to complete a 'self-assessment' based on the six principles of good governance described in the revised CIPFA / SOLACE framework. This assessment is designed to provide details of the measures in place (systems, process, documents etc.) within their departments during the financial year 2014/15, to ensure compliance (or otherwise) with the Council's Code of Corporate Governance. The assessment also allowed for the recognition and recording of areas where improvements or developments are required.
9. The departmental self-assessments contained a set of compliance statements under each core principle, which required a corresponding score based on criteria described within the draft AGS. The application of a more quantitative approach to assessing compliance against the Code allows the Committee and the public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice.
10. A number of Corporate Assurance Statements were also completed to capture evidence to gain an overall organisational perspective of processes in place as described by the six core principles. These statements also allowed for the recognition and recording of areas where improvements or developments were required.
11. The completed statements were analysed along with various other sources of evidence to determine whether there are any significant governance issues that should be reported in the AGS. Some of these sources include:
 - a. Reports provided by internal and external audit and other assurance sources and the implications of these reports for the overall governance of the Council;
 - b. The Head of Internal Audit Service's annual opinion on the overall adequacy and effectiveness of the Authority's control environment;
 - c. Evaluation of any negative media articles.

Outcome of the 2014/15 review of the Governance Framework

12. Guidance states that 'Significant Governance Issues' are those that:
 - a. Seriously prejudice or prevent achievement of a principal objective of the authority;
 - b. Have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in the significant diversion of resources from another aspect of the business;
 - c. Have led to a material impact on the accounts;
 - d. The Corporate Governance Committee advises should be considered significant for this purpose;
 - e. The Head of Internal Audit Service reports on as significant in the annual opinion on the internal control environment;
 - f. Have attracted significant public interest or have seriously damaged the reputation of the organisation;
 - g. Have resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer.

13. The 2014/15 review of the Governance Framework by the senior management group identified no significant governance issues for inclusion within the Annual Governance Statement.

14. The assurance gathering process has confirmed that actions are being taken and further improvements to governance are planned in relation to the key challenges facing the Council in 2015/16 and throughout the timespan of the current MTFS. The senior management group charged with responsibility for producing the 2014/15 AGS has determined that progress on the improvement areas identified against each Principle in Section Four should be the responsibility of service managers. Similarly, the group determined that those areas listed in the Future Challenges Section will be subject to scrutiny through existing reporting channels. Therefore monitoring of improvement areas included in the AGS is not required.

15. The Code of Practice in Local Authority Accounting states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Therefore, in the event of the above occurring, the AGS presented as Appendix 1 would change. Details would, of course, be reported to members of the Committee for information.

16. Approval and ownership of the AGS has been reflected at corporate level and the statement will be signed on behalf of the Council by the Chief Executive and Leader of the Council and published on the County Council's website.

Recommendations

17. The Committee is requested to:

- a. Consider the draft AGS (Appendix 1) and indicate whether it is consistent with the Committee's own perspective on internal control within the Authority;
- b. Note that the AGS, which may be subject to such changes as are required by the Code of Practice in Local Authority Accounting, has been prepared in accordance with best practice.

Resource Implications

18. None.

Equality and Human Rights Implications

19. None.

Background Papers

Delivering Good Governance in Local Government: Framework – issued by CIPFA / SOLACE, 2007 and 2012;

The 2014/15 Corporate and Departmental Assurance Statements;

The Accounts and Audit (England) Regulations 2011:
<http://www.legislation.gov.uk/ukxi/2011/817/contents/made>

Delivering Good Governance in Local Government:
<http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework>

Circulation Under the Local Issues Alert procedure

None

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List of Appendices

Appendix 1 – Draft Annual Governance Statement 2014/15

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Annual Governance Statement (AGS) 2014/15

1. INTRODUCTION

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently and effectively. In discharging this responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs.

2. WHAT IS GOVERNANCE?

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

The Council has a Code of Corporate Governance (the Code), which is consistent with the six core principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The Accounts and Audit (England) Regulations 2011, require the Council to prepare and publish an Annual Governance Statement (AGS).

3. WHAT THE AGS TELLS YOU




The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

4. HOW THIS STATEMENT HAS BEEN PREPARED


There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Council relies on, to be brought together and reviewed – from both a departmental and corporate view.

To ensure this AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with the Council's Code of Corporate Governance.


The departmental self-assessment contained a set of compliance statements under each core principle, which required a corresponding score of 1, 2 or 3 based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	Good 	Compliance against the majority of the areas of the benchmark is good, although there may be minor weaknesses with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor and performance is generally on track.	<ul style="list-style-type: none"> Many elements of good practice to a high standard and high quality; Coverage of this 'area of control' is extended to most/all services areas within the department
2	Some weaknesses/ areas for improvement 	There are some weaknesses against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent and performance is variable across the department.	<ul style="list-style-type: none"> Some elements of good practice to a high standard and high quality; Coverage of this 'area of control' is only extended to certain service areas, with omissions in others; Proposal/Plans are in place to address perceived shortfalls
3	Key weaknesses/ many areas for improvement 	Compliance against many/all areas of the benchmark is weak and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.	<ul style="list-style-type: none"> Few elements of good practice to a high standard and high quality; Coverage of this expectation is omitted amongst most areas; Proposal/Plans to address perceived shortfalls are in early stages of development


The application of a more quantitative approach to assessing compliance against the Code will allow the Corporate Management Team, Members and the public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the six core principles and best practice. In addition to the above, senior officers assessed arrangements for managing issues that apply across all departments. Whilst the self-assessments identified many sources of assurance and were transparent in reporting areas for improvement the tables below only include the key sources of assurance and key areas for improvement.

PRINCIPLE A Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> We set out the overall Council vision in the Council's Strategic Plan (to 2018) incorporating the Medium Term Financial Strategy and Transformation Programme which are supported by specific departmental service/business plans and strategies A new Communities Strategy has also been agreed to underpin working with the voluntary and community sector as well as a new Commissioning and Procurement Strategy. We publish our plans and our performance in the Annual Report and Statement of Accounts We communicate with, and publish results of our consultations with resident's, service users and other stakeholders and take account of feedback to review outcomes so they reflect progress and wider changes We have various channels to raise formal complaints and procedures that inform systematic service improvement. Performance against complaints is reported to the Scrutiny Commission and Corporate Governance Committee. Departmental Management Teams and Cabinet Lead Members receive regular reports on the status of performance indicators and have a process in place to address poor performance 	<p>Average Score: 1.5</p>  <p>The level of compliance is generally good however improvements have been identified in relation to delivery of the MTFS savings and improving Business Intelligence.</p>


<ul style="list-style-type: none"> Regular communication is in place so that all staff are kept informed of key operational, departmental and corporate issues. 	
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PRINCIPLE B Members and officers working together to achieve a common purpose with clearly defined functions and roles	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> We adhere to a Constitution that clearly defines the Council's political structure, roles and responsibilities of the Executive, Committees, Members and Officers and the rules under which they operate Overview & Scrutiny support the work of the Council by: reviewing and scrutinising decisions; considering aspects of performance; assisting in research, policy review and development; and promoting collaborative working. We comply with the CIPFA Statements on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit Corporate Governance Committee approved the Internal Audit Charter which sets out the purpose, authority and responsibility for the internal audit function and clearly defines Members and officers' roles, responsibilities and relationships Our Employment Committee is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice We have developed protocols to ensure effective formal communication between members and officers by providing regular reports on progress and 	<p>Average Score: 1.6</p>  <p>The level of compliance is generally good however improvements have been identified in relation to Partnership working, including reviewing support to the priority partnerships and producing clear principles and guidance in relation to all partnerships.</p> <p>In addition, actions need to be implemented to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards</p>


<p>performance in relation to their respective committee and functions; and informal briefings on key topics</p> <ul style="list-style-type: none"> • We conducted and published the results of an extensive public consultation and involvement exercise to inform the MTFS, and continue to communicate with stakeholders on future plans and proposals • We have recently agreed a list of eight priority partnerships that will be the primary focus for the Council's partnership work. 	
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PRINCIPLE C Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> • We have an established Code of Conduct for Members, with training provided for any new Members. During the year, guidance was provided by the Monitoring Officer regarding the operation of the Code of Conduct where members represent more than one public body (i.e. "dual hatted" members): • We maintain records of, and publish Members' Register of Interests on our website • The Corporate Governance Committee supports and promotes the maintenance of high standards of conduct by Members and have agreed criteria for assessing complaints against Members, which is published on our website. Training on the various aspects of the Committee's business was provided to two new Committee members • We re-launched our Employee Code of Conduct. • Each department maintains both a Register of Interests and a Register of Gifts and Hospitality and arrangements are in place so that staff are aware of, understand and comply with the need to report these situations 	<p>Average Score: 1.2</p>  <p>The level of compliance is good with no key improvements being required.</p>


<ul style="list-style-type: none"> • We revised our Anti-Fraud & Corruption Policy Statement and Strategy and implemented new policies and procedures to mitigate the risks of bribery and corruption and money-laundering in order to conform with requirements of the CIPFA Code of Practice – ‘Managing the Risk of Fraud and Corruption’ (2014). • We undertook a robust self-assessment using the toolkit provided by the Audit Commission in its annual publication, ‘Protecting the Public Purse’ (PPP) which focused on counter fraud governance. • We have new arrangements in place to enable staff to raise issues of concern and report wrongdoing. 	
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PRINCIPLE D Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> • We publish all Committee agendas, meeting papers and minutes on our website • We promote transparency by transmitting and archiving live webcasts of County Council, Cabinet, Scrutiny and Development Control, Police and Crime Panel and Regulatory Board meetings • Scrutiny Commissioners produce and publish a report on the activities of Overview and Scrutiny over the year • Corporate Governance Committee actively engages and conducts detailed scrutiny of the Corporate Risk Register and emerging risks. The Committee also noted the content of the revised Risk Management Policy and Strategy before its approval by Cabinet. • Departmental Management Teams take full ownership of risks within their area 	<p>Average Score: 1.2</p>  <p>The level of compliance is good with no key improvements being required.</p>

<p>and agree mitigating actions</p> <ul style="list-style-type: none"> • The adequacy and effectiveness of our internal control environment is tested throughout the year as a result of the approval and implementation of a risk based Internal Audit Annual Plan and by undertaking audits. • We participate in a range of external audits, inspections and accreditations to ensure we remain accountable for the quality of services we deliver as well to support continuous improvement of these services 	
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PRINCIPLE E Developing the capacity and capability of members and officers to be effective	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> • Our Learning & Development priorities are based upon having the knowledge, skills and expertise to meet our current and future service priorities • Learning & Development plans are informed by the: MTFS; Strategic Vision and Imperatives; Departmental key aims; Service area plans; and individual Performance and Development Reviews (PDR) • A 'golden thread' approach ensures that all staff understand and can make the links from their own team and individual objectives through to the departments and Council's overarching priorities • Induction training is provided for all new staff appropriate to their role and responsibilities, with access to on-going Learning & Development activities to enhance skills • An established competency framework that yields behaviours to support the direction of the Authority, with all middle and senior managers completing a 'Leading for High Performance' programme 	<p>Average Score: 1.4</p>  <p>The level of compliance is generally good and a number of improvement areas which link to the Transformation Programme Enablers have been identified.</p>

<ul style="list-style-type: none"> • We continue to provide opportunities to elected councillors in accordance with our agreed Member Learning & Development Strategy • We provide regular briefings to members on the key issues and challenges facing the Council 	
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PRINCIPLE F Engaging with local people and other stakeholders to ensure robust public accountability	
How we meet this Principle	Conclusions
<ul style="list-style-type: none"> • We publish a detailed Annual Performance Report on progress against the Strategic Plan • We use a variety of mediums to conduct dialogue with our residents, service users and other stakeholders ranging from a wide spread consultation on budget proposals resulting in 7,200 responses; to more focused, individual service user groups • Our communication strategy is based on an audience-led approach which has allowed us to better target residents who use or need our services, examples include our website, Leicestershire Matters, the Council Tax Leaflet • The Council will continue to use social media to reach a growing number of residents and stakeholders. Year-on-year usage of social media has increased • Enhanced arrangements have been put in place to support managers in communications, consultation and engagement • We have robust Freedom of Information practices in place which enable us to meet our obligations and publish our responses to requests 	<p>Average Score: 1.4</p>  <p>The level of compliance is generally good although a number of improvement areas which link to the Transformation Programme have been identified.</p>

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| <ul style="list-style-type: none"> • We report against the mandatory requirements of the Local Government Transparency Code (2014) and the Openness of Local Government Bodies Regulations 2014 | |
|--|--|

5. REVIEW OF EFFECTIVENESS

The CIPFA/SOLACE Governance Framework details typical systems and processes that an authority can adopt to ensure it has an effective system of internal control. Using this guidance, the County Council can provide assurance that it has effective governance arrangements.

The Control Environment of Leicestershire County Council

The Council's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council

Internal Audit Service

The Internal Audit Service (IAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at the Council was approved by Corporate Governance Committee in November 2014. The Charter allows the Head of Internal Audit Service (HoIAS) to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any assurance engagement to be overseen by someone outside of the internal audit activity.

The Head of Internal Audit Service (HoIAS) conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform. Whilst these are not significant deviations to the PSIAS, the Chief Financial Officer considers that reference to implementing actions (including embedding the Quality Assurance & Improvement Programme should be recorded as a key improvement area. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the overall improvements in risk management at the Council, the plan is primarily based on the contents of corporate and department risk registers to ensure current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework (i.e. the control *environment*).

The HoIAS presents an annual report to the Corporate Governance Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. The HoIAS Sub-Opinions for 2014/15 are: -

Governance – Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

Risk management – Management has agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial and ICT Control – Reasonable assurance can be given that the County Council's core financial practices remain strong. However, in 2014-15 there were areas of weakness in the control environment, most noticeably in Adults & Communities Department. Management reacted quickly by allocating additional resources and capability and there were significant improvements in the latter part of the year. Even so in respect of this area only limited assurance can be given that internal controls were operating effectively.

Internal Audit Service for East Midlands Shared Service (EMSS)

EMSS is constituted under Joint Committee arrangements, to process payroll/HR and accounts payable and accounts receivable transactions for Leicestershire County Council and Nottingham City Council. The internal audit of EMMS is provided by Nottingham City Council.

On the basis of audit work undertaken during the 2014-15 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a limited level of assurance can be given that internal control systems are operating effectively within EMSS. In reaching this conclusion the HoIA acknowledged there had been a demonstrable improvement in the governance processes and that no significant issues had been discovered. In addition it is worth noting that some of the issues raised did not apply to the County Council.

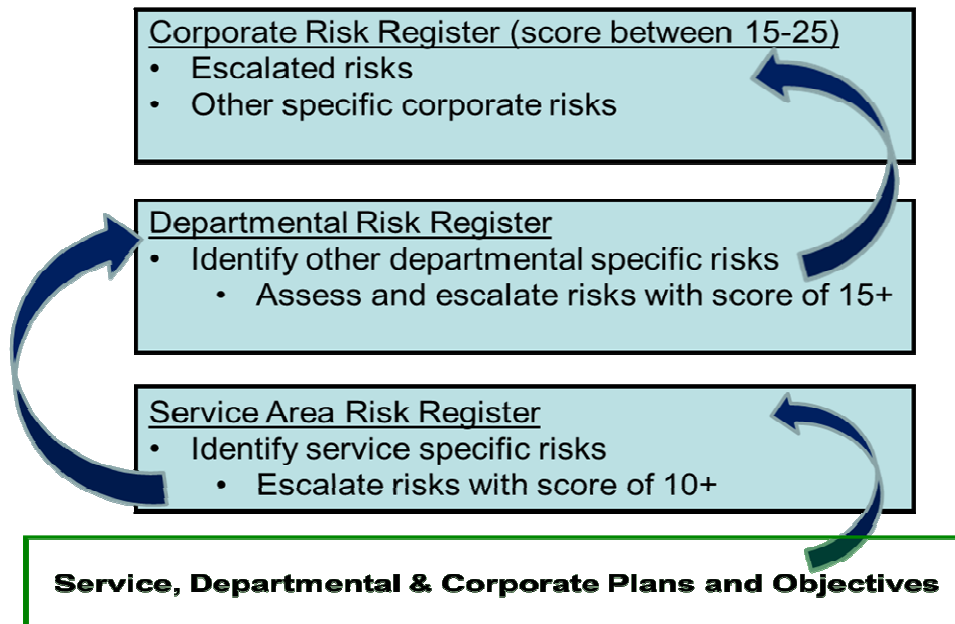
<u>Risk Management</u>

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

In the summer of 2014, responsibility for the administration and development of, and reporting on, the Council's risk management framework transferred to the HoIAS. The Policy and Strategy were reviewed, revised and approved by Cabinet in February 2015.

The Council's risk maturity was re-assessed as between levels 3 "Working" and 4 "Embedded and Working"; it was 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, but nevertheless, further development is necessary in some of the core areas.

The framework for managing and escalating risks is as follows: -



Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance. Training to two new members of the Committee was provided by the Monitoring Officer and the HoIAS in September 2014.

During 2014/15 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The Committee receives regular reports on the: progress of internal audit work; treasury management; Regulation of Investigatory Powers Act (RIPA); anti-fraud initiatives; and extended risk management information on business continuity and insurance. The table below provides summary information of other key business considered by this Committee to support the above.

<u>May 2014</u>	<u>September 2014</u>	<u>November 2014</u>	<u>February 2015</u>
East Midlands Shared Service Outturn 2013/14 and 2014/15 Audit Plan	External Audit of the 2013/14 Statement of Accounts and the Annual Governance Statement	Annual Audit Letter 2013/2014	External Audit of Annual Grant Certifications
External Review of the Medium Term Financial Strategy 2014/15 - 2017/18	Proposed Changes to the Contract Procedure Rules	External Audit Plan - Progress Report 2014/2015	External Audit Plan 2014/15
Revision of Employee Code of Conduct	Ombudsman Annual Review 2013-14 and Corporate Complaint Handling	Regulation of Investigatory Powers Act 2000 (RIPA)	Treasury Management Strategy Statement and Annual Investment Strategy
Covert Surveillance and Regulation of Investigatory Powers Act 2000 - Quarterly Update	Whistleblowing Policy	Recommended Change to Treasury Management Policy in Respect of the Lending of Surplus Balances	Anti-Fraud and Corruption Framework
Annual Treasury Management Report 2013/14	Annual Report on the Operation of Members' Code of Conduct 2013/2014	The Internal Audit Charter	Regulation of Investigatory Powers Act 2000 (RIPA)
Section 106 Developer Contributions	Covert Surveillance and Regulation of Investigatory Powers Act 2000 Quarterly Update	Annual Governance Statement 2014 - Update Against Key Improvement Areas	
Annual Governance Statement 2013/14	Internal Audit Service Annual Report 2013-14		
Internal Audit Service Audit Plan for 2014/15			

External Audit

The Council's external auditors PricewaterhouseCoopers (PwC) present the findings from their planned audit work to those charged with governance.

Key conclusions from work undertaken during 2014/15 can provide the public with assurance that the Council has:

- Applied a number of prudent assumptions in setting its MTFS, which will help manage financial risks, with robust programme management arrangements in place to ensure that saving targets will be achieved;
- Demonstrated value for money on a number of key areas when compared with other County Councils and has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Incorporated significant Member involvement in the development of the MTFS and has set aside an appropriate level of earmarked reserves and contingency to manage future cost pressures;
- No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

The Role of the Chief Financial Officer (CFO)

The Assistant Director (Strategic Finance & Property), Corporate Resources Department undertakes the role of the Chief Financial Officer (CFO) for the Council. The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

The Role of the Head of Internal Audit

The Council's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010)*. The Head of Internal Audit Service (HoIAS) works with key members of the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Authority.

<u>The Role of the Monitoring Officer</u>
--

The Monitoring Officer has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the Monitoring Officer any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,
- ensuring that decisions taken are in accordance with the Council's budget and its Policy Framework
- providing advice on the scope of powers and authority to take decisions

In discharging this role the Monitoring Officer is supported by officers within the Legal and Democratic Services Teams.

6. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

6.1 2014/15 Key Improvement Areas

An updated position on the areas agreed for action during 2014/15 is provided at Annex 1.

6.2 2014/15 Significant Governance Issues

There have been no significant governance issues to report during 2014/15.

6.3 2015/16 Key Improvement Areas

Improvements in the governance framework have been identified in a number of areas as described within the "Conclusions" columns under each Principle in Section 4. Of these, the key improvement areas are identified in the following section.

7. FUTURE CHALLENGES

The continuation of funding reductions over the medium term is the key challenge facing the County Council. The transformation programme is key to the delivery of the required savings and work is continuing to strengthen and improve governance. There are a range of other major challenges including Health and Social Care integration, implementation of the Care Act and ensuring the County continues to invest in infrastructure to meet the needs of a growing population.

The other challenges faced by the County Council are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining of the County Council.

8. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year.

We propose over the coming year to take steps to address any matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

John Sinnott
Chief Executive

Nicholas Rushton
Leader of the Council

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2014/15 Key Improvement Areas

The table below shows the areas for improvement to be undertaken within 2014/15 (as included within the 2013/14 AGS) along with the position at 31st March 2015.

Key Improvement Areas – Principle B	Lead Officer	Deadline	Reported to Corporate Governance Committee (November 2014)	Position as at 31st March 2015
<p><u>Partnership Working</u> Partnership working and the investment of County Council funding is becoming potentially more complex meaning that partnership protocols and governance arrangements need to be reviewed. To this effect, a self-assessment of existing partnerships has been carried out and this provides intelligence on how partnerships perform in relation to the various governance benchmarks.</p> <p>Department's need to ensure they are aware of the partnerships /joint working arrangements within their areas and have duly considered any risks to the Authority.</p>	Departmental Management Teams	December 2014	All departments have been advised as to how they should identify partnership risks and include these within their existing risk registers. Progress has been made in a number of departments and it is expected that the remaining departments will have completed the actions required in time for them to be included within the Quarter Three Risk Management Update (to be reported to Corporate Governance Committee in February 2015).	These actions have been superseded by the work being undertaken within the Chief Executive's Department on partnership protocols.
<p><u>Internal Audit Charter & Quality Assurance & Improvement Programme (QAIP)</u> Develop and gain members approval to both a Charter & QAIP a</p>	HolIAS	December 2014	<p>The Charter was approved by Corporate Governance Committee in November 2014.</p> <p>A QAIP has been developed. There isn't a need for member approval.</p>	<p>HolIAS self - assessment against conformance to the standards revealed further actions are required.</p> <p>Referred to in 2015-16 AGS.</p>

Key Improvement Areas – Principle C	Lead Officer	Deadline	Reported to Corporate Governance Committee (November 2014)	Position as at 31 st March 2015
<u>Whistleblowing</u> The County Council's current Employee Code of Conduct and Whistleblowing Policy needs to be revised taking into account recent best practice. To this effect the County Solicitor has commissioned a team to review the Council's existing policy and procedures.	Monitoring Officer	September 2014	The review and revision of the Code of Conduct and Whistleblowing policy has been completed and will be launched through the Corporate Information Service in mid-November.	Completed in January 2015.

Key Improvement Areas – Principle D	Lead Officer	Deadline	Reported to Corporate Governance Committee (November 2014)	Position as at 31 st March 2015
<u>Business Intelligence (BI)</u> Actions to improve BI will enhance the effectiveness of decision making at both departmental and corporate level aiding the forthcoming transformation agenda. A cross department review of BI and Data Management has been conducted. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme and will deliver a focused programme of work to bring improvement and mitigate risk.	Assistant Director Strategic Information & Technology and Acting Assistant Chief Executive	December 2014	<p>The Data and BI Enabler Programme has been established, and progress is being made across the 4 work-streams of Supply, Demand, Technology and Data. A number of exemplar areas are being scoped in order to accelerate progress.</p> <p>Emerging BI requirements from the Transformation Programme are being captured, and work is underway on a number of these.</p> <p>Relevant links are being made with the Effective Commissioning Enabler.</p>	Actions are continuing (and are subject to governance) as part of the Transformation Programme

Key Improvement Areas – Principle E	Lead Officer	Deadline	Reported to Corporate Governance Committee (November 2014)	Position as at 31st March 2015
<p><u>Succession Planning</u></p> <p>The County Council recognises that there is a need to focus on improving succession planning. The People Strategy Board has agreed a pilot approach to 'Talent Management' and Succession Planning which is due to commence in April 2014 with 3 areas within the Council. A report on this will be taken to Corporate Management Team once the pilot has taken place and the outcome and future proposal is known.</p>	Learning & Development Manager	December 2014	<p>3 pilot areas have been identified, with one in Children and Family Services (C&FS), one in Environment and Transport and one in ESPO. Due to service changes in the C&F and E&T departments the implementation of the pilots has been delayed to later in 2014/15.</p> <p>Further work to be undertaken by the HR Business Partner to support and engage ESPO in the model and how it can support ESPO's business.</p> <p>Succession planning and talent management will now also be a work stream within the People and Organisation Development Enabler supporting the Council's transformation agenda, seeking to expand the work beyond the pilot areas.</p>	Actions are continuing (and are subject to governance) as part of the Transformation Programme

Key Improvement Areas – Principle F	Lead Officer	Deadline	Reported to Corporate Governance Committee (November 2014)	Position as at 31st March 2015
<p><u>External Website</u></p> <p>The County Council recognises that engagement with officers and the public is vital to achieving objectives and is committed to publishing information for both internal and external customers. To this effect, an Online Services Project is underway which will radically overhaul technology, content, approach and governance of the website to make it customer-focussed and evidence based.</p>	Assistant Director Strategic Information & Technology	December 2014	<p>The Online Services project is making good progress, with the design stage nearing completion. Visual designs have been approved by CMT and Members, and procurement of the new content management system is underway.</p> <p>The project has taken a strongly evidence-based and customer focused approach, and links are being made to the Customers and Communities Enabler. CMT has agreed new governance arrangements, and endorsed the proposed approach to development of content for a go-live in Spring 2015.</p>	Actions are continuing (and are subject to governance) as part of the Transformation Programme

**CORPORATE GOVERNANCE COMMITTEE****12 JUNE 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 since the last report to the Committee and report where high importance recommendations have been made;
 - (b) Provide brief information on a concluded special investigation.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, which is provided by LCCIAS. To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan. The Committee is also tasked with monitoring the implementation of high importance recommendations.
3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken.

Summary of progress against the Internal Audit Plan 2014-15

4. This report covers the final position against 2014-15 audits as at 29 May 2015.
5. The outcome of audits completed since the last progress report to the Committee is shown in **Appendix 1**. The 'opinion' is what level of assurance can be given that material risks are being managed. There are four classifications: full; substantial; partial; and little. A report with at least one high importance recommendation would normally be classified as 'partial'.

6. At the end of the financial year there is inevitably work in progress and because of increasing service pressures, it is becoming more the norm that there isn't a definitive 'closure' on 31st March each year. Where the auditor's work has been quality reviewed by an Audit Manager and there's confidence that the opinion given will be acceptable to management, then it is shown in the appendix (draft issued). Two 'draft issued' reports contain draft high importance (HI) recommendations. The detailed findings and recommendations will not appear in Appendix 2 (see below) until the reports are finalised.
7. Where the auditor's file is still under review, then the opinion is not shown in order to reflect that management has yet to accept any findings and recommendations (draft pending).
8. Some opinions are recorded as 'consulting'. This is generally where the auditor is giving ongoing and regular advice and commentary on proposed design of processes and systems. The final batch of opinions 'Provide resource' indicate where auditors have assisted with clearing errors and backlogs in financial systems. This is explained in full in the HoIAS' Annual Report elsewhere on this agenda.
9. **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.
10. To summarise movements within Appendix 2: -
 - a. Two new HI recommendations (E&T Resource Allocation System) have been added;
 - b. Eight HI recommendations have been closed (C&FS Health & Safety in maintained schools, A&C Liquid Logic Adults System (3), C&FS Sponsored Academies (2) and CR 'M-Star' (2).
 - c. Regarding the longstanding HI on CR Pension Fund Contribution Banding, the HoIAS has removed it from the Appendix after assurances gained from the Head of EMSS, Senior Users at both partner organisations and the Head of Audit at Nottingham City that it will form part of a bigger review of controls.
 - 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 HoIAS 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).

Summary information on a concluded special investigation

Adults & Communities – Theft of Lunch Club Income

11. It may have recently come to Members' attention that following charges of theft of £3,205, a former volunteer organiser at a County Council lunch club that previously operated in Melton Mowbray, was found guilty at Leicester Crown Court and was given an eight-month prison term, suspended for two years, and a three month curfew order. The person had been a member of Melton Borough Council (MBC) throughout the period of the theft, but had resigned before the court case.
12. The case had been referred to the Police after Internal Audit Service had concluded an investigation commissioned by the Assistant Director (Strategy and Commissioning) in Adults and Communities (A&C). The investigation had involved interviewing A&C staff and management and communicating with MBC staff that had supported the running of the lunch club. Records were analysed to ascertain the value of monies that had likely been collected but not banked.
13. The investigation found that A&C staff had concerns that money collected for meals provided hadn't been banked quite early into the person's tenure as volunteer organiser, but the concerns were not followed up with any real rigour, although the volunteer organiser was evasive. The situation was compounded by no reconciliation of the values of meals provided to income banked; and ineffective budgetary control. Whilst some attempts were made by A&C over a period of two years to recover monies due to the County Council, these were through informal agreements and there was naivety that monies collected had been stolen.
14. Due to changes in the funding arrangements with lunch clubs, no further action has been taken internally within A&C and no further audit work is planned in this area in 2015/16.

Resource Implications

15. None

Equality and Human Rights Implications

16. There are no discernible Equality and Human Rights implications resulting from the audits listed.

Recommendation

17. 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

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

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Appendices

- Appendix 1 - Summary of 2014-15 Internal Audit Service work final position at 29 May 2015
- Appendix 2 - High Importance Recommendations

Summary of 2014-15 Internal Audit Service work final position at 29 May 2015

Appendix 1

<u>Department</u>	<u>Job</u>	<u>Final report (or position @29/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Adults & Communities	A&C Lunch Club	31-Mar-15	Investigation	No
Adults & Communities	Implementing the Care Bill	15-May-15	Substantial Assurance	No
Adults & Communities	Mandatory Reporting Requirements	Draft issued	Substantial Assurance	No
Adults & Communities	Debt Collection Changes (PwC)	Draft pending	TBC	No
Adults & Communities	Debt Write Off - validation of circumstances	Draft pending	TBC	No
Chief Executives	Broadband UK	Ongoing	Consulting	No
Chief Executives	LEADER Programme	Ongoing	Consulting	No
Chief Executives	VAL Contract	11-Mar-15	Substantial Assurance	No
Chief Executives	Better Care Fund incl role of Health & Wellbeing Board - phase 2 pooled budget	Draft pending	TBC	No
Chief Executives	Equality & Human Rights Impact Assessments	Draft pending	TBC	No
Children & Family Services	Pooled Budget Accounting Arrangements	31-Mar-15	Substantial Assurance	No
Children & Family Services	Integrated SEN planning	22-Apr-15	Substantial Assurance	No
Children & Family Services	SSIS Decommissioning CYPS Homecare	24-Apr-15	Substantial Assurance	No
Children & Family Services	Realisation of Benefits	Draft issued	Substantial Assurance	No
Children & Family Services	School Allocations	Draft pending	TBC	No
Consolidated Risk	Research - Transformation Programme - assurance provision	31-Mar-15	Consulting	No
Consolidated Risk	Assurance Framework	Ongoing	Consulting	No
Consolidated Risk	emPSN	Ongoing	Consulting	No
Consolidated Risk	Property Asset Management System - Governance	Ongoing	Consulting	No
Consolidated Risk	National Fraud Initiative	01-Apr-15	N/A	No
Consolidated Risk	Strategic Plan for Leicestershire	10-Feb-15	Substantial Assurance	No
Consolidated Risk	PSN Accreditation	31-Mar-15	Substantial Assurance	No
Consolidated Risk	IT General Controls - External Auditor Reliance	27-May-15	Substantial Assurance	No
Consolidated Risk	Customer Services	28-May-15	Substantial Assurance	No
Consolidated Risk	Imprest Accounts	Draft issued	Substantial Assurance	No
Consolidated Risk	Faster Payments System	Draft pending	TBC	No

Summary of 2014-15 Internal Audit Service work final position at 29 May 2015

Appendix 1

<u>Department</u>	<u>Job</u>	<u>Final report (or position @29/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Consolidated Risk	ICT External Hosting & Associated Contractual Obligations	Draft pending	TBC	No
Consolidated Risk	Internet Expense Scanning	Draft pending	TBC	No
Consolidated Risk	Oracle - Self Serve applications	Draft pending	TBC	No
Corporate Resources	Exchange Server Upgrade	31-Mar-15	Consulting	No
Corporate Resources	ICT Policies and Procedures	31-Mar-15	Consulting	No
Corporate Resources	ISRA - Assessment of Risk and Audit Involvement	31-Mar-15	Consulting	No
Corporate Resources	Review of Information Security Risk Assessment Process	31-Mar-15	Consulting	No
Corporate Resources	Property Asset Management System - To be processes	Ongoing	Consulting	No
Corporate Resources	Resiliency Position Statement at Commencement of 14/15	Ongoing	Consulting	No
Corporate Resources	Contract Dashboard	Draft issued	Partial Assurance	Yes
Corporate Resources	ISRA - Oneview BP	17-Feb-15	Substantial Assurance	No
Corporate Resources	ISRA - Learning Management System	05-Mar-15	Substantial Assurance	No
Corporate Resources	Disaster Recovery - ICT	10-Mar-15	Substantial Assurance	No
Corporate Resources	Disaster Recovery - ICT	10-Mar-15	Substantial Assurance	No
Corporate Resources	ISRA - ClickMeeting Webinare Service	21-Oct-15	Substantial Assurance	No
Corporate Resources	Beaumanor - Income Generation	Draft pending	TBC	No
Corporate Resources	Business Continuity - ICT	Draft pending	TBC	No
Corporate Resources	Expense Claims	Draft pending	TBC	No
Corporate Resources	Information Sharing - Framework Design & Governance	Draft pending	TBC	No
Corporate Resources	Strike Pay Deduction Procedures	Draft pending	TBC	No
Environment & Transport	Local Sustainable Transport Grant	20-Mar-15	Grant work	No
Environment & Transport	Procurement Issues	31-Mar-15	Investigation	No
Environment & Transport	RAS - review of processes for labout,plant & materials	16-Mar-15	Partial Assurance	No
Environment & Transport	SEN Transport – Assessment Process	Draft issued	Partial Assurance	Yes
Environment & Transport	Contract Monitoring	27-Feb-15	Substantial Assurance	No
Environment & Transport	Notice Processing Unit	07-May-15	Substantial Assurance	No
Environment & Transport	Re-cycling Performance	11-May-15	Substantial Assurance	No

<u>Department</u>	<u>Job</u>	<u>Final report (or position @29/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Environment & Transport	Impact of local developments on Transport Network	21-May-15	Substantial Assurance	No
Public Health	Clinical Governance Framework	Ongoing	Consulting	No
Adults & Communities	Homecare - Provider Rate Check	31-Mar-15	Provide resource	No
Adults & Communities	Homecare Error Clearance	31-Mar-15	Provide resource	No
Adults & Communities	Homecare Payments Assistance	31-Mar-15	Provide resource	No
Adults & Communities	Homecare Service User Payments	31-Mar-15	Provide resource	No
Adults & Communities	Homecare Timesheet Input	31-Mar-15	Provide resource	No
Consolidated Risk	iProc Responsibility 25	31-Mar-16	Provide resource	No
Consolidated Risk	Clearing of 2000 prior year orders – Part 1	31-Mar-15	Provide resource	No
Consolidated Risk	Contacting Managers re 800 invoices on hold – Part 2	31-Mar-15	Provide resource	No
Consolidated Risk	ESPO Catalogue Purchases	31-Mar-15	Provide resource	No
Consolidated Risk	Invoices on hold	31-Mar-15	Provide resource	No
Consolidated Risk	IProc pre-payments	31-Mar-15	Provide resource	No

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High Importance Recommendations

<u>Audit Title (Director)</u>	<u>Summary of Finding and Recommendation</u>	<u>Management Response</u>	<u>Action Date (by end of)</u>	<u>Confirmed Implemented</u>
Reported June 2015				
Resource Allocation System (E&T)	<p>An audit of the new Resource Allocation System (vehicles and plant) for highways work revealed that standing data was incomplete, there were delays in recording allocations and other key information and there was not any management information.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. Processes and training should be reviewed and revised 2. Information should be produced on a frequent basis and reviewed by management 	Agreed and actions already in place including internal audit stock checks	July 2015	
Reported February 2015				
Health and Safety in maintained schools (C&FS)	<p>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.</p> <p>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.</p>	Agreed	January 2015 Extended to Mar. 2015	Yes

Reported November 2014				
Liquid Logic Adults System (LAS) project phase 2 (A&C)	<p>The audit revealed there was need for immediate improvements to some areas of the project specifically around scoping requirements, determining processes, and resource identification and planning.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. clear criteria be established for the prioritisation of tasks, 2. development of a detailed resource plan, 3. regular updating of the project control records 4. undertaking a 'gap analysis' to determine processes that still need to be developed <p>Management agreed that a formal re-planning exercise involving key stakeholders would be formally signed off as a matter of urgency. This will also take into account key tasks still outstanding from Phase 1. Once phase 2 priorities have been finalised a detailed resource plan will be developed and the PID updated to reflect this.</p>	Agreed (see previous column for detail)	Originally Dec. 2014 Extended to Feb. 2015	Yes
Sponsored Academies - Revenue & Capital Implications (C&FS/CR)	<p>The LA has ongoing responsibilities under legislation, part of which is to ensure that schools remain 'fit-for-purpose' from an infrastructure aspect and business continuity risks are appropriately managed. However, on-going role of the LA post-conversion with regard to the physical state of an academy's buildings is not clearly defined.</p> <p>Recommended that the ongoing responsibilities of LCC as the landlord should be defined</p> <p>A system of prioritisation is used, based on condition surveys and other intelligence, to determine which capital works will be funded centrally (e.g. those relating to health & safety or serious structural issues). With regard to schools undergoing imposed sponsored academy conversion there will be</p>	Agreed	Originally Jan. 2015 Extended March 2015	Yes

	<p>negotiation with the potential sponsor surrounding their expectations that any immediate capital works are completed at the LA's expense and prior to conversion. Without completion, there is a risk that the sponsors will find schools financially unattractive to sponsor.</p> <p>Recommended that a clear strategy should be developed by C&FS and CR (Property Services), endorsed by the Corporate Schools' Group, setting out the process to be followed in determining what capital works will be LA-funded.</p>	Agreed		
Reported May 2014				
'M-Star' – Managed Service For Temporary Agency Resources (CR)	<p>'Off contract' spend on agency staff remained high and if the levels continued then projected savings would not be achieved. In addition, the volume of agency worker timesheets that were auto-approved (i.e. if they hadn't been approved by the relevant manager after a certain time) was high (almost 20%), increasing the risk of errors and perhaps fraud.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. Proactive periodical analysis by Procurement team and pass to business HR and Finance teams to drive more conformity 2. Establish targets and thresholds for auto approvals and investigate those falling outside them 	<p>Agreed</p> <p>At the time of final report some progress had already been made</p>	<p>Originally July 2014 Extended to Oct. 2014 Extended to Jan. 2015 Extended to Apr. 2015</p>	Yes

Reported November 2013				
Pension Fund contribution 'bands' (Pension Fund)	<p>Each year the Department for Communities & Local Government set the contribution bandings for the Local Government Pension Fund. These come into effect each April, hence payrolls have to be revised to reflect the new bandings. EMSS payroll staff should check that the changes have properly occurred. The audit revealed that a report designed to assist this task was inadequate and also that due to work load and time constraints no checks were undertaken on one payroll and only a random sample on another. This could impact on both employee and employer contributions and have reputation damage.</p> <p>Recommended: -</p> <ol style="list-style-type: none"> 1. that the report should be reconfigured 2. a framework for sample testing should be agreed and implemented to cover future pension banding changes. 	Agreed	<p>Originally Sept. 2013 Extended to June 2014 Extended to Oct. 2014 Extended to Jan. 2015 Extended Mar. 2015</p> <p>2. The Head of EMSS acknowledges that this is an issue that remains to be solved with the Senior Users at both LCC and Nottingham City and not just for payroll but other functions. An updated EMSS plan covering 2015-18 is due to be approved at the Joint Committee in June 2015. It includes a strategic priority to increase levels of standardisation to support future business integration.</p>	Removed by HoIAS and transferred to Senior Users and the Head of Audit at Nottingham City Council.

‘On hold’ pending new internal audit work

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

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CORPORATE GOVERNANCE COMMITTEE
12 JUNE 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2014-15

Purpose

1. To provide the Committee with an annual report on work conducted by the Internal Audit Service. It is then intended to distribute the report to all members of the Council.

Background

2. The Chief Financial Officer (CFO) has delegated responsibility for arranging a continuous internal audit. Under the County Council's Constitution, this Committee is required to monitor the adequacy and effectiveness of Leicestershire County Council Internal Audit Service (LCCIAS). One of its specific functions is to consider the Head of Internal Audit Service's (HoIAS) annual report.

Internal Audit Service Annual Report

3. LCCIAS must conform to the United Kingdom Public Sector Internal Audit Standards (PSIAS) and the accompanying CIPFA Local Government Advisory Note (LGAN). Together, these documents constitute proper practices to satisfy the requirements set out in the Accounts and Audit Regulations 2011 to 'undertake an adequate and effective internal audit of accounting records and of the system of internal control'.
4. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the annual governance statement. The Internal Audit Charter defines the Corporate Governance Committee as the Board and recognises that it should formally approve the HoIAS' annual report.

5. The annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

6. The annual report for 2014-15 is provided in **appendix 1**. Although not a PSIAS requirement, the annual report has traditionally been made available to all members of the County Council. The report includes the HoIAS opinions on the overall adequacy and effectiveness of the Council's control environment (the framework of governance, risk management and internal control). The opinions are also contained in the draft Annual Governance Statement.

7. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.

8. **Annex 2** lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations

9. Headlines from the report are: -
 - a. Reasonable assurance sub-opinions were given for the governance and risk management components of the control environment.
 - b. Reasonable assurance was given that the County Council's core financial practices remain strong, but only limited assurance could be given that internal controls were operating effectively in the newly implemented Adults & Communities financial system.
 - c. The majority of audits conducted returned substantial assurance ratings
 - d. 81% of planned jobs were achieved with a relatively small carry over but twelve cancellations
 - e. Budget performance and customer satisfaction was positive
 - f. Taking responsibility for the Annual Governance Statement and risk management has impacted on internal audit activity but provided more information for the HoIAS opinion.
 - g. LCCIAS abides by the principles of the PSIAS but there is need for some key improvements before full 'conformance' can be claimed. This is the only matter required to be reported in the Annual Governance Statement.

Resource Implications

10. The Section's expenditure is contained within the Corporate Resources Department's agreed budget.

Equalities and Human Rights Implications

11. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken.

Recommendations

12. That the Committee **notes** the Internal Audit Service annual report for 2014-15.
13. That the Committee **notes** that reference to actions needed to facilitate full conformance to PSIAS is contained in the Annual Governance Statement for 2014-15.

Background Papers

The Constitution of Leicestershire County Council
Accounts and Audit Regulations (Amendment) 2011
The Public Sector Internal Audit Standards 2013

Circulation under Local Issues Alert Procedure

None

Officer to Contact

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List of Appendices

- Appendix 1 - Internal Audit Service Annual Report 2014-15
- Annex 1 - The Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of the control environment 2014-15
- Annex 2 - Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

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Leicestershire County Council Internal Audit Service Annual Report 2014-15



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

31st May 2015

LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2014-15

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. Definition of Internal Auditing
 - ii. Code of Ethics
 - iii. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (Corporate Governance Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of Leicestershire County Council's Control Environment

6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions have been drawn:-

Governance

Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

Risk management

Management has agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial and ICT Control

Reasonable assurance can be given that the County Council's core financial practices remain strong. However, in 2014-15 there were areas of weakness in the control environment, most noticeably in the Adults & Communities Department. Management reacted quickly by allocating additional resources and capability and there were significant improvements in the latter part of the year. Even so, in respect of this area only limited assurance can be given that internal controls were operating effectively.

8. At the time of writing this report, the outcomes of 13 audits hadn't been shared with management. It is unlikely there will be any significant changes to the sub opinions.

A summary of the audit work from which the opinion is derived

9. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance (HI) recommendations.
10. A high proportion of the audits undertaken were 'assurance' type, defined as *'An objective examination of evidence for the purpose of providing an independent assessment'*. Based on the testing undertaken, four were graded 'full' assurance rating with no recommendations. The majority of the audits returned a 'substantial assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively. Where there were recommendation(s) to bring about improvements, they did not have a HI rating signifying a particularly serious control weakness had been identified.

11. A minority of audits (ten) were graded 'partial assurance' rating. Of these, eight were because HI recommendations (scored against the Council's corporate risk management criteria) were identified denoting there was an absence of, or a weakness in control, and achievement of the service's objectives was open to material risk exposure. HI recommendations are reported in summary to Corporate Governance Committee (the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by specific re-testing) that action has been implemented.
12. Whilst the number of HI recommendations has remained relatively stable, the trend of regularly extending out implementation dates is a concern which might indicate increasing pressures and strains on the control environment. Nevertheless, the HoIAS remains satisfied that senior management and Members pay rigorous attention to implementing HI recommendations.
13. A wide range of 'consulting' type audits was undertaken. These can be defined as, *'Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes'*.
14. LCCIAS audited sixteen of the County's maintained schools and results were encouraging with thirteen being graded above the benchmark required and the other three graded as reaching the standard.
15. LCCIAS conducted four special investigations and provided guidance and advice to management in another. Investigations can take a lot of resource, and extend over a lengthy period of time. The outcomes of significant investigations are reported to the Committee only once they are concluded so as not to jeopardise any formal (disciplinary or Police) investigations.
16. LCCIAS is the Council's co-ordinator for provision of data into the biannual 'National Fraud Initiative' (NFI) a nationwide counter-fraud data-matching exercise. Data including payments to Members and now adults' personal budgets data was despatched in October. Potential 'matches' received in January are being investigated further.
17. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. Nottingham City Council Internal Audit (NCCIA) provides the internal audit function for East Midlands Shared Services (EMSS). During the year NCCIA conducted (amongst others) audits of payroll and accounts receivable transactions (both limited assurance) and accounts payable transactions (significant assurance). Acknowledging a positive direction of travel, and that some issues do not specifically apply to the County Council, the HoIA nevertheless reported an overall 'limited' assurance opinion on EMSS.
18. A 'potential impairment' to LCCIAS' independence and objectivity (gaining responsibility for the administration of the corporate risk management framework) was declared in the Internal Audit Charter. Annex 2 explains how this was managed. Taking on responsibility for the AGS, risk management and counter fraud has impacted on internal audit resource but has given the HoIAS greater insight into forming his opinion on the control environment.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

19. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2014-15 internal audit plan

	<u>Audits</u>	<u>Complete @ 29/5</u>	<u>Incomplete @ 29/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 13-14	21	21	-	30	53	+23
Planned	115	89	13	1,120	1,030	-90
Planned not started			12			
Unplanned	5	4	1	150	90	-60
Non audit work	-	-	-	-	106	+106
Inherit new duties	-	-	-	-	141	+141
Client management	-	-	-	200	213	+13
Total	141	115	26	1,500	1,633	+133

20. Thirteen planned audits were incomplete at 29 May. Some resource has already been utilised in 2015-16 in completing these audits.
21. Twelve planned audits were not started for reasons including: control framework still being developed; not ready for audit; assurance being given by others and shortage of resource caused by the impact of inherited duties. Some of these audits will roll forward into the 2015-16 audit plans.
22. Client management was higher than planned mostly due to the impact on the HoIAS caused by delivering key governance improvements i.e. the Internal Audit Charter and other PSIAs, and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
23. By 29th May, just over 81% of planned jobs were completed (with thirteen to follow) against a target of 90%. Slippage was mostly due to inheriting new duties and using internal audit resource for non-audit tasks to assist with payables systems problems.
24. Whilst returns of satisfaction questionnaires were low, those being audited continue to rate the service they received and the value added as very satisfied.
25. Budget target was exceeded with a surplus generated from additional trading with third parties.
26. During the year LCCIAS implemented a new internal audit case management system. This has not been without its problems and data quality has been a significant issue so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This is a key improvement area for 2015-16. Nevertheless, the HoIAS can provide assurance that there has been rigorous monitoring of due professional care and quality. This is achieved through quality checks and oversight undertaken throughout the

audit engagement ensuring that processes and practice are consistently applied and working effectively.

27. **A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)**
28. The HoIAS has conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally conform to the PSIAS sufficiently. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform, and state so in documents and correspondence.
29. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Y = fully conforms
 - Y/P = mostly conforms with some minor areas for improvement
 - P = a balanced result which partly conforms
 - P/N = only some conformance with a real need for improvement
 - N = doesn't conform at all

Table 2 : Summary self-assessment against conformance to PSIAS

Does LCCIAS conform to PSIAS	Y	Y/P	P	P/N	N
1 Definition of Internal Auditing		X			
2 Code of Ethics		X			
3 Attribute Standards (combined)		X			
1000 Purpose, Authority and Responsibility	X				
1100 Independence and Objectivity		X			
1200 Proficiency and Due Professional Care		X			
1300 Quality Assurance and Improvement Programme				X	
4 Performance Standards (combined)			X		
2000 Managing the Internal Audit Activity			X		
2200 Engagement Planning		X			
2300 Performing the Engagement			X		
2400 Communicating Results		X			
2500 Monitoring Progress			X		
2600 Communicating the Acceptance of Risks			X		

30. A detailed list of actions required has been discussed with the CFO. Of these, the need to embed and review progress against the recently implemented Quality Assurance and Improvement Programme (QAIP) is a priority. This is a new requirement for all internal audit providers, and whilst it doesn't mean that quality isn't being managed at LCCIAS, there is a formal requirement to document and prove it.
31. PSIAS 1321 informs that the HoIAS may only state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

Any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

32. The HoIAS has not come across any governance, risk management or internal control issues that would need to be disclosed as key improvement areas or significant governance issues.
33. However, under PSIAS 1322, whilst the results of the HoIAS' self-assessment against conformance to the PSIAS is not considered a significant deviation from the PSIAS, the Consortium Treasurer considers that the reference to continuing actions (including progressing the QAIP) should be recorded as a key improvement area.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

31st May 2015.

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The Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of the control environment 2014-15



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

31st May 2015

Background

Leicestershire County Council Internal Audit Service (LCCIAS) adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is for a specific time interval i.e. 2014-15 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the Council's control environment. However, the caveat at the end of the document explains what internal control cannot do i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

Governance related internal audit work

Nineteen audits with a governance theme returned substantial assurance with one of them being graded at full assurance. On the whole, recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it. Only two audits were graded as partial assurance, one of which is still in draft stage. The other audit's high importance (HI) recommendations were reported to the Corporate Governance Committee as is practice, but the HoIAS has since received sufficient evidence for them to be closed.

During the year, the HoIAS gained responsibility for compiling the Annual Governance Statement (AGS), the administration, monitoring and reporting of the corporate risk management framework and counter fraud development. Whilst this has impacted on the resources available to complete the audit plan, nevertheless there are significant benefits to the Council's governance framework with the HoIAS overseeing these elements and dovetailing them to audit requirements.

The HoIAS attends the Corporate Governance Committee to present audit plans and reports on audit, risk and the AGS which enables him to gauge Member level governance at first hand. The HoIAS provides member training on those areas.

During the year, the Committee approved an Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity and it adopted the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption. The Committee also approved a revised code of employee conduct and revised and new policies, strategies and procedures on counter fraud.

The HoIAS has regular discussions with the Chief Executive, Directors and particularly the Chief Financial Officer (CFO) and the Monitoring Officer (MO) on governance issues and related audit aspects. The HoIAS attends Corporate Management Team when required.

Through the results of audits and in other ways the HoIAS is made aware of the governance arrangements between the Council and its key partners including Health, ESPO (where he undertakes the role of HoIAS and attends its committees) and East Midlands Shared Services (where he regularly liaises with his counterpart the HoIA of Nottingham City Council, and receives his reports and annual opinion). The ESPO sub-opinion for governance was positive. For EMSS, despite the HoIA reporting an overall 'limited' assurance opinion, he commented that, *'...2014/15 has seen a demonstrable improvement in the governance processes...and... a year on year improvement in the associated control and governance arrangements'*.

HoIAS opinion: - Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

Seventeen audits with a risk management theme returned substantial assurance. On the whole, recommendations were relatively minor and they related to improving risk management i.e. not to have to establish it. Three audits were graded as partial assurance, one of which is still in draft stage. The other two audits' HI recommendations were reported to the Corporate Governance Committee. The HoIAS has since received sufficient evidence to close them.

During the year, the HoIAS gained responsibility for the administration, monitoring and reporting of the corporate risk management framework and countering the risk of fraud. The PSIAS require that this 'potential impairment' to independence and objectivity is declared in the Internal Audit Charter. A specific audit of the risk management framework was conducted by an auditor who doesn't administer the corporate framework and the engagement was overseen by a manager from outside of LCCIAS. The audit reported an improved maturity to risk management at the Council but with an action plan for further improvements.

During 2014-15 the HoIAS observed positive engagement in risk management at both Director (Corporate Management Team) and Member (Corporate Governance Committee) level.

Regarding the Council's partnerships, audits of ESPO's management of its corporate and procurement and compliance risks returned positive assurance ratings. An audit of the Better Care Fund reported effective risk management.

HoIAS opinion: Management has agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial (and ICT) Controls related internal audit work

Thirty-four audits with a financial or ICT control theme returned substantial assurance with three of them being graded at full assurance. In addition, of the sixteen LA maintained schools audited, thirteen were graded 'above the standard' (equivalent to full assurance) with the remaining three 'reaching the standard' (substantial assurance).

Five control theme audits were graded as partial assurance. However, the two relating to Teachers' Pensions were graded 'partial' to match the approach taken by the External Auditors who (following specific rigorous certification instructions) regularly qualified the annual returns for even minor discrepancies. Of the other three partial assurance ratings, both the M-Star and IAS Gate Review audits' high importance recommendations were reported to the Corporate Governance Committee, but the HoIAS has since received sufficient evidence for them to be closed, and the E&T RAS high importance recommendations are only just being reported to Committee.

Nine audits are at draft pending stage. Outcomes shouldn't materially affect the opinion.

The HoIAS was required to certify six grant claims. Grant conditions were complied with.

Whilst the results of audits conducted on financial controls in departments were on the whole positive, because of significant problems experienced during the implementation of the new Integrated Adults System in Adults & Communities Department, planned audits were cancelled. The scale of the problems had been promptly brought to the attention of the Chief Financial Officer (CFO) who deployed senior Strategic Finance staff to solve the problems. The External Auditor was kept informed. The CFO also approved that the HoIAS could divert Internal Audit Service resource to assist by investigating and clearing the large volume of errors, overpayments and invoices 'stuck in the system'. The last page of Annex 2 reports the thirteen examples of 'non-audit' work which accounted for 106 'lost' audit days.

On the basis of audit work undertaken during the 2014-15 financial year, covering financial systems, risk and governance, the HoIA at Nottingham City Council concluded that a limited level of assurance can be given that internal control systems are operating effectively within EMSS. In reaching this conclusion the HoIA acknowledged there had been a demonstrable improvement in the governance processes and that no significant issues had been discovered. In addition it is worth noting that some of the issues raised did not apply to the County Council.

HoIAS opinion: Reasonable assurance can be given that the County Council's core financial practices remain strong. However, in 2014-15 there were areas of weakness in the control environment, most noticeably in Adults & Communities Department. Management reacted quickly by allocating additional resources and capability and there were significant improvements in the latter part of the year. Even so in respect of this area only limited assurance can be given that internal controls were operating effectively.

The control environment

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

Control

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

Control Environment

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

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

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

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Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Public Health	G	Re-design/Transformation (MTFS requirements)	11-Nov-14	Full Assurance	No
Adults & Communities	G	B/F - Contract Monitoring Procedures	28-May-14	Substantial Assurance	No
Adults & Communities	G	Implementing the Care Bill	15-May-15	Substantial Assurance	No
Adults & Communities	G	Mandatory Reporting Requirements	Draft issued	Substantial Assurance	No
Chief Executives	G	Better Care Fund incl role of Health & Wellbeing Board - governance	20-Nov-14	Substantial Assurance	No
Chief Executives	G	Freedom of Information	28-Jul-14	Substantial Assurance	No
Chief Executives	G	Performance Management	05-Dec-14	Substantial Assurance	No
Chief Executives	G	VAL Contract	11-Mar-15	Substantial Assurance	No
Children & Family Services	G	B/F - Performance Management Operational Delivery	16-Jun-14	Substantial Assurance	No
Children & Family Services	G	Disciplinary Procedures	11-Aug-14	Substantial Assurance	No
Consolidated Risk	G	B/F - Project Management - Operational Delivery	10-Jun-14	Substantial Assurance	No
Consolidated Risk	G	Annual Governance Statement - 13/14	18-Jun-14	Substantial Assurance	No
Consolidated Risk	G	Customer Services	28-May-15	Substantial Assurance	No
Consolidated Risk	G	Strategic Plan for Leicestershire	10-Feb-15	Substantial Assurance	No
Corporate Resources	G	B/F - Performance Management Operational Delivery	05-Aug-14	Substantial Assurance	No
Corporate Resources	G	Wide Area Network Replacement Project	12-Nov-14	Substantial Assurance	No
Environment & Transport	G	Home to school transport policy	14-Aug-14	Substantial Assurance	No
Environment & Transport	G	Midlands Highway Alliance - Contract tender process	31-Oct-14	Substantial Assurance	No
Public Health	G	Performance Management	17-Sep-14	Substantial Assurance	No
Adults & Communities	G	Integrated Adults System including further data migration	20-Aug-14	Partial Assurance	Yes
Corporate Resources	G	Contract Dashboard	21-May-15	Partial Assurance	Yes
Chief Executives	G	LEADER Programme	Ongoing	Consulting	No
Consolidated Risk	G	Assurance Framework	Ongoing	Consulting	No
Consolidated Risk	G	Assurance Mapping - ICT	10-Sep-14	Consulting	No
Consolidated Risk	G	emPSN	Ongoing	Consulting	No
Consolidated Risk	G	Property Asset Management System - Governance	Ongoing	Consulting	No
Consolidated Risk	G	Research - Transformation Programme - assurance provision	31-Mar-15	Consulting	No
Corporate Resources	G	ICT Policies and Procedures	31-Mar-15	Consulting	No
Public Health	G	Clinical Governance Framework	Ongoing	Consulting	No
Chief Executives	G	Equality & Human Rights Impact Assessments	Draft pending	TBC	
Corporate Resources	G	Information Sharing - Framework Design & Governance	Draft pending	TBC	

Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Children & Family Services	RM	Business Continuity	21-Jul-14	Substantial Assurance	No
Consolidated Risk	RM	Impact of the Welfare Reform Act	28-Jan-15	Substantial Assurance	No
Consolidated Risk	RM	Risk management - Framework Design & Governance & Operational	08-Jan-15	Substantial Assurance	No
Corporate Resources	RM	Control of Information Security Breaches	23-Oct-14	Substantial Assurance	No
Corporate Resources	RM	Disaster Recovery - ICT	10-Mar-15	Substantial Assurance	No
Corporate Resources	RM	ISRA - Address Base	15-May-14	Substantial Assurance	No
Corporate Resources	RM	ISRA - AVCO	20-May-14	Substantial Assurance	No
Corporate Resources	RM	ISRA - ClickMeeting Webinare Service	21-Oct-15	Substantial Assurance	No
Corporate Resources	RM	ISRA - Generic User Account	25-Apr-14	Substantial Assurance	No
Corporate Resources	RM	ISRA - Learning Management System	05-Mar-15	Substantial Assurance	No
Corporate Resources	RM	ISRA - Oneview BP	17-Feb-15	Substantial Assurance	No
Corporate Resources	RM	ISRA - SirsiDynix Symphony Library Management System	30-Oct-14	Substantial Assurance	No
Corporate Resources	RM	Mobile Device Management	18-Dec-14	Substantial Assurance	No
Corporate Resources	RM	My Desktop	29-Aug-14	Substantial Assurance	No
Corporate Resources	RM	Swivel Authentication Platform	30-Dec-14	Substantial Assurance	No
Environment & Transport	RM	Business Continuity	10-Jun-14	Substantial Assurance	No
Environment & Transport	RM	Impact of local developments on Transport Network	21-May-15	Substantial Assurance	No
Children & Family Services	RM	Sponsored Academies - Revenue & Capital Implications	23-Oct-14	Partial Assurance	Yes
Environment & Transport	RM	Health & Safety - Vehicle maintenance	01-Dec-14	Partial Assurance	Yes
Environment & Transport	RM	SEN Transport – Assessment Process	Draft issued	Partial Assurance	Yes
Chief Executives	RM	Broadband UK	Ongoing	Consulting	No
Corporate Resources	RM	ISRA - Assessment of Risk and Audit Involvement	31-Mar-15	Consulting	No
Corporate Resources	RM	Review of Information Security Risk Assessment Process	31-Mar-15	Consulting	No
Consolidated Risk	RM	ICT External Hosting & Associated Contractual Obligations	Draft pending	TBC	
Corporate Resources	RM	Business Continuity - ICT	Draft pending	TBC	

Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Children & Family Services	IC	Review and certification of returns to DCLG - April claim	14-Apr-14	Full Assurance	No
Children & Family Services	IC	Review and certification of returns to DCLG - July claim	20-Aug-14	Full Assurance	No
Public Health	IC	Validation of Grant Usage	28-Aug-14	Full Assurance	No
Adults & Communities	IC	B/F - Business Continuity - Operational Delivery	28-May-14	Substantial Assurance	No
Adults & Communities	IC	B/F - Disciplinary Policy - Operational Application of the Corporate Policy	24-Apr-14	Substantial Assurance	No
Adults & Communities	IC	B/F - Effective Support Follow Up	14-May-14	Substantial Assurance	No
Adults & Communities	IC	B/F - Sector Led Improvements	16-May-14	Substantial Assurance	No
Chief Executives	IC	B/F - Registrars' Revised Remuneration Procedures	07-Apr-14	Substantial Assurance	No
Chief Executives	IC	Local Welfare Provision - Counter Fraud	04-Nov-14	Substantial Assurance	No
Children & Family Services	IC	Integrated SEN planning	22-Apr-15	Substantial Assurance	No
Children & Family Services	IC	Pooled Budget Accounting Arrangements	31-Mar-15	Substantial Assurance	No
Children & Family Services	IC	Realisation of Benefits	Draft issued	Substantial Assurance	No
Children & Family Services	IC	SSIS Decommissioning CYPs Homecare	24-Apr-15	Substantial Assurance	No
Children & Family Services	IC	Bishop Ellis Catholic Primary School - Full LEA Audit	21-Jan-15	Above standard	No
Children & Family Services	IC	Burbage C of E Infant School - Full LEA Audit	23-Dec-14	Above standard	No
Children & Family Services	IC	Church Langton CofE Primary School - Full LEA Audit	08-May-14	Above standard	No
Children & Family Services	IC	Hemington Primary School - Full LEA Audit	06-Oct-14	Above standard	No
Children & Family Services	IC	Hugglescote Community Primary - Full LEA Audit	25-Nov-14	Above standard	No
Children & Family Services	IC	Manorfield CE Primary - Full LEA Audit	13-Nov-14	Above standard	No
Children & Family Services	IC	Martinshaw Primary School - Full LEA Audit	30-Jan-15	Above standard	No
Children & Family Services	IC	Oakfield School - Full LEA Audit	10-Jul-14	Above standard	No
Children & Family Services	IC	Saint Peter's Catholic Primary School - Full LEA Audit	03-Oct-14	Above standard	No
Children & Family Services	IC	Shepshed High School - Full LEA Audit	27-Jan-15	Above standard	No
Children & Family Services	IC	St Cuthbert's CE Primary - Full LEA Audit	13-Nov-14	Above standard	No
Children & Family Services	IC	St Fancis Catholic Primary School - Full LEA Audit	28-Jan-15	Above standard	No
Children & Family Services	IC	Whitwick St John The Baptists CE Primary - Full LEA Audit	23-Oct-14	Above standard	No
Consolidated Risk	IC	B/F - Counter Fraud & Conduct - Purchase Cards	06-May-14	Substantial Assurance	No
Consolidated Risk	IC	B/F - Counter Fraud & Conduct - Staff Induction	06-May-14	Substantial Assurance	No
Consolidated Risk	IC	B/F IT General Controls	09-Sep-14	Substantial Assurance	No
Consolidated Risk	IC	B/F - Key Financial Systems Assurance on Control Functions 13/14	25-Apr-14	Substantial Assurance	No
Consolidated Risk	IC	B/F - MTFS - Phase One	05-Jun-14	Substantial Assurance	No
Consolidated Risk	IC	Imprest Accounts	Draft issued	Substantial Assurance	No
Consolidated Risk	IC	IT General Controls - External Auditor Reliance	27-May-15	Substantial Assurance	No
Consolidated Risk	IC	Key financial systems - assurance on control functions (13-14 final)	31-Jul-14	Substantial Assurance	No

Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Consolidated Risk	IC	Key Financial Systems - assurance on control functions (14/15 interim)	23-Jan-15	Substantial Assurance	No
Consolidated Risk	IC	PSN Accreditation	31-Mar-15	Substantial Assurance	No
Corporate Resources	IC	B/F - Business Continuity - Operational Delivery	16-Apr-14	Substantial Assurance	No
Corporate Resources	IC	B/F - Educational Services to Schools - Traded Services Operational	16-Apr-14	Substantial Assurance	No
Corporate Resources	IC	Carbon Reduction Targets	08-Dec-14	Substantial Assurance	No
Corporate Resources	IC	Treasury Management	09-Jan-15	Substantial Assurance	No
Environment & Transport	IC	B/F - Whetstone Income	03-Apr-14	Substantial Assurance	No
Environment & Transport	IC	Bus Service Operator's Grant (BSOG)	29-Oct-14	Substantial Assurance	No
Environment & Transport	IC	Contract Monitoring	27-Feb-15	Substantial Assurance	No
Environment & Transport	IC	Fuel Feeds	22-Jul-14	Substantial Assurance	No
Environment & Transport	IC	LAFARGE (Tarmac) contract draw down	12-Nov-14	Substantial Assurance	No
Environment & Transport	IC	Notice Processing Unit	07-May-15	Substantial Assurance	No
Environment & Transport	IC	Re-cycling Performance	11-May-15	Substantial Assurance	No
Public Health	IC	B/F - Commissioning - Operational Delivery	06-May-14	Substantial Assurance	No
Children & Family Services	IC	Countesthorpe Nursery School - Full LEA Audit	08-May-14	Reaches standard	No
Children & Family Services	IC	Highgate Primary School - Full LEA Audit	17-Nov-14	Reaches standard	No
Children & Family Services	IC	Saint Charles Catholic Primary School - Full LEA Audit	27-Jun-14	Reaches standard	No
Consolidated Risk	IC	B/F - M Star	01-Apr-14	Partial Assurance	Yes
Adults & Communities	IC	IAS Gate Review at Phase 2	06-Oct-14	Partial Assurance	Yes
Corporate Resources	IC	Teachers Pension Service - Assurance on accounting for contributions	23-Sep-14	Partial Assurance	No
Corporate Resources	IC	Teachers Pensions - Readiness Check & Imp of 13/14 recs	24-Nov-14	Partial Assurance	No
Environment & Transport	IC	RAS - review of processes for labour, plant & materials	16-Mar-15	Partial Assurance	Yes
Adults & Communities	IC	B/F - Dementia Grant Funding	23-Apr-14	Grant work	No
Adults & Communities	IC	Community Capacity Grant	27-May-14	Grant work	No
Environment & Transport	IC	Better Bus Area Grant Certification	30-Jul-14	Grant work	No
Environment & Transport	IC	Local Pinch Point Fund	25-Sep-14	Grant work	No
Environment & Transport	IC	Local Sustainable Transport Grant	20-Mar-15	Grant work	No
Environment & Transport	IC	Local Transport Capital Block Funding (Integrated Transport & Highway	29-Sep-14	Grant work	No
Children & Family Services	IC	Ashby CE Primary School – Cheque Forgery	30-Sep-14	Consulting	No
Consolidated Risk	IC	Data Migration - Decommission of LHMIS & Transfer to Oracle	30-Sep-14	Consulting	No
Consolidated Risk	IC	Website Review	27-Nov-14	Consulting	No
Corporate Resources	IC	Active Directory Leavers IDEA Testing	10-Sep-14	Consulting	No
Corporate Resources	IC	Exchange Server Upgrade	31-Mar-15	Consulting	No
Corporate Resources	IC	Property Asset Management System - To be processes	Ongoing	Consulting	No

Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Adults & Communities	IC	B/F - Valuing People	11-Jul-14	Investigation	No
Adults & Communities	IC	A&C Lunch Club	31-Mar-15	Investigation	No
Adults & Communities	IC	Debt Write Off - validation of circumstances	Draft pending	Investigation	No
Environment & Transport	IC	LHO Court Case	09-May-14	Investigation	No
Environment & Transport	IC	Procurement Issues	31-Mar-15	Investigation	No
Consolidated Risk	IC	National Fraud Initiative	01-Apr-15	N/A	No
Adults & Communities	IC	Debt Collection Changes (PwC)	Draft pending	TBC	
Chief Executives	IC	Better Care Fund incl role of Health & Wellbeing Board - phase 2 pooled budget	Draft pending	TBC	
Children & Family Services	IC	School Allocations	Draft pending	TBC	
Consolidated Risk	IC	Faster Payments System	Draft pending	TBC	
Consolidated Risk	IC	Internet Expense Scanning	Draft pending	TBC	
Consolidated Risk	IC	Oracle - Self Serve applications	Draft pending	TBC	
Corporate Resources	IC	Beaumanor - Income Generation	Draft pending	TBC	
Corporate Resources	IC	Expense Claims	Draft pending	TBC	
Corporate Resources	IC	Strike Pay Deduction Procedures	Draft pending	TBC	

Summary of Internal Audit Service work supporting the HoIAS 2014-15 opinion

Annex 2

<u>Department</u>	<u>CE</u>	<u>Job</u>	<u>Final report (or position @22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Adults & Communities		Homecare Timesheet Input	31-Mar-15	Provide resource	No
Adults & Communities		ContrOcc Data Matching Exercise	30-May-14	Provide resource	No
Adults & Communities		ContrOcc Feeds to Oracle Financials	09-Jan-15	Provide resource	No
Adults & Communities		Homecare - Provider Rate Check	31-Mar-15	Provide resource	No
Adults & Communities		Homecare Error Clearance	31-Mar-15	Provide resource	No
Adults & Communities		Homecare Payments Assistance	31-Mar-15	Provide resource	No
Adults & Communities		Homecare Service User Payments	31-Mar-15	Provide resource	No
Consolidated Risk		Clearing of 2000 prior year orders – Part 1	31-Mar-15	Provide resource	No
Consolidated Risk		Contacting Managers re 800 invoices on hold – Part 2	31-Mar-15	Provide resource	No
Consolidated Risk		ESPO Catalogue Purchases	31-Mar-15	Provide resource	No
Consolidated Risk		Invoices on hold	31-Mar-15	Provide resource	No
Consolidated Risk		IProc pre-payments	31-Mar-15	Provide resource	No
Consolidated Risk		iProc Responsibility 25	31-Mar-15	Provide resource	No



CORPORATE GOVERNANCE COMMITTEE
12 MAY 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE AUDIT PLAN 2015-16

Purpose of the Report

1. The purpose of this report is to provide members with information about the outline Leicestershire County Council Internal Audit Service (LCCIAS) Audit Plan 2015-16 for the County Council and internal audit resource allocated to other organisations.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider the annual Internal Audit plan, which outlines where audit focus will be in 2015-16. Internal audit is an essential component of the Council's corporate governance and assurance framework

Construction of the 2015-16 Plan

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the County Council's agenda and priorities. The plan must take into account the requirement for the HoIAS to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment. The scope of internal audit activity should be wide ranging.
4. The PSIAS advise that when constructing the plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. For a number of years now LCCIAS has conducted rigorous audits of the risk management system. Outcomes have provided increased confidence in the Council's approach to identifying, evaluating and managing risk, which in turn allowed for more reliance to be placed on management's risk assessments rather than 'audit needs' assessments.

5. From July 2014 the HoIAS took on responsibility for the administration, development and monitoring of the Council's risk management framework. In preparation for the 2015-19 'Medium Term Financial Strategy', at its meeting in February 2015, this Committee considered the findings of a review and revision of the corporate risk management policy and strategy. In conjunction with that review, an audit of the Council's risk management maturity concluded that the risk maturity had improved to between levels 3 ("Working") and 4 ("Embedded and Working"), that there had been significant progress since the previous assessment and by and large a robust framework exists underpinning risk management within the Council.
6. Overseeing that the corporate framework is being consistently applied, reviewing the quarterly updating of department risk registers and confirming their consideration by departmental management teams and producing the Corporate Risk Register for review by Corporate Management Team and this Committee, ensures the HoIAS is up to date with the risk environment. This allows internal audit resource to be better targeted and flexed in accordance with major shifts in the risk environment.
7. The HoIAS also took on responsibility in July 2014 for developing an approach to countering the risk of fraud and corruption. A significant amount of work has been done since then to review, revise and develop a suite of anti-fraud and corruption policies, procedures and guidance, which should enable the Council to conform to the principles CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). An exercise to identify fraud risks to the Council was conducted and this will facilitate a programme of targeted counter fraud audits and related activity.
8. The PSIAS also require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming the annual internal audit opinion and any work required by LCCIAS to place reliance upon those other sources. The HoIAS is also now responsible for compiling the Annual Governance Statement. Part of this process includes receiving and reviewing departments' annual assurance statements. Directors are requested to record specific examples of other sources of assurance both internal and external (e.g. independent assurance from inspections, compliance reviews etc), the objective and scope of the assurance, when it occurred and what was the outcome/overall opinion.
9. Some useful information has been obtained, especially in Corporate Resources Department which is piloting the development of an 'assurance map'. However, there is scope to improve on what has so far been identified. The plan contains a specific focus on developing this concept especially in terms of evaluating internal assurance provided by the Transformation Unit.

10. In addition, each individual audit engagement requires the auditor to identify other assurances. Where these are considered as fundamental to the achievement of objectives, then a view on the robustness of the assurance will be formed. To assist this and avoid subjectivity, guidance developed by the Institute of Internal Auditors will be adopted.
11. Additionally, the HoIAS has scope to plan audits that are either outside of, or 'cut across' risk register boundaries, for example:
 - a. the requirement to undertake audits each year on the key financial systems which the Council's external auditors places reliance on to enable it to reach an opinion that there is no material misstatement in the financial accounts;
 - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Audit Commission;
 - c. certifications of returns for government departments and funding bodies;
 - d. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated;
 - e. general advice on governance, risks and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Chief Financial Officer (CFO) and the Corporate Governance Committee;
 - f. a contingency remains for any unplanned audit work, including suspected frauds and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
12. The 2015-16 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent and there is a need for flexibility to review and adjust it as necessary in response to changes in the Council's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree material changes with the Chief Financial Officer and these will be reported to the Committee.
13. Detailed Terms of Engagement covering each audit's scope and any exclusion will be agreed with the relevant risk owners in advance of the audit. The Committee will continue to receive quarterly reports on progress against the plan detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.

Themes emerging in the 2015-16 Plan

14. The Corporate and Departmental Risk Registers, the Council's Strategic Plan and Transformation Programme remain key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them. A large proportion of the 2015-16 plan will be based on them and especially around the key themes of:
 - a. The continuing impact of significant financial challenges and reductions in net expenditure; risk of failing to achieve savings;
 - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
 - c. Embracing wider and more complex partnerships and devolved service delivery models, including fundamental shifts in commissioning and outsourcing;
 - d. The impact of major changes in Government policy regarding the provision of health and social care services and children's services;
 - e. Increasing scrutiny and associated costs of protecting vulnerable people
 - f. Failing to plan for demographic changes which are increasing the demand for social care support;
 - g. The risks behind failure to integrate health and social care services;
 - h. Dependency on information technology to support both transformational change and embedded processes;
 - i. The risks of failure to successfully implement financial systems
 - j. Requirements to secure information and data amongst a range of partners and users;
 - k. The requirement to embrace and continuously improve good governance especially requirements of the revised Accounts and Audit Regulations 2015;
 - l. The impacts on staffing resources, including the need for learning and development, support and good management.
 - m. Countering the risk of fraud and corruption
15. A summary plan for 2015-16 is shown at Appendix 1. Only the key control elements of larger corporate risks (i.e. those not covered under other assurances) will be covered. Large scale plans and programmes contain many individual projects and it is too early to identify priorities within them so they are shown as 'bulk' allocations and specific individual audits will be determined quarterly by consultation throughout the year.
16. The plan contains a list of audits discussed with department management and there is an allocation for servicing the corporate client e.g. the HoIAS professional duties and servicing the Corporate Governance Committee, liaison with external auditors, corporate meetings, generic research and advice etc.

17. Internal Audit Plans for organisations for which Leicestershire County Council is the accountable body (Eastern Shires Purchasing Organisation (ESPO), Leicestershire Local Pension Board and Bradgate Park Trust), or a strategic delivery partner (East Midlands Shared Services), are presented to their respective governance forums.
18. LCCIAS contracts commercially with Leicestershire Fire Authority, academy schools and some Leicestershire district councils.

Resource Implications

19. The Service's budget has a further savings target in 2015-16. This translates into a reduced allocation of audit days for the County Council from 1,500 to 1,250 audit days. There will need to be continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency.

Equality and Human Rights Implications

20. There are no discernible Equality and Human rights implications resulting from the audits listed.

Recommendation

21. That the Committee notes the Internal Audit Plan for 2015-16.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

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Appendices

Appendix 1 – Leicestershire County Council Summary internal audit plan 2015-16

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Leicestershire County Council

Summary Internal Audit Plan 2015-16

NOTE : The plan will contain audits of the key control elements of the risks on the corporate risk register. Details will be confirmed with the respective risk owner at engagement stage. In addition, below is a list of audits identified through discussions with senior officers and management. The priority of those audits and days to be allocated will be further discussed.

	<u>Brought forward from 2014-15</u>
A&C	Special Investigation – Adult Learning
A&C	Special Investigation – Financial Assessments
A&C	Debt Collection Changes (PwC)
C&FS	School Allocations
CE	Equality & Human Rights Impact Assessments
CE	Better Care Fund incl role of Health & Wellbeing Board – phase 2 pooled budget
CR	Information Sharing - Framework Design & Governance
CR	ICT External Hosting & Associated Contractual Obligations
CR	Business Continuity - ICT
CR	Faster Payments System
CR	Internet Expense Scanning
CR	Oracle - Self Serve applications
CR	Beaumanor - Income Generation
CR	Expense Claims
CR	Strike Pay Deduction Procedures

	<u>Asset Risks</u>
A&C	Libraries Transfer & Business Risks
CR	Property Asset Management System – to be processes
CR	East Midlands Property Alliance
CR	Development of industrial properties and county farms
E&T	Highways RAS – follow up RAS HI recs and stock-take
	<u>Financial Risks</u>
A&C	Visits to locality offices
A&C	Personal Budget Investigation
A&C	Personal Budgets Resource Allocation System – Customer Journey Simplification Project
A&C	Devolving Budgets to Localities
C&FS	Maintained School Visits
C&FS	Home Care Payments Processing – f/u
C&FS	Special Educational Needs Assessments (SENA)
C&FS	VCS Consultation Process
C&FS	Devolved Funding to Behaviour Partnerships
CE	LEADER Rural Development Programme
CON	Departmental financial systems risks
CON	P-Procurement
CON	Key Financial Systems – assurance on control functions for External Auditor
CON	Traded Services Revised Approach to Delivery
CON	Doing the Basics Well – Imprest & IRS
CON	Data Quality in Key Applications
CON	Income Generation
CON	Grants – various

CR	Treasury Management
CR	Capital Programme
CR	Carbon Reduction Targets
CR	National Fraud Initiative
CR	Capital Programme - especially schools
E&T	Notice Processing Unit – f/u
E&T	LEP & Single Growth Fund
E&T	Recycling Credits
	<u>Governance Risks</u>
A&C	A&C Mandatory Reporting Requirements f/u
CON	The effectiveness of the control environment
CON	The effectiveness of the Corporate Governance Committee
CON	Performance Management
CON	Management Information incl. Balanced Scorecard
CON	Risk Management
CON	Service Planning – Framework Design & Governance
CON	Annual Governance Statement
CON	Assurance Mapping
CON	Reduction of the Council's environmental impact
CON	Broadband UK
CON	Partnerships

	<u>ICT Risks</u>
A&C	Assistive Technologies
A&C	SSIS Decommissioning
A&C	Integrated Adults System (IAS)
CON	PSN Accreditation
CON	IT General Controls
CON	Future Proofing ICT
CON	Microsoft Exchange Project
CON	Other Major ICT Project(s)
CON	Emerging Technologies
CON	Software Compliance
CON	IT Asset Management & Configuration
CON	Incident & Problem Management
CON	ICT Change Management
CR	Property Asset Management System - Governance
CR	LHMIS incorporation into Oracle
CR	External Hosting
CR	ICT Policies
CR	ICT Management Information
CR	Digital and Online Strategy
CR	emPSN

	<u>People Risks</u>
CON	Absence Management
CON	Employee Policies
CON	Oracle Self-Serve
CON	Health & Safety
CON	Right to Work & DBS
CR	Customer Services Strategy
	<u>Public Health Risks</u>
PH	Clinical Governance Framework
PH	Sexual Health Contract
PH	Leicestershire & Rutland Sports Partnership – hosting arrangements
PH	Commissioning Health Services for 0-5
PH	Providing advice to NHS Commissioners (CCGs)

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