Meeting: **Corporate Governance Committee**

Date/Time: **Monday, 29 January 2018 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. W. Liquorish JP CC (Chairman)

Mr. G. A. Boulter CC	Mr. J. T. Orson JP CC
Mr. T. Gillard CC	Mr. T. J. Richardson CC
Mr. D. Jennings CC	Mr. S. D. Sheahan CC
Mr. J. Kaufman CC	Mr. D. Slater CC

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 17 November 2017.		(Pages 3 - 10)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	External Audit Plan 2017/18 and update on External Auditor Appointment 2018/19.	Director of Corporate Resources	(Pages 11 - 40)

7.	Information Commissioner's Office inspection and General Data Protection Regulations Update.	Director of Corporate Resources	(Pages 41 - 60)
8.	Risk Management Update.	Director of Corporate Resources	(Pages 61 - 98)
9.	Quarterly Treasury Management Update	Director of Corporate Resources	(Pages 99 - 102)
10.	Treasury Management Strategy and Annual Investment Strategy 2018/19	Director of Corporate Resources	(Pages 103 - 106)
11.	Internal Audit Service Progress Report.	Director of Corporate Resources	(Pages 107 - 120)
12.	Date of next meeting.		
13.	Any other items which the Chairman has decided to take as urgent.		

Leicestershire County Council

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Friday, 17 November 2017.

PRESENT

Mr. W. Liquorish JP CC (in the Chair)

Mr. G. A. Boulter CC	Mrs. R. Page CC
Mr. T. Gillard CC	Mr. T. J. Richardson CC
Mr. D. Jennings CC	Mr. S. D. Sheahan CC
Mr. J. Kaufman CC	Mr. D. Slater CC

31. Minutes of the previous meeting.

The minutes of the meeting held on 22 September 2017 were taken as read, confirmed and signed.

32. Question Time.

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

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

Mr. G. A. Boulter CC asked the following question:-

"On Tuesday 10th October, Cabinet passed a motion for the County Council to seek to obtain "Elected Professional Client Status" so that it no longer benefits from protections given to investors with a "Retail Client" status.

1. Would the loss of these protections in any way increase the risks to the County Council?
2. Should such risks be considered in the risk register?"

Mr. W. A. Liquorish CC replied as follows:-

"The current regulatory environment means that Leicestershire County Council is classed as a professional investor, so does not enjoy any of the protections that are available to retail investors. Assuming that the opt-up under MiFID II is successful, the Council will simply be retaining its current position. Given the authority's internal and external financial expertise – it manages a £4bn Pension Fund as well as the £200m cash held by the Council – the protections available to retail investors are unnecessary. They are largely designed to ensure that investors do not invest in products that they do not understand, and the nature of our treasury management activities and the expertise that we have available means that the risks are minimal.
Not "opting up" is a much bigger risk, as it will restrict the types of investment that we can access (to all intents and purposes, we would only be able to use fixed term cash

deposits) and this will have a potentially significant detrimental impact onto the return generated from the investments.
Given that we currently do not have those protections that are available to retail investors, that the risks are very low and have been managed successfully for a number of years, being classified as a retail investor would actually leave us in a worse position. "Opting up" leaves us in the same position that we currently are therefore there is no need for the risk register to be amended."

34. Urgent items.

There were no urgent items for consideration.

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

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

Mr. D. Jennings CC declared a personal interest in item 8: External Auditor Independence Breach as he was Chairman of the Local Government Superannuation Board.

Mr. T. J. Richardson CC declared a personal interest in item 9: Quarterly Treasury Management Report as he was in receipt of a pension from Lloyds Bank.

36. Change to the Order of Business.

The Chairman sought and obtained the consent of the Committee to vary the order of business from that set out on the agenda.

37. Quarterly Treasury Management Update.

The Committee considered a report of the Director of Corporate Resources which set out the actions taken in respect of treasury management in the quarter ended 30 September 2017. A copy of the report, marked 'Agenda Item 9' is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

38. Recommended change to Treasury Management Policy in respect of the lending of surplus balances.

The Committee received a report from the Director of Corporate Resources which sought its views on a recommended change to the permitted investments within the Treasury Management Policy, with a view to improving returns with a manageable increase in risk. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

In response to a question from a Member it was clarified that the proposal was that investments with pooled Private Debt funds would be conducted through a third-party, Partners Group Multi Asset Credit Fund 2017, and that third party would charge the County Council a management fee which would be taken from the investment. On average over the investment term the management fee would be 7%.

RESOLVED:

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

(b) That the comments now made be submitted to Cabinet for consideration at its meeting on 12 December.

39. Annual Audit Letter

The Committee considered a report of the Director of Corporate Resources which presented the Annual Audit Letter for 2016/17 for approval. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

The Chairman welcomed John Cornett of KPMG, the County Council's external auditors for 2016/17, to the meeting.

Arising from discussions the following points were noted:

(i) It was open to the County Council to remit the invoice for the audit of the Leicestershire Pension Fund to those other Local Authorities that are part of the Fund.

(ii) Whilst the Value For Money conclusion for the County Council was unqualified, there was a growing trend amongst neighbouring authorities for qualified Value For Money conclusions to be issued by auditors as those authorities increasingly struggled to meet financial challenges.

(iii) Members offered their thanks to officers in the Corporate Resources Department at the County Council for their contribution towards the County Council achieving a positive Annual Audit Letter for 2016/17.

RESOLVED:

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

40. External Auditor- Independence Breach.

The Committee considered a report of the Director of Corporate Resources which advised of a breach of independence between the external auditor KPMG and the Leicestershire Pension Fund. A copy of the report, marked 'Agenda Item 8' is filed with these minutes.

Arising from discussions the following points were noted:

(i) All engagements between KPMG and the County Council had been investigated and no further breaches had been identified. Reassurance was given that the auditors had new arrangements in place to prevent a breach of independence happening again.

(ii) In response to a question from a Member as to why officers at the County Council had not identified the breach of independence, the Director of Corporate Resources explained that his department was not required to be familiar with all the rules that govern auditors.

(iii) KPMG's only involvement with the recovery of tax paid on overseas equity dividends was at the beginning of the legal claims process. At this stage in the autumn of 2017 no further auditor work was required therefore a replacement for KPMG did not need to be found. Should the legal claims be successful the County Council would still gain the financial benefits but KPMG would now not receive a fee. As a consequence the County Council had inadvertently benefited financially from the breach of independence.

(iv) In response to a query from a Member as to whether there would be any reputational damage to the County Council as a result of the breach of independence, reassurance was given that KPMG would bear any reputational damage that could occur.

RESOLVED:

That the information provided in the letter from KPMG dated 12 October 2017 be noted.

41. Business Continuity Annual Report.

The Committee received a report from the Director of Corporate Resources which provided an inaugural annual update on Resilience and Business Continuity work within Leicestershire County Council. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

Arising from discussions the following points were noted:

(i) A Member training session on Resilience and Regulatory Services had been held on Friday 29th September 2017. It was requested that the presentation slides from this session be circulated to Corporate Governance Committee Members.

(ii) At all times a senior officer of the County Council was on call to act as a point of contact in the event of a major incident and decide what action needed to be taken. This officer had a very wide brief to cover all resilience matters. Members requested to be provided with a card showing all the essential telephone numbers they might need during a major incident and the Chief Executive agreed to give this further consideration.

(iii) A Member queried whether an incident similar to the Grenfell Tower tragedy was capable of occurring in Leicestershire. In response reassurance was given that the County Council did not have that kind of building stock and even if it did procedures were in place to manage such an incident. The Tactical Co-ordination Group had been set up, volunteers had been recruited to help out and provision had been made to provide food and clothes to the public.

RESOLVED:

That the contents of the report be noted.

42. Clinical Governance

The Committee received a report from the Director of Corporate Resources which updated the Committee on changes to the process of assuring clinical governance since

November 2016. A copy of the report, marked ‘Agenda Item 12’, is filed with these minutes.

Arising from the report the following points were raised:

(i) With regard to Table 2 in the report a Member queried why serious incidents appeared to have increased in the period after March 2017. Clarification was given that these incidents were rare and with small numbers there could be statistical anomalies. The Director of Public Health suggested that a contributory reason may have been that the substance misuse service provider Turning Point had been mobilised in summer 2016 so there may have been a delay in the data coming through but this was unconfirmed. The Director of Public Health was able to clarify that the incidents occurred in two main categories; children in the care of the Health Visitors Service, and deaths of patients relating to substance misuse.

(ii) In response to a question from a Member regarding whether medication errors should be reported to the Care Quality Commission (CQC) the Director of Public Health informed that only non-NHS providers were regulated by the CQC. If it was a non-NHS provider but the incident was a low clinical risk then the CQC would not be informed but if it was more serious then they would be. This threshold was in place to make sure resources were prioritised appropriately. Turning Point was an NHS provider so they would report to the NHS instead and Public Health would also be informed of any incidents. Members were therefore reassured that collectively measures were in place to enable the various bodies to take any necessary action in response to errors.

(iii) Public Health gave full consideration to patient feedback which came in the form of complaints and compliments and the department investigated emerging themes.

(iv) With regard to high profile governance failures in NHS Trusts in other parts of the country it was questioned how Members could be assured that the governance of the NHS in Leicestershire was adequate. The Director of Public Health reassured that the structures and processes in Leicestershire were based on best practice learnt over 25 years and that he had faith in the ability of Clinical Commissioning Groups to investigate incidents.

RESOLVED:

That the contents of the report be noted.

43. Risk Management

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. A copy of the report, marked ‘Agenda Item 13, is filed with these minutes.

The Committee also received a presentation on property and occupants risk management post the Grenfell Tower fire tragedy. A copy of the presentation slides is filed with these minutes.

Presentation - Property and occupants risk management

Arising from the presentation the following points were noted:

(i) A Member queried whether building inspections were conducted by private inspectors or local authority inspectors and raised concerns that if private inspectors were used then those inspectors could not be held to account if a problem with a building was later discovered. The Director of Corporate Resources agreed to check the answer and report back to Members.

(ii) In response to a question regarding what monitoring mechanisms were in place regarding the risks around property and occupants, Members were informed that the Property and Occupants Risk Group had a work plan and resilience colleagues were to be invited to meetings of the Group along with a representative from Leicestershire Police that specialised in terrorism.

(iii) The County Council did own some buildings which were over 18 metres high but none of these were residential properties. Nevertheless checks on these buildings had been conducted and therefore the County Council was ahead of schedule.

Corporate Risk Register

Arising from discussions the following points were noted:

(i) A Member questioned whether risk 1.4: claims relating to uninsured risks, should be separated out in the risk register, however the Director of Corporate Resources advised that this would make the risk register too lengthy and unmanageable. The Director agreed to bring to the Committee details should there be any evidence that significant claims could be materialising.

(ii) With regard to risk 2.4: Help to Live at Home, a Member asked for details regarding who were the new providers, whether the County Council had employed more than the original providers that had pulled out, and whether Care Quality Commission reports were available for the new providers. The Director of Corporate Resources agreed to provide this information to Members after the meeting once he had confirmed the details.

(iii) With regard to risk 2.5: the Better Care Fund Plan, it was clarified that whilst it was expected that this risk would move to amber in the next 12 months, the status of the risk really depended on the approach the government took to the Plan and whether they provided new guidance.

RESOLVED:

(a) That the contents of the report and presentation be noted;

(b) That the current status of the strategic risks and emerging risks facing the Council, as detailed in the report and the Corporate Risk Register, be noted;

(c) That the updated Corporate Risk Register be approved;

(d) That a presentation and report be provided for the next meeting of the Committee on the Information Commissioner's Office report on Leicestershire County Council, and the risk that the Council fails to meet the information security and governance requirements.

44. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources which summarised the work of Leicestershire County Council's Internal Audit Service (LCCIAS) finalised since the last report to the Committee and highlighted audits where high importance recommendations had been made to managers. A copy of the report, marked 'Agenda Item 14', is filed with these minutes.

In response to concerns raised by a Member that the implementation of Universal Credit had caused financial problems for claimants the Director of Corporate Resources informed that the Department of Work and Pensions were aware of these issues and were giving them further consideration.

RESOLVED:

That the contents of the report be noted.

45. Covert Surveillance and RIPA 2000

The Committee considered a report of the Director of Law and Governance which provided an update on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA). The report also recommended that the County Council's Policy Statement on the use of RIPA remained fit for purpose. A copy of the report marked 'Agenda Item 15' is filed with these minutes.

RESOLVED:

a) That the County Council's use of the Regulation of Investigatory Powers Act 2000 for the period from 1 October 2016 to 30 September 2017 be noted;

b) That Cabinet be recommended that the County Council's Policy Statement on the use of RIPA powers remains fit for purpose;

c) That the Committee agrees to continue to receive an annual report on the use of RIPA powers and to report to the Cabinet on an annual basis on both the use of RIPA powers and whether the Policy remains fit for purpose.

46. DCLG Consultation Paper - Disqualification of Councillors Holding Office.

The Committee considered a report of the Director of Law and Governance which informed Members of the consultation paper issued by the Department for Communities and Local Government (DCLG) concerning an update to the criteria that barred individuals from standing to become councillors and holding office.

Members were of the view that there needed to be more clarity on the rules to enable them to be interpreted consistently across different authorities. In particular it was felt that further guidance needed to be provided on the issue of bullying.

Members noted that the definition of a local authority on page 7 of the consultation document did not make reference to unitary authorities and asked for this point to be added to the response to the consultation.

RESOLVED:

That the proposed responses to the consultation paper as set out in Appendix 2 and paragraph 7 of the report be approved subject to amendments in line with the comments now made.

47. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on 29 January 2018 at 10:00am.

10.05 am - 12.00 pm CHAIRMAN
17 November 2017

CORPORATE GOVERNANCE COMMITTEE – 29 JANUARY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN 2017/18, AND UPDATE ON EXTERNAL AUDITOR APPOINTMENT 2018/19

Purpose

1. To present the External Audit Plan 2017/18 for consideration and update the committee on the appointment of the new external auditor from 1 April 2018.

Audit Plan 2017/18

2. The Audit Plan for 2017/18 is included in the Appendix attached to this report. John Cornett from the County Council's external auditors, KPMG, will attend the meeting in order to present the Audit Plan and answer any questions.

3. Overall materiality for the audit opinion for the County Council has been set at £15.25m (£14.75m 2016/17) and for the Pension Fund at £31m (£31m 2016/17). The report also explains that the auditor is obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.75m for the County Council and £1.55m for the Pension Fund (same levels as 2016/17).

4. The significant risks identified by the external auditor for 2017/18 are:

   - Property Plant and Equipment – review of the valuation of assets valued on a cyclical basis.
   - Pension Fund liability – review of assumptions, methodology and data provided to the Actuary.
   - Faster Close – draft accounts by 31st May and signed accounts by 31st July. Review of approach and estimates.
   - Pension Fund – valuation of hard to price investments – review of estimates used.

Auditor Appointment 2018/19 - Update

5. During December 2017, Public Sector Auditor Appointments Ltd (PSAA) - the sector led body set up to manage external auditor appointments, confirmed the appointment of Grant Thornton LLP as the external auditor for the County Council for accounts from 2018/19. The contract has been awarded for a period of five years, with an option to extend by a further two years. Proposed fees were also announced at

£59,252 for the County Council and £21,280 for the Pension Fund. Confirmation of the fees will be announced in March 2018.

Recommendation

6. The Committee is asked to note the update provided by KPMG and update on external auditor appointment from 2018/19.

Equality and Human Rights Implications

7. None.

Circulation Under the Local Issues Alert Procedure

8. None.

Background Papers

9. Appointment of External Auditor 2018/19 – Update, 22 September 2017.
http://politics.leics.gov.uk/documents/s131842/Auditor%20Appt%20Update%20CGC%2022Sep17.pdf

Officers to Contact

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Appendix
External Audit Plan 2017/18

KPMG

External Audit Plan 2017/2018

Leicestershire County Council

Leicestershire Local Government Pension Fund

January 2018

Summary for Corporate Governance Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. Whilst we recognise that the Authority successfully advanced its own draft accounts production timetable last year to align with the new deadlines, the approval of the Final Statements of Accounts remained at the September deadline in 2016/17. In addition there has been a change to a key officer within the Strategic Finance Technical Accounting Team (TAT) with the new officer taking up the post in October 2017. Given the points above we have recognised a significant risk in relation to the need for a faster close.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is provided to us in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£15.25 million** for the Authority and **£31 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£750,000** for the Authority and **£1,550,000** for the Pension Fund.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities –** The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation: and
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2016/17: 30 June) and the final accounts signed by 31 July (2016/17: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

Summary for Corporate Governance Committee (cont.)

Financial Statements (cont.)

Pension Fund risks

In relation to the Pension Fund audit, those risks requiring specific audit attention and procedures have been identified as:

- **Valuation of hard to price investments** – The Pension Fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

See page 10 for more details

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years. We will consider the way in which the Authority identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year.

See pages 13 to 17 for more details

Logistics

Our team is:

- John Cornett – Director
- Daniel Hayward – Senior Manager
- Kerry Sharma – Assistant manager
- Asim Iqual – Assistant manager, Pension Fund

More details are in **Appendix 2**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 20**.

Our fee for the 2017/18 audit is £76,950 (£76,950 2016/2017) for the Authority and £27,637 (£27,637 2016/17) for the Pension Fund see **page 19**. These fees are in line with the scale fees published by PSAA.

Summary for Corporate Governance Committee (cont.)

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

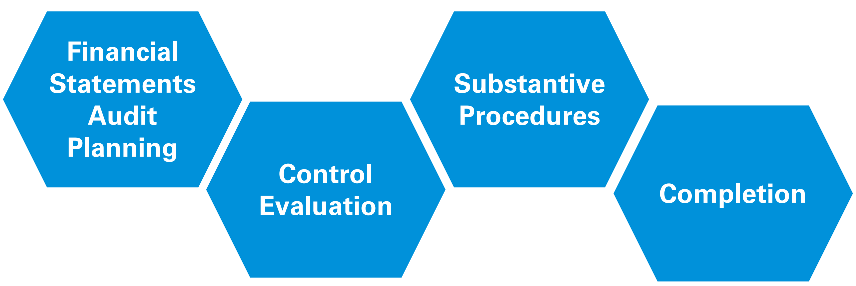
01 **Authority and Pension Fund Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Corporate Governance Committee.

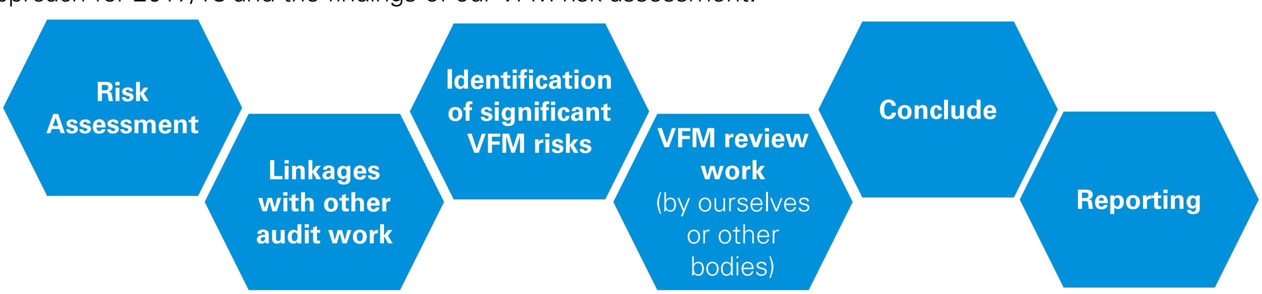
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 16 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to February 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

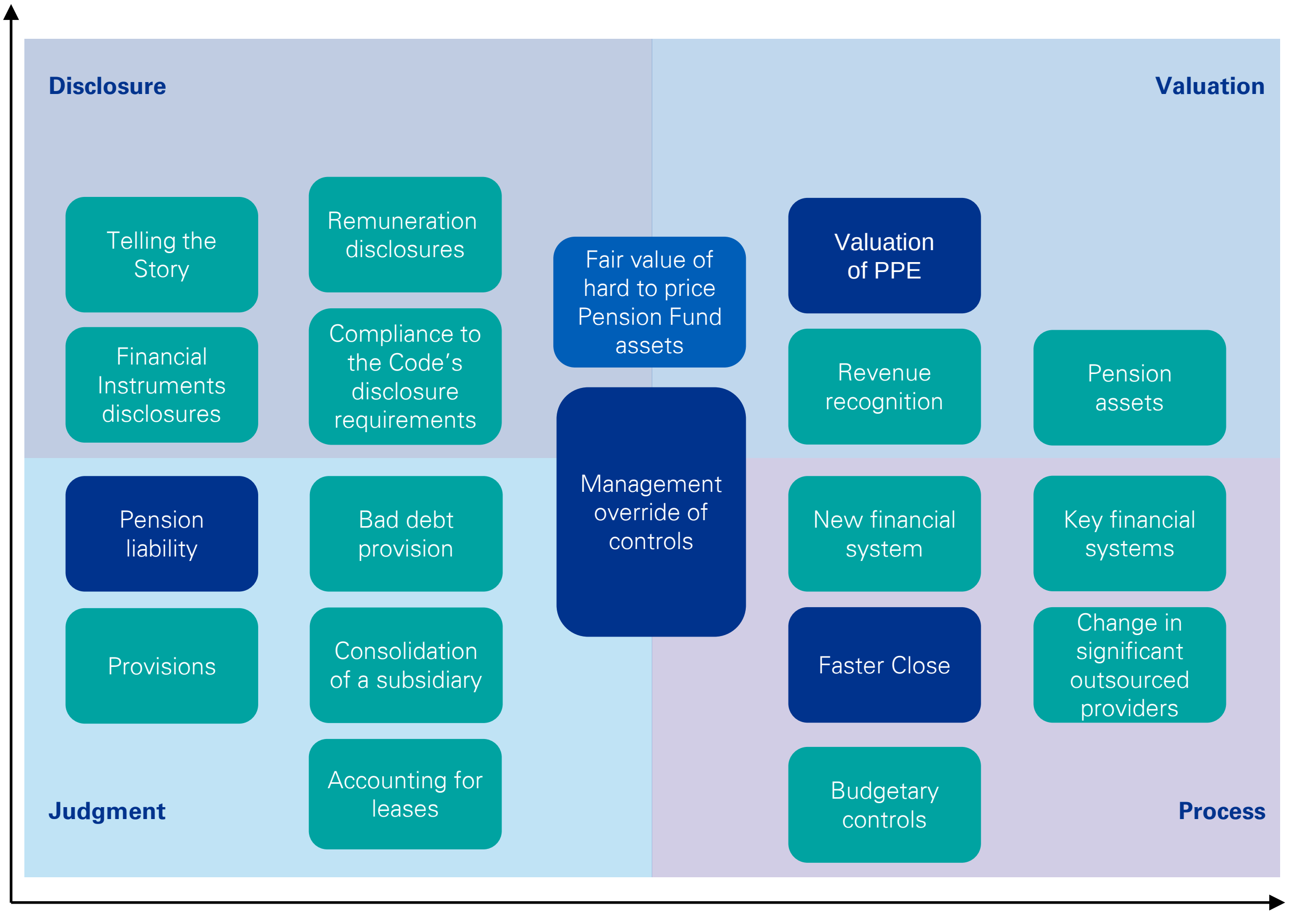
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: Significant risk | Significant risks – Pension Fund only | Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk: **Valuation of PPE**

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with the Authority's twenty highest value assets revalued each year. As a result of this, however, individual assets outside the twenty highest value assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.

In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Leicestershire Local Government Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach:

As part of our work we will review the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Hymans Robertson.

We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by Hymans Robertson.

In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May, although the final signed accounts were not approved until 29 September. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries and consortia) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Corporate Governance Committee and Constitution Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Corporate Governance Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

Approach:

We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:

Valuation of hard to price investments

The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.

Approach:

As part of our audit of the Pension Fund, we will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will also test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.

In addition to the risk set out above, if we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £15.25 million, which equates to 1.97 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £31 million which equates to 0.80 percent of total assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Authority Prior Year Gross Expenditure: £773.4m (2016/17: £747.7m)

Materiality

£15.25m

1.97% of Expenditure

(2016/17: £14.75m, 1.97%)

£750k Misstatements reported to the corporate governance committee (2016/17: £750k)

£11.25m Procedures designed to detect individual errors (2016/17: £11m)

£15.25m Materiality for the financial statements as a whole (2016/17: £14.75m)

Pension Fund Prior Year Gross Assets : £3,880 m (2015/16: £3,163m)

Materiality

£31m

0.80% of gross assets

(2016/17: £31m)

£1.55m Misstatements reported to the corporate governance committee (2016/17: £1.55m)

£23.25m Procedures designed to detect individual errors (2016/17: £23.25m)

£31m Materiality for the financial statements as a whole (2016/17: £31m)

Financial statements audit planning (cont.)

Reporting to the Corporate Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £1,550,000.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

We will report:

- Non-Trivial corrected audit misstatements
- Non-trivial uncorrected audit misstatements
- Errors and omissions in disclosure (Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

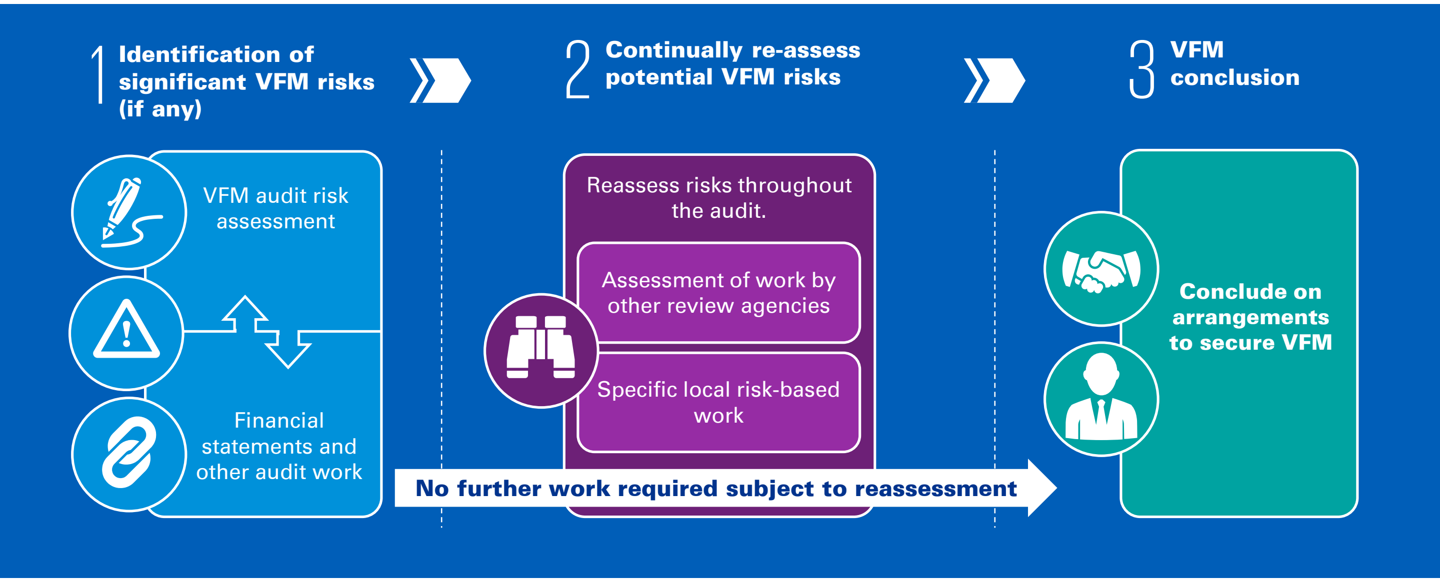
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Identification of significant risks

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Concluding on VFM arrangements

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk:

Delivery of budgets

The Authority identified the need to make savings of £16.4 million in 2017/18. The current year forecast, at period 8, shows that the Authority is on track to deliver the required savings and achieve an anticipated underspend of approximately £7.5 million.

The Authority's draft Medium Term Financial Strategy 2018-22 was approved at the December 2017 Cabinet meeting and recognised a need for £16.5 million in savings to be achieved in 2018/19. The draft budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £37 million will be required over the period 2019/20 to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

Approach:

As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

VFM Sub-criterion:

This risk is related to the following Value For Money sub-criterion

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Strategic Finance Technical Accounting Team and the Corporate Governance Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £76,950 for the Authority (£76,950 2016/17). The planned audit fee for 2017/18 is £27,637 for the Pension Fund (2016/17 £27,637).

Appendix 1:

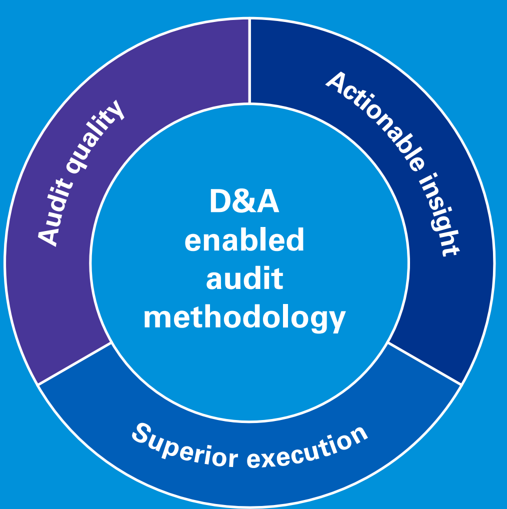
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

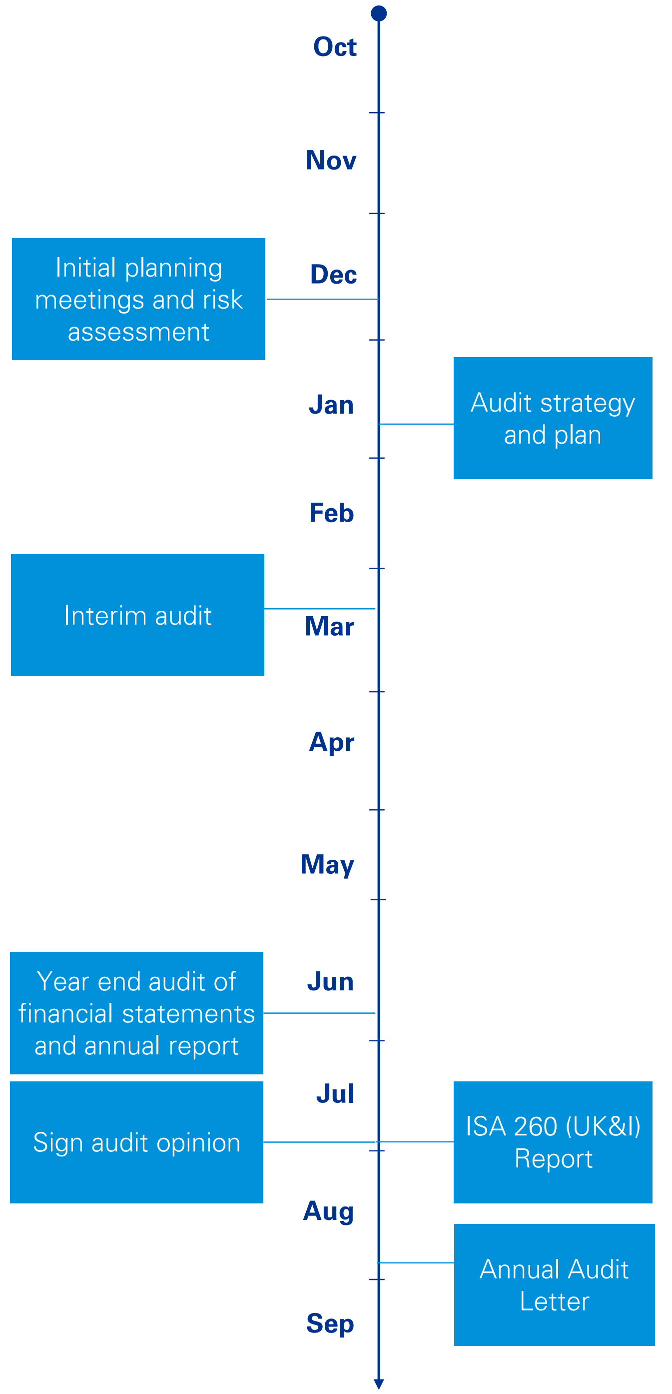
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable, payroll and journals.



Communication

Continuous communication involving regular meetings between Corporate Governance Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

— Determining our materiality level;

— Risk assessment;

— Identification of significant risks;

— Consideration of potential fraud risks;

— Identification of key account balances in the financial statements and related assertions, estimates and disclosures;

— Consideration of managements use or experts; and

— Issuing this audit plan to communicate our audit strategy.

Control evaluation

— Understand accounting and reporting activities

— Evaluate design and implementation of selected controls

— Test operating effectiveness of selected controls

— Assess control risk and risk of the accounts being misstated

Substantive testing

— Plan substantive procedures

— Perform substantive procedures

— Consider if audit evidence is sufficient and appropriate

Completion

— Perform completion procedures

— Perform overall evaluation

— Form an audit opinion

— Corporate Governance Committee reporting

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Leicestershire County Council and Pension Fund audit last year.

John Cornett
Director

T: 07468 749927
E: John.Cornett@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Corporate Governance Committee and Chief Executive.'

Daniel Hayward
Senior Manager

T: 07776 101412
E: Daniel.Hayward@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with director to ensure we add value.
I will liaise with the Director of Finance and other Executive Directors.'

Kerry Sharma
Assistant Manager

T: 07920 710881
E: Kerry.Sharma@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Asim Iqbal
Assistant Manager – Pension Fund

T: 07825 207523
E: Asim.Iqbal@kpmg.co.uk

'I provide quality assurance for the Pension Fund audit work and specifically any pension-related technical accounting and risk areas.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEICESTERSHIRE COUNTY COUNCIL AND LEICESTERSHIRE LOCAL GOVERNMENT PENSION FUND

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Breaches of applicable ethical standards;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations related to breaches of the FRC Ethical Standard

During the year there was a breach of certain aspects of applicable independence regulations as reported to you in my letter of 12 October 2017 which was considered by the Corporate Governance Committee at its meeting on 17 November 2017. That breach related to the provision of tax services in respect to the recovery of withholding tax on manufactured overseas dividends to Leicestershire Local Government Pension Scheme.

Independence and objectivity requirements

We have assessed them and concluded that they do not impair our independence for the following reasons:

- The audit team were not aware of the existence of the service until April 2017 and as a result this would not have impaired their objectivity for the audit periods up to 31 March 2016;
- No services have been provided since KPMG's appointment as auditor to Leicestershire Local Government Pension Scheme;
- The tax claims made amount to £1,464,999.51. This is not regarded as material to the financial statements of Leicestershire County Council Local Government Pension Fund; and
- The tax claims are still unsettled and consequently the potential tax repayment has not been recognised in the accounts of the pension fund.

Appendix 3:

Independence and objectivity requirements (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

We confirm that all non-audit services were approved by the Corporate Governance committee or equivalent.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018 £
2016/17 Teachers Pensions Scheme return	**Self-interest**	This engagement is entirely separate from the audit and there is a separate engagement letter in place.	Fixed cost	2,500
	Self-review	The nature of this work is to certify the 2016/17 Teachers Pensions Scheme return in accordance with the specific assurance instructions set out by Department for Education (DfE) in TP05. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.		
	Management threat	This work was being undertaken in accordance with the Assurance Instruction TP05 provided by DfE.		
	Familiarity	This threat is limited given the scale, nature and timing of the work.		
	Advocacy	We will not act as advocates for the Authority in any aspect of this work. We report our findings directly to DfE.		

Independence and objectivity requirements (cont.)

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Corporate Governance Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG

kpmg.com/uk

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

CREATE: CRT086281A

CORPORATE GOVERNANCE COMMITTEE: 29 JANUARY 2018

REPORT OF DIRECTOR OF CORPORATE RESOURCES

INFORMATION COMMISSIONER'S OFFICE AUDIT AND GENERAL DATA PROTECTION REGULATIONS UPDATE

Purpose of report

1. The purpose of this report is to provide an update on the Information Commissioner's Office (ICO) audit of Leicestershire County Council and the Council's preparations for implementing the General Data Protection Regulations (GDPR).

Background

2. In December 2016 the Council agreed to a voluntary Data Protection Audit by the (ICO). The audit was held in September 2017. The outcome was 'Reasonable Assurance', the second highest that can be achieved. The accompanying presentation provides an update on the outcome of that audit.

3. The Council is also preparing for changes in Data Protection legislation. The accompanying presentation also outlines the work completed to date, together with information on the priority areas.

Resource Implications

4. The main resource implication is officer time, but any further resourcing considerations are being considered by the GDPR project.

Conclusions

5. That the Council has performed well in the ICO audit, and has good project governance in place meaning that preparations for the new regulations are progressing well.

Appendices

Appendix A - ICO Audit – Executive Summary report
Appendix B - Corporate Governance Committee – ICO Audit and GDPR Update slides

Officer to Contact

Gordon McFarlane, Assistant Director - Corporate Services
Telephone: 0116 305 6123

Email: Gordon.mcfarlane@leics.gov.uk

Thomas Barker, Data Protection Officer
Telephone: 0116 305 7321
Email: thomas.barker@leics.gov.uk

Equality and Human Rights Implications

6. At this point in GDPR preparation, there are no specific equality and human rights implications, but fundamentally the legislative changes increase the rights of individuals.

APPENDIX A

Leicestershire County Council

Data protection audit report

Executive summary
November 2017

Information Commissioner's Office

1. Background

The Information Commissioner is responsible for enforcing and promoting compliance with the Data Protection Act 1998 (the DPA). Section 51(7) of the DPA contains a provision giving the Information Commissioner power to assess any organisation's processing of personal data for the following of 'good practice', with the agreement of the data controller. This is done through a consensual audit.

The Information Commissioner's Office (ICO) sees auditing as a constructive process with real benefits for data controllers and so aims to establish a participative approach.

Leicestershire County Council (LCC) agreed during December 2016 to a consensual audit by the ICO of their processing of personal data.

An introductory meeting was held on 12 July 2017 with representatives of LCC to identify and discuss the scope of the audit and after that on 2 August 2017 to agree the schedule of interviews.

The audit field work was undertaken at County Hall during 12-13 September 2017.

2. Scope of the audit

Following pre-audit discussions with LCC, it was agreed that the audit would focus on the following areas:

a. Data protection governance – The extent to which data protection responsibility, policies and procedures, performance measurement controls, and reporting mechanisms to monitor DPA compliance are in place and in operation throughout the organisation.

b. Training and awareness – The provision and monitoring of staff data protection training and the awareness of data protection requirements relating to their roles and responsibilities.

c. Subject access requests - The procedures in operation for recognising and responding to individuals’ requests for access to their personal data.

3. Audit Approach

The audit was conducted following the Information Commissioner's data protection audit methodology. The key elements of this are a desk-based review of selected policies and procedures, onsite visits including interviews with selected staff, and an inspection of selected records.

The purpose of the audit was to provide the Information Commissioner and LCC with an independent assurance of the extent to which LCC, within the scope of this agreed audit, is complying with the DPA.

Where weaknesses were identified recommendations have been made, primarily around enhancing existing processes to facilitate compliance with the DPA.

In order to assist data controllers in implementing the recommendations each have been assigned a priority rating based upon the risks that they are intended to address. These ratings are assigned based on the following risk matrix:

Impact	Severe	High	High	Urgent	Urgent
	High	Medium	Medium	High	Urgent
	Medium	Low	Medium	Medium	High
	Low	Low	Low	Medium	High
		Remote	Unlikely	Likely	Very Likely
		Likelihood			

It is important to note that the above ratings are assigned based upon the ICO's assessment of the risks involved. LCC's priorities and risk appetite may vary and, therefore, they should undertake their own assessments of the risks identified.

4. Audit opinion

The purpose of the audit is to provide the Information Commissioner and LCC with an independent assurance of the extent to which LCC, within the scope of this agreed audit, is complying with the DPA.

Overall Conclusion	
Reasonable assurance	There is a reasonable level of assurance that processes and procedures are in place and delivering data protection compliance. The audit has identified some scope for improvement in existing arrangements to reduce the risk of non-compliance with the DPA. We have made one limited assurance assessment, in respect of data protection governance, and two reasonable assurance assessments, in respect of training and awareness and subject access requests, where controls could be enhanced to address the issues which are summarised below.

5. Summary of Recommendations

Urgent Priority Recommendations – These recommendations are intended to address risks which represent clear and immediate risks to the data controller's ability to comply with the requirements of the DPA.	We have made **8** urgent priority recommendations across all 3 scope areas: **6** in data protection governance; **0** in training and awareness; and **2** in subject access requests where controls could be enhanced to address the issues identified.
High Priority Recommendations - These recommendations address risks which should be tackled at the earliest opportunity to mitigate the chances of a breach of the DPA.	We have made **39** high priority recommendations across all 3 scope areas: **15** in data protection governance; **11** in training and awareness; and **13** in subject access requests where controls could be enhanced to address the issues identified.
Medium Priority Recommendations - These recommendations address risks which can be tackled over a longer timeframe or where mitigating controls are already in place, but which could be enhanced.	We have made **38** medium priority recommendations across all 3 scope areas: **13** in data protection governance; **11** in training and awareness; and **14** in subject access requests where controls could be enhanced to address the issues identified.
Low Priority Recommendations - These recommendations represent enhancements to existing good practice or where we are recommending that the data controller sees existing plans through to completion.	We have made **12** low priority recommendations across all 3 scope areas: **10** in data protection governance; **2** in training and awareness; and **0** in subject access requests where controls could be enhanced to address the issues identified.

6. Summary of audit findings

Areas of good practice

LCC have, since 2011, undertaken Information Security Risk Assessments at the outset of new or significant changes to data handling processes to identify and address information risks.

Employees must report all actual and suspected information security incidents to the Policy & Assurance Team (PAT).

Employees and agency workers must complete the Data Protection & Information Security training upon induction.

The PAT developed the content of the Data Protection & Information Security training and consulted ICO guidance when doing so.

LCC retain copies of subject access responses which may help to improve complaint handling.

LCC mark all subject access responses as 'data subject copy' which may help identify the source of any further disclosure of the information, should the need arise.

7.2 Areas for improvement

LCC have not established Key Performance Indicators (KPIs) to assist them in gauging and driving data protection compliance.

Only 63% of staff have completed the Data Protection & Information Security training.

LCC do not necessarily log subject access requests received outside of the central subject access team.

The matters arising in this report are only those that came to our attention during the course of the audit and are not necessarily a comprehensive statement of all the areas requiring improvement.

The responsibility for ensuring that there are adequate risk management, governance and internal control arrangements in place rest with the management of Leicestershire County Council.

We take all reasonable care to ensure that our audit report is fair and accurate but cannot accept any liability to any person or organisation, including any third party, for any loss or damage suffered or costs incurred by it arising out of, or in connection with, the use of this report, however such loss or damage is caused. We cannot accept liability for loss occasioned to any person or organisation, including any third party, acting or refraining from acting as a result of any information contained in this report.

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APPENDIX B

Corporate Governance Committee
29 January 2018
ICO Audit and GDPR Update

Gordon McFarlane – Assistant Director, Corporate Services

Thomas Barker – Data Protection Officer

Corporate risk #3.2

- *'If the Council fails to meet information security and governance requirements then there may be breach of statutory obligations'*
- Possible consequences: -
  - Diminished public trust in ability of LCC to provide services
  - Don't comply with Public Service Network (PSN) Code of Connection standard. LCC could be disconnected from PSN services. Possible impact on delivery of vital services
  - Lose confidential information. Compromise people's safety
  - Damage to LCC reputation
  - Financial penalties
  - Potential disruption to services

ICO audit

- In December 2016 the Council agreed to a voluntary Data Protection Audit by the Information Commissioner (ICO). The audit was held in September 2017

- The ICO audited the Council on 3 different topics:
  - Data Protection governance
  - Training and awareness
  - Subject Access Requests

- The Council submitted over 250 documents, over 500 staff completed an online survey and over 30 staff were interviewed by the auditors.

ICO audit outcome

- The Council has received the rating of 'Reasonable Assurance' - the second highest an authority can receive - a better result than expected and a positive endorsement for the preparation and ongoing work.
- The audit has still resulted in 97 recommendations for the Council to follow up on.
- All recommendations have been accepted and an action plan has been agreed with the Commissioner.

ICO audit actions

- We will need to provide written feedback on how the actions are progressing after 6 months.
- The Commissioner will not return for another visit unless they have reason to believe that we are not implementing the action plan.
- We are on target to implement all actions by May 2018.
- The most pressing relate to the creation of an Information Asset Register and the completion of mandatory training.

General Data Protection Regulations

- GDPR – New data protection regulations comes into force across the EU from 25th May 2018. BREXIT will not affect having to comply.

- Main Changes:
  - Enhanced rights for individuals - even more important to tell service users what we intend to do with their information
  - Single Data Protection law across Europe and for European Citizens
  - Greater / more prescriptive obligations on those who process personal data
  - New principle around being able to demonstrate compliance with principles. This is known as the accountability principle. Will lead to significant increase in the need to evidence and record what we do.
  - Serious consequences, including increased fines for non-compliance

- A formal structured programme of work is underway to ensure that we move towards compliance.

GDPR Project

- The Council is taking significant steps in its preparations for the new GDPR. A project is underway and a project plan is in place.

- This plan is broken down into 2 main areas.

  – Policy, procedure and process. This involves the engagement of numerous areas across the Council, such as Procurement, ESPO and Data & Business Intelligence. The Council will have GDPR compliant policies, procedures and processes by 25th May 2018.

  – The main activity impacting on the wider business is the creation of an Information Asset Register. Departments have completed questionnaires aimed at identifying what data they have, and what they do with it. Questionnaires for approximately 1300 datasets were sent and over 95% have been returned to date. This is an excellent start, and work is ongoing to complete the exercise.

GDPR and ICO audit governance

- An Information Governance Project Board has been set up to govern both the GDPR project plan and the ICO Audit Action Plan
- The board is chaired by the Director of Corporate Resources.
- There is also senior representation across all service areas and the board includes Caldicott Guardians
- The board meets monthly

Questions?

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE

29 JANUARY 2018

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:

   - The Corporate Risk Register (CRR) – an update on risks;
   - Emerging risk - Wider public sector financial sustainability challenges;
   - Insurance claims audits;
   - The review and revision of the Risk Management Policy and Strategy.

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 which are ‘owned’ by Directors and Assistant Directors.

3. The CRR is designed to capture strategic risk that applies either 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 and responsibilities for managing them.

4. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added 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.

5. The Accounts and Audit Regulations 2015 include a phased timetable for faster closure and publication of local authorities’ audited accounts. From 2017-18 onwards the Regulations bring forward the reporting timetable for published accounts to 31 July 2018. This means that the County Council will have to produce a draft set of financial statements earlier (by 2 months).

To action the earlier closedown requirements, the timings of committee dates from January 2018 have been revised.

6. In view of the short timescale between reporting the updated CRR to this Committee on 17 November 2017, the normal detailed review of Departmental Risk Registers was not undertaken this time around. This report concentrates on movements and updates to CRR risks. The detailed register (normally submitted as an appendix) is not provided on this occasion.

7. Movements since the CRR was last presented to the Committee on 17 November 2017 are detailed below:

   Risk Removed:

   The details of the risk removed is summarised below:

   - Risk 5.1 (C&FS) - Safeguarding

     Note that whilst the 'Historical' risk and score is to be retained unchanged in the CRR, the IICSA[1] Strategy and Governance Group proposed (6 December 2017) that the 'Current' risk (*If as a result of a concerted effort by the IICSA and Police Operations there is a significant increase in identified cases, then the Council does not have the capacity to meet the demand on the CSE resources)* should be removed from the CRR, but nevertheless retained (and reworded) in the C&FS Departmental Risk Register.

     This suggestion is based on the limited connection between historical allegations and the current CSE service which is now established within the departmental budget in terms of costs and funding.

     [1] The Independent Inquiry into Child Sexual Abuse.

8. At its meeting on 17 November 2017, it was agreed that as part of the Corporate Governance Committee meeting on 29 January 2018, there would be a presentation on risk 3.2 i.e.: -

   'If the Council fails to meet information security and governance requirements then there may be breach of statutory obligations'.

   A report and presentation slides covering the outcome of the Information Commissioner's Office (ICO) audit of the County Council and the preparedness for implementing new General Data Protection Regulations (2018), will be covered under agenda item 7.

9. The most up-to-date position of the risks on the CRR is shown in the table below. The risks are numbered within each category.

10. The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that:

   a. A horizontal arrow shows that not much movement is expected in the risk;
   b. A downward pointing arrow shows that there is an expectation that the risk will be mitigated towards ‘medium’ and would likely be removed from the register;
   c. An upwards pointing arrow would be less likely, but is possible, 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 Based on risks discussed at department’s management teams during December 2017	Direction of Travel (Residual Risk Score over the next 12 months)
1. Medium Term Financial Strategy (MTFS)					
All	1.1	Risk around the MTFS including the ability to deliver savings through service redesign and Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures.	25	<u>MTFS</u> The MTFS has been approved by Cabinet for consultation. It contains £36m of savings and a gap of £18m. It will inevitably be a challenging period for the Council.	Expected to remain high/red
CE	1.3	If S106 monies for the Council as a whole are not managed properly then there could be financial risks as well as legal challenges.	16	The Planning Obligations Policy review is programmed to be adopted by the County Council in the summer 2018.	Expected to move to medium/ amber
CR	1.4	If claims relating to uninsured risks materialise or continue to increase then LCC will need to find increased payments from reserves, impacting on funds available to support services	16	Following the October 2017 Supreme Court decision that a local authority can be held vicariously liable for the wrongful actions of foster carers to a child in foster care (which could lead to a lot of new claims), it is considered prudent that Council staff and management which makes placement decisions are fully briefed on the implications for the potential for further liabilities. Arrangements are being made for Insurance and Legal Services to jointly arrange and lead on a short ‘seminar’ in the new year to take stock of: -	Expected to remain high/red

				• what staff and management already know about the outcome; • the impact for Council in terms of past and current cases that might arise; • what C&FS plan to do to improve controls/monitoring.	
C&FS	1.5	<u>Social Care</u>: If the number of high cost social care placements (e.g. external fostering, residential and 16+ supported accommodation) increases (especially in relation to behavioural and CSE issues) then there may be significant pressures on the children's social care placement budget, which funds the care of vulnerable children.	25	Note : No change to previously reported position	⇔ Expected to remain high/red
C&FS	1.6	<u>Education:</u> If the provision of support to high needs pupils (including SEN placements) cannot be reduced, then required savings against this budget will not be achieved	20	The High Needs Project Board has a clear strategy for reducing spend. Activities already undertaken have had a positive impact on reducing the budget deficit.	⇔ Expected to remain high/red
2. Health & Social Care Integration					
All	2.2	NHS LLR Sustainability and Transformation Plan (STP) does not lead to the improved outcomes for health and wellbeing of residents, better care and quality of services, and financial sustainability.	16	Note : No change to previously reported position	⇧ Expected to increase

		Sub risk: Impact on County Council as a result of the shift from acute care to community care		See above	Expected to increase
All	2.3	Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.	16	Note : No change to previously reported position	Expected to remain high/red
CR & A&C	2.4	<u>Help to Live at Home (HTLAH)</u> If the domiciliary care market does not have the capacity to provide high quality services to local residents within the county, then people may not receive services to meet their needs	16	New providers appointed following the 3rd round of procurement have commenced.	Expected to move to medium/ amber
CE	2.5	If Health and Care partners fail to deliver the local integration programme in accordance with national Better Care Fund (BCF) policy, within the financial envelope of the BCF pooled budget and by meeting national metrics, then elements of BCF funds could be withheld.	16 (New)	It is highly unlikely the Delayed Transfer of Care (DTOC) target (a reduction by 3.5%) was achieved by November (validated national figures will be reported in January 2018). Councils were warned there may be consequences for local health and care systems not achieving their joint DTOC target, which could result in financial penalties within the BCF and/or IBCF[1] funding allocations and/or CQC reviews. If BCF funding is placed at risk, this will impact the ability to deliver the Plan and is reflected in a revised BCF risk rating. However, a letter from the Secretaries of State for Department of Health and DCLG was received on 6 December to confirm that due to the improving DTOC performance locally that there will be no impact on the additional IBCF allocation in 2018/19. [1] Improved Better Care Fund - paid as a direct grant to local government, with a condition that it is pooled into the local BCF plan	Expected to move to medium/ amber

3. ICT, Information Security					
CR	3.2	If the Council fails to meet the information security and governance requirements then there may be breach of the statutory obligations	16	The remaining 10% of the work improving perimeter security (covering the lowest risk services) has been delayed until January 2018. The target for staff completing training on Information Security and Data Protection is 90%. Whilst this has improved slightly to 68%, issues with data quality are currently being addressed to provide more accurate information on level of compliance. The findings from the Information Commissioner's Office (ICO) Audit in September 2017 have now been received. An action plan to address the issues identified by the audit has been agreed with the ICO all actions are scheduled to be completed by the end of May 2018. This work will support progress towards meeting the New European Union General Data Protection Regulations which come into force in 2018. An Information Governance Project Board has been set up to govern both the GDPR project plan and the ICO Audit Action Plan	Expected to increase
All	3.3	If there is a failure to provide business intelligence required to support transformation, inform commissioning, and strategic planning and to complete statutory returns then policy will not be evidence based.	15	The Mosaic* upgrade has now taken place and new suite of reports is available. A new reporting Board has been set up to monitor progress on meeting new reporting requirements and data quality issues. * IT system where children's social care data is stored and the system to generate performance reports and various statutory returns	Expected to move to medium/ amber
All	3.5	If the Council fails to maintain robust records management processes to	15	Note : No change to previously reported position	Expected to remain high/red

		effectively manage information under its custodianship, personal data may not be processed in compliance with the Data Protection Act 1998 resulting in regulatory action and/or reputational damage.			
4. Commissioning & Procurement					
CR	4.1	If the Authority does not obtain the required value and level of performance from its providers and suppliers then the cost of services will increase and service delivery will be impacted.	15	Different types of contracts have been defined and identified. Work is progressing on developing performance dashboards to report on KPI for high risk, high value business critical contracts.	Expected to move to medium/ amber
5. Safeguarding					
C&FS	5.1	<u>Historical</u>: If as a result of a concerted effort to explore abuse by the Independent Inquiry into Child Sexual Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified.	25	The IICSA recently stated that the Janner Investigation Public Hearing will not take place before Spring 2019. However the Council continues to respond to information requests received from the IICSA and remains in close contact with the IICSA team.	Expected to remain high/red
6. Brexit					
All	6.1	Uncertainty and significant knock on consequences on public services (including	16	Note : No change to previously reported position	

		potential legal, regulatory, economic and social implications), and the local economy as a result of the United Kingdom leaving the European Union			Expected to remain high/red
7. People					
CR (ALL)	7.1	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be impacted	16	There has been positive feedback so far on the Intensive Project Support initiative which commenced on 1 August 2017. This initiative aims to provide targeted support to Managers in specific areas to improve skills, knowledge and confidence in addressing attendance management issues and reduce absence. CMT agreed to extend the project for up to 2 years. CMT agreed to pause consultation on the Increments Policy to allow further time for the Attendance Management Intensive Support Project to take effect. A date to recommence consultation on the policy will be agreed with the trade unions. CMT agreed to not continue the First Care pilot past 31/03/18, but acknowledged that the information management system provided by First Care had been positively received. CMT will receive a further report on the proposed exit strategy from First Care, which will provide assurance that a similar form of information management will continue to be available.	Expected to move to medium/ amber
C&FS	7.2	If C&FS is unable to recruit and retain skilled staff promptly (social workers and team managers) then some services will be over -	25	Note : No change to previously reported position	Expected to remain high/red

		reliant on the use of agency staff resulting in budget overspends and poor service delivery			
8. Business Continuity					
CE	8.1	If suppliers of critical services (e.g. HTLAH) do not have robust business continuity (BC) plans in place then the Council maybe unable to deliver services.	20	Note: No change to previously reported position	Expected to remain high/red
9. Health & Safety					
E&T	9.1	If the Service is unable to recruit appropriate skills / resources to implement Audit recommendations then service users' safety is at risk as well as financial and reputation consequences.	15	Transport risk assessments are due to be completed by end of January 2018 which will reduce the likelihood	Expected to move to green
10. Highways Network – Winter Maintenance					
E&T	10.1	The absence of a depot in the North East of the County may impact on the delivery and the cost of the Winter Maintenance programme for 2019/20	16	Note : No change to previously reported position	Expected to move to green
11. Environment					
E&T	11.1	If the Authority fails to respond and manage Ash dieback (Chalara) at a local level, then it could be exposed to financial,	15	Note : No change to previously reported position	Expected to move to medium/ amber

		reputational, and environmental consequences			

Emerging Risk: Wider public sector financial sustainability challenges

11. If partners in other parts of the public sector have financial sustainability challenges, this could impact on both the County Council's own financial position and service provision. The Council is linked to the wider public sector in a number of ways. These include trading arrangements, joint provision of services and interdependencies in terms of the supply chain. Partners include health service organisations, schools, police, fire and other councils. All parts of the public sector are facing financial challenges with consequences for the County Council. The initial focus of further work will be on maintained schools.

Insurance claims audits

12. The County Council holds delegated authority from its insurers to handle claims 'in house' up to certain values. This increases the Council's prospects for defending against claims and incurs less cost. To retain the delegated authority, the Council's Insurance Service has to prove itself in rigorous inspection by the insurers' own auditors.

13. Two recent claims audits resulted in very high scores for the Insurance Service. One audit scored 96.2% with a comment that '… claims handling remains at high standard', and the other scored 97.9% with a comment of 'Exemplary'. Minor recommendations are being formed into an action plan.

    As a result of the good work that the County Council is doing managing its risk and claims, the insurer's underwriters increased the level of 'In House Handling Authority', which does not happen very often.

Risk Management Policy and Strategy

14. The Council's Risk Management Policy and Strategy has been reviewed and revised and will be submitted as an appendix to the report on the Medium Term Financial Strategy to the Cabinet on 9 February and full Council on 21 February.

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

Recommendation

a) That the Committee:

a) Approves the current status of the strategic risks facing the County Council;

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

c) Notes the updates regarding :

(i) The emerging risk.

(ii) The good performance in recent insurance claims audits and the increase in claims handling authority.

(iii) The revised Risk Management Policy Statement and Strategy.

Resources Implications

None.

Equality and Human Rights Implications

None.

Circulation under the Local Issues Alert Procedure

None

Background Papers

Report of the Director of Corporate Resources – 'Risk Management Update' – Corporate Governance Committee, 20 February, 12 June, 25 September and 17 November 2015, 19 February 2016, 13 May 2016, 23 September 2016, 25 November 2016, and 17 February, 26 May, 22 September and 17 November 2017.

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Appendix

Leicestershire County Council - Risk Management Policy Statement and Strategy (2018)

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Risk Management

Policy Statement and Strategy

Owner/Lead Officer:	Head of Assurance Services, Corporate Resources Department
Created:	11 January 2018 (v7.0)
Review Arrangements:	Annually
Next Review Date:	December 2018
Ratified by:	CMT (Annually)

Contents

Risk Management Policy Statement

1. Local government's purpose and relationships with its local stakeholders and partners, the UK Government and Europe, continue to be redefined. Continued austerity, future economic uncertainty, escalating costs of social care and pension liabilities, increased expectations alongside concerns about councils having the capacity and capability to respond, are creating a lasting change.

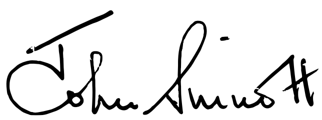
2. Local Authorities have no alternative but to understand and manage risk. Those Authorities which stimulate effective and efficient risk management and strive to create an environment of 'no surprises' should be in a stronger position to deliver objectives, sustain services, achieve better value for money, and promote good corporate governance both within the organisation itself and in tandem with stakeholders and partners. Successful risk management should balance a level of control to provide sufficient protection from harm, without stifling development and recognising and grasping opportunity, where calculated risk is accepted and even applauded. New layers of complexity and risk arise, but they open up new opportunities for innovation, collaboration, transformation, community engagement, and new approaches to service delivery. These include prevention and integration strategies, collaborating with communities and other partners, embracing digital technology, and investment in infrastructure to remain sustainable. Authorities are venturing more into commercial property and other income generating activities for the future prosperity of communities. Effective risk management is essential to assist decisions on whether the benefits of taking actions outweigh the risks.

3. Leicestershire County Council (the Council) remains one of the best performing councils in the country despite its very low funding position. The Council recently approved a revised Strategic Plan 2018-2022 (the Plan) which outlines the long-term vision for the organisation and the people and place of Leicestershire. The Plan is underpinned by other key policies and strategies including the Council's Medium Term Financial Strategy and Transformation Programme. The Plan recognises that the future remains uncertain, but brings with it challenges and exciting opportunities for all. The outcomes are aspirational and seek to outline the end results wanted for the people of Leicestershire.

4. Whilst ensuring that the most vulnerable are protected, in order to continue its own fundamental transformation, the Council will embrace an attitude to risk allowing a culture of creativity and innovation, in which in all areas of the business, risks are identified, understood and proactively managed, rather than avoided. Risk management is at the heart of the Council and its key partners. The Council will not shy away from risk but instead seek to proactively manage it. This will allow it to not only meet the needs of the community today, but also be prepared for future challenges.

5. This Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of its risk. In implementing the framework, the Council provides assurance to its stakeholders, partners and customers that a consistent identification, assessment, evaluation and management of risks and opportunities of those current, developing and as yet unplanned Council activities, plays a key role in the delivery and achievement of the vision contained in its Plan and all of its other plans, strategies and programmes.

6. This Policy has the full support of Members and Chief Officers, who are committed to embedding risk management throughout the Council and is reliant upon the co-operation and commitment of all management and employees to ensure that resources are utilised effectively.



John Sinnott, Chief Executive
11 January 2018

Leicestershire County Council Risk Management Strategy

1.0 Defining Risk and Risk Management

Under ISO31000 'Risk management – Principles and guidelines'

Risk is defined as:

'The effect of uncertainty on objectives, where effect is any deviation from the expected – positive or negative'

Risk Management is defined as:

Coordinated activities to direct and control an organisation with regards to risk

The Council has adopted the following definitions of risk and risk management:

Risk is "an uncertain event (or a set of events) that should it (they) occur, will have a (positive or negative) effect on the achievement of the Council's objectives and/or reputation.

A risk is measured in terms of a combination of the likelihood of a perceived threat or an opportunity occurring and the magnitude of its impact on objectives.

Risk management is the "systematic application of principles, approach and processes to the identification, assessment and monitoring of risks." By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money.

This Risk Management Strategy outlines how Leicestershire County Council (the Council) will use risk management to successfully deliver corporate, departmental and service, objectives and priorities.

2.0 Why undertake risk management?

Statutory requirements

Part 2 of the Accounts and Audit Regulations 2015 (Internal Control) places explicit requirements on the Council around risk, that is: -

- Paragraph 3 (c) - the Council must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk;
- Paragraph 4.4 (a - iii) – the Chief Financial Officer must determine, on behalf of the Council financial control systems which must include measures to ensure that risk is appropriately managed;
- Paragraph 5 (1) the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management processes.

Constitutional requirements

The Council's Corporate Governance Committee has delegated functions[1] regarding risk management namely: -

- the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Local Code of Corporate Governance[2] and in particular to ensure that an adequate risk management framework and associated control environment is in place;
- to monitor the arrangements for the identification, monitoring and management of strategic and operational risk within the Council.

[1] These align to the oversight of risk management arrangements as being a core function of a local government Audit Committee as referred to in CIPFA's Guidance on Audit Committees 2013. Revised guidance is due in early 2018 and this will lead to a review of the Corporate Governance Committee's functions regarding risk management.

[2] The Council's Local Code of Corporate Governance (2017) complies with the 'Delivering Good Governance in Local Government; Framework' (2016), specifically Principle F which advises that good governance is promoted when there is management of risks and performance through robust internal control and strong public financial management.

3.0 Benefits of risk management

Risk management is a tool that forms part of the governance system of the organisation. When applied appropriately it can bring multiple benefits as demonstrated in the table below: -

Improved efficiency of operations	Better delivery of intended outcomes	Maximises Opportunities
Protected reputation of the Council	Supports the achievement of the Council's objectives	Reduced losses arising from workplace accidents and illnesses
Better mitigation of key risks	Demonstrates good governance	Enhanced political and community support
Protection of budgets from unexpected financial losses or increased ability to secure funding, fraud and corruption	Increased effectiveness of business change programmes and projects	Protection of Council Assets
Fewer unwelcome surprises	Improved management information to inform decision making	Improved planning

4.0 Risk Management Strategy Objectives

The objectives of the Council's Risk Management Strategy are to:

- Integrate risk management fully into the culture of the Council and into its corporate and service planning processes;
- Improve the framework for identifying, assessing, controlling, reviewing and reporting and communicating risks across the Council;
- Improve the communication of the Council's approach to risk management;
- Improve the coordination of risk management activity across the Council;
- Ensure that the Corporate Management Team (CMT), Corporate Governance Committee and external stakeholders can obtain necessary assurance that the Council is mitigating the risks of not achieving key priorities and thus complying with corporate governance practice;
- Manage risk in accordance with best practice and ensure compliance with statutory requirements;
- Maintain clear roles, responsibility and reporting lines for risk management within the Council;
- Measure and partake in regular comparison and benchmarking activity.

5.0 Risk Appetite and Risk Tolerance

The Council recognises that only by taking risks can it achieve its aims and deliver beneficial outcomes to its stakeholders.

The Institute of Risk Management (IRM) defines risk appetite as "the amount of risk an organisation is willing to seek or accept in the pursuit of its long term objectives" and is about looking at both the propensity to take risk; and the propensity to exercise control. Risk tolerance is defined as the boundaries of risk taking outside of which the organisation is not prepared to venture in the pursuit of its long term objectives.

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

- More effectively prioritise risks for mitigation
- Better allocate resources
- Demonstrate consistent and more robust decision making
- Clarify the thresholds above which risks need to be escalated in order that they are brought to the attention of senior management and/or Members.

Corporate Management Team has collectively agreed that the Council exists in a high risk environment and that this is likely to continue. In reality this will mean continuing to develop an understanding of acceptable risk levels (high, medium or low), depending on their impact and likelihood. Defining levels allows risks to be prioritised and appropriate actions assigned so that the management of identified risks will be proportionate to the decision being made, or the size of the impact on service delivery.

The Council will take risks in a controlled manner, reducing exposure to a level deemed acceptable. In order to take advantage of opportunities, the Council will support innovation and the imaginative use of resources. However, the Council will seek to control all highly probable risks which have the potential to:

- Cause significant harm to service users, staff and the public;
- Severely compromise the Council's reputation;

• Significantly impact on finances;

• Jeopardise the Council's ability to undertake it's core purpose;

• Threaten the Council's compliance with law and regulation

• Create opportunity for fraud and corruption

Taking the above into consideration, the Council's current **overall** risk appetite is defined as **'Open'**. This means that the Council is prepared to consider all delivery options and select those with the highest probability of productive outcomes even where there are elevated levels of associated risk. However, the Council's risk appetite is determined by individual circumstances. There will be areas where greater risk will be taken in supporting innovation in service delivery. These occasions will be offset by times when it maintains a lower than cautious appetite for example, in matters of compliance with law and public confidence in the Council. Risk appetite can therefore be varied for specific risks, provided this is approved by appropriate officers and/or Members.

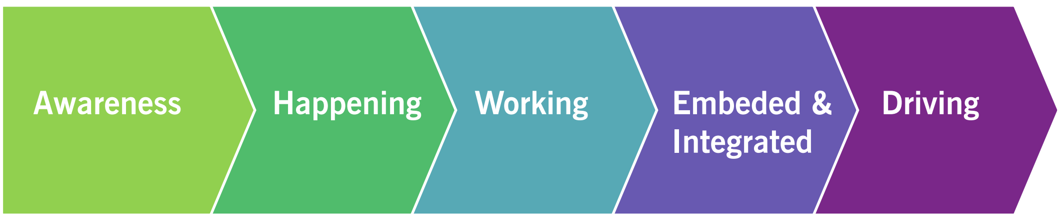
The Council will review risk appetite and tolerance annually to ensure risks are being managed adequately. Please refer to Annexes 1 (page 17) and 2 for further details.

6.0 Risk Management Maturity

All organisations are on a risk management journey with differing levels of risk management maturity. Risk management maturity refers to how well established risk management is as a discipline across the organisation.

We continue to review our current risk management capability to help us direct our resources in the areas that need improvement and further development, ensuring the risk management arrangements remain fit for purpose in this changing environment.

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



A detailed maturity review[1] was last undertaken and reported in January 2015. This scored the Council's level of risk maturity as between levels 3 ("Working") and 4 ("Embedded and Working"). A number of recommendations were made to further develop risk management processes and an action plan was produced to address the recommendations.

During 2016 and 2017, significant progress was made to implement the recommendations. Nevertheless, the maturity level remained at Level 3/4 – Between Working and Embedded & Working and further development is necessary in some of the core areas. See Action Plan in Annex 4.

The Council also networks and shares information with other similar organisations e.g. East Midland Counties Risk Management Group (7 County Councils) which enables the Council to benchmark its position.

Although the Council planned to evaluate its risk maturity against ALARM guidance on a three-yearly frequency (maximum[2]) with the next review planned for December 2017 this will be undertaken in 2018.

1. Undertaken using the ALARM Performance Model by a Senior Internal Auditor not routinely involved in the Council's risk management framework, reporting to the Finance Manager within Strategic Finance to directly avoid any conflict of interests.

2. CMT will have the opportunity at each annual policy review to determine if, because of future events, the tri-annual risk maturity assessment should be more frequent.

7.0 The Risk Management Approach and Process

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

Explanations of the stages within the risk management process: -

Identify risk	Clarify Objective(s) and Priorities from the Council's Departmental Service Planning process and identify risks (or opportunities) which might prevent, delay (or alternatively escalate) achievement of the Council's objectives and determine what are the consequences if this occurs
Assess risk	Assess the inherent risk (Impact & Likelihood) using the Council's risk assessment criteria prior to the application of any existing/known controls i.e. evaluate the "Original risk score"
	Decide and agree the course of action – treat, tolerate, transfer, terminate or take the opportunity
Manage risk	Identification and assessment of the controls/actions already in place to mitigate each risk to arrive at the "Current Risk score". If Current Risk score is still high even with controls: • Is the score correct? • Determine the best way to manage the risks e.g. terminate, treat, transfer, tolerate or take the opportunity • Determine whether the cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. • Development of further SMART actions and assign target dates and responsible officers to achieve the desired "Target Risk score".
Monitor, Review and Report	Use the Risk Management Matrix and Risk Tolerance levels to determine the frequency of review, monitoring, risk escaluation and reporting.

Annex 2 provides details of the risk measurement criteria, risk map, risk escalation and reporting arrangements.

8.0 Application - Service, Department, Corporate & Specialist Risks

It is essential that risk management is used as a tool to assist good management and to provide assurances to relevant stakeholders that adequate measures have been taken to manage risks. To support this, risk management has been integrated into the planning process. By using the risk methodology, key risks facing the Council or a particular service area will be identified and managed. The escalation of risks ensures that Senior Management has a clearer picture on risks facing service areas. This helps in overall decision making processes by allowing the allocation of resources or review of areas of concern.

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

Service and Department Risks:

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

- Risks to achieving objectives identified and assessed by managers at service/division area level; this should also include business as usual risks;
- Assessment will identify the risks to be managed within the service/division area and those that may need to be escalated to the next level i.e. Department Risk Register;
- Development of the Department Risk Register including:
  - Department specific risks linked to objectives and priorities
  - Business as usual risks (key system/activities)
  - Risks that may have been escalated up from service areas
  - Relevant risks from programmes, projects and partnerships
  - Risks from specialist areas e.g. Health & Safety, Insurance and Business Continuity
  - Any department horizon scanning of emerging risks
- In line with the framework, (risk matrix and risk tolerance levels), key risks should be escalated and reported to Departmental Management Team (DMT) regularly, setting clear accountability for managing risks and undertaking further actions/additional controls within the defined timescales;
- Review of department registers to identify continuing 'high scoring' risks for escalation to the Corporate Risk Register (CRR) either individually or consolidated with other risks;
- This exercise will provide senior managers with a central record of departmental risks, with a clear audit trail of where the risk originates from and also provide assurance that risks are being managed.

Corporate (and high ranking Departmental) risks - Corporate Risk Register

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

- Each quarter, Departmental Risk Champions and management teams will review Department Registers to identify and consider risks for escalation to the CRR, either individually or consolidated from Departmental Risk Registers;
- Internal Audit Service will confirm that the quarterly reviews have been consistently undertaken, and co-ordinate the production and reporting of the CRR, through to Corporate Management Team (CMT) and Corporate Governance Committee.
- Whilst most risks are expected to come through this route it might not capture all of the strategic risks facing the Council. Therefore horizon scanning, information from relevant publications and minutes from key meetings will also provide a basis for including additional risks on the CRR.

Refer to page 13 for further details.

Specialist areas of risk

Project, Programme and Partnership Risks

Risks which could impact on achieving the objectives of projects, programmes or partnerships will be managed through the appropriate Project, Programme or Partnership Board and associated governance structures. However, where Project, Programme or Partnership risks impact upon strategic or departmental objectives then consideration should be given as to whether those risks should be identified, assessed and escalated to the appropriate Departmental or CRR. In the case of Projects and Programmes, the decision to escalate to a departmental or corporate level, is ultimately the responsibility of the relevant Senior Responsible Officer (SRO) or Sponsor, supported by the appropriate Project, Programme or Partnership Board.

When a project or programme is closed, the relevant closure report should identify any risks (or issues) that need to transfer to Business As Usual (BAU) ensuring specific and appropriate ownership is identified and clearly articulated. Where appropriate these risks may need to be escalated to the relevant Departmental or CRR.

All projects report regularly to Project Boards on project level risks and issues, with any programme level risks and issues escalated and reported on a regular basis to the Transformation Delivery Board.

Health, Safety & Wellbeing Risks

The Health, Safety & Wellbeing Service provides advice and guidance to managers and staff on all aspects of Health, Safety and Wellbeing.

In addition to providing advice and support, the Health, Safety & Wellbeing Service also help to monitor the performance of the organisation through audits and inspections, set targets for continual improvement, provide operational training and awareness for staff and also respond to accidents / incidents in order to ensure they are adequately investigated and the likelihood of further harm is reduced.

Regular reports are provided to the Departmental Management Teams, Chief Executive and the relevant Scrutiny Board. A separate risk assessment process is in place.

Resilience and Business Continuity

Business Continuity Management (BCM) is complementary to a risk management framework that sets out to understand the risks to the council, and the consequences of those risks.

By focusing on the impact of disruption, BCM identifies the services which the council must deliver, and can identify what is required for the council to continue to meet its obligations. Through BCM, the council can recognise what needs to be done before an incident occurs to protect its people, premises, technology, information, supply chain, stakeholders, reputation and importantly the services that the council delivers to the people of Leicestershire. With that recognition, the Council can then take a realistic view on the responses that are likely to be needed as and when a disruption occurs, so that it can be confident that it will manage any consequences without unacceptable delay in delivering its services.

The Resilience and Business Continuity Team co-ordinates the preparation of business continuity and response plans both at a corporate and departmental level. Such plans aim to minimise the likelihood and/or impact of a business interruption by identifying and prioritising critical functions as well as the resource requirements, roles and responsibility requirements in response to allow appropriate planning to take place.

The Resilience and Business Continuity Team presents an annual report to Corporate Governance Committee.

Insurance

Insurance acts as a risk transfer mechanism which reduces the financial risk to the Council. The Council is largely self-insured but transfers the larger risks to an insurance company by contributing a premium. In the event of a financial loss, the Council is entitled to indemnity, subject to the terms and conditions that are in place.

The function provides a comprehensive and professional insurance service including arranging insurance provisions and other related insurance activities as well as managing new and outstanding claims.

Insurance activity will be regularly reported to Corporate Governance Committee.

Property and Occupants Risk Management

Following the tragic events of both the Grenfell Tower fire and high profile terrorism attacks during 2017, a group was established, initially to review fire safety risk across the Council's owned and procured properties, but has been widened to incorporate the Council's identification and management of terrorism risk. The group contains a wide breadth of representatives from the Council's services and has regular inputs from the Council's insurers, risk management partners and brokers and links to the emergency 'blue light' services.

The Group will report to the Director of Corporate Resources (quarterly), CMT as and when required if a significant matter arises but also annually to note work undertaken, findings and progress and agree the next year's plan of work and annually to Corporate Governance Committee.

Counter Fraud

The Internal Audit Service undertakes a biennial Fraud Risk Assessment (FRA). This process, along with other intelligence received, for example the results of CIPFA's annual Fraud & Corruption Tracker, seeks to acknowledge the risk of fraud throughout the Council and is an integral step towards how countering the risk of fraud is developed and arranged. Scoring (impact and likelihood) is derived through discussions with individual service leads to give them the opportunity to consider whether scores remain reasonable or whether there have been any changes during the previous year that may lead to necessity to amend scores, e.g. national picture, known frauds, additional controls introduced, and increased or decreased metrics/values.

Recognising fraud in this manner ensures there is a comprehensive understanding and knowledge about where potential fraud and bribery /corruption is more likely to occur and the scale of potential losses. This in turn will direct the Council's overall Anti-Fraud and Corruption Strategy and further allow the Council to direct counter-fraud resources accordingly. Consequently, this influences the internal audit annual planning process. Furthermore, it reiterates responsibility to service managers for managing fraud risk in their service areas.

Regular updates are provided to the Corporate Governance Committee on counter fraud and related initiatives.

Information & Technology (I&T) and Data Protection Risks

A safe and secure I&T infrastructure underpin the working of the Council, both technically and in terms of data protection. To support this, I&T Service holds and maintains its own divisional risk register which, where appropriate will feed through to the Departmental and Corporate Registers. Regarding data protection, the Policy and Assurance Team develop, maintain and monitor compliance with a wide range of policies designed to protect information and data

Support

The above process will be supported by the following:

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

9.0 Risk Management Roles and Responsibilities - structure

The following structure is unique to the Council and is influenced by its risk management maturity, resource capacities, skills sets, internal operations and existing operating structures. The Council's risk management framework aligns to existing structures and reporting lines**.**

Full details of risk management roles and responsibilities can be found in Annex 3.

Leadership

- Cabinet
- Lead Members
- CMT

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

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

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

Corporate

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

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

CRMG:
- Provides assurance that the RMF and its processes are effective.
- Helps to deliver a consistent approach

Departmental

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

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

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

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

Risk Champions:
- Ensure consistent application of the RMF within their dept. Provide support and challenge to DMT and Service Mgrs.

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

Assurance Services

Risk Management function*
- Review and challenge risk actions
- Provide assurance that the flow of risk information throughout the Authority is working effectively.
- Collates and co-ordinates, RM updates for reporting to CMT and CGG
- Arranges the review of RM maturity

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

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

* The Head of Assurance Services (HAS) is responsible for the administration and development of, and reporting on, the Council's RMF. For the purposes of the Public Sector Internal Audit Standards (PSIAS), the HAS fulfils the required role of the Council's Head of Internal Audit Service. The PSIAS require that this 'impairment' to independence and objectivity is recorded in the Internal Audit Charter (approved by CGC in November 2016) and (to avoid any conflict of interests) any audits of the RMF are overseen from a manager outside of the Service.

10 Control Environment

This strategy outlines the roles and responsibilities, and governance framework for risk management within Council, demonstrating the arrangements for accountability and responsibility for risk management throughout the organisation. With particular focus on internal control, the Corporate Management Team and the Corporate Governance Committee are the organisation's oversight for risk management, providing check and challenge to the risk management strategy, process and delivery.

Developing, maintaining and reporting conformance with the Council's risk management framework is undertaken by Assurance Services to ensure the principles of good governance are adopted. Auditing of the risk management framework and risks is undertaken by the Council's Internal Audit Service in accordance with their audit plan and recommendations arising are fed back through the Departmental Management Teams to ensure continual improvement.

The Institute of Internal Auditors issued a report titled "the three lines of defence in effective risk management and control". This provides a model for clarifying response at both an operational and strategic level. Overall, it provides scrutiny and challenge to ensure assurance is achieved.

First Line Managers

- Risk Management
- Policies
- Performance Data
- Management Information
- Internal Controls
- Staff appraisal

Second Line Control/ Compliance

- Section 151
- Risk Management
- Health & Safety
- Information Governance
- Business Continuity
- Insurance
- Compliance
- Governance Framework

Third Line Assurance

- Internal Audit
- External Audit

First Line of Defence: Operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies. There should be adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events.

Second Line of Defence: Management establishes various compliance functions to help build and/or monitor the first line-of-defence controls. These functions are established to ensure the first line of defence is properly designed, in place, and operating as intended.

Third Line of Defence: Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls to Management and ultimately Corporate Governance Committee.

11 Continuous Improvement

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

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

Risk Appetite

STAKEHOLDERS

BOARD

RISK APPETITE STATEMENT

What levels and types of risk do our stakeholders expect us to accept (and not acept) in pursuance of our goals?

EITHER

Generic (Corporate) Risk Appetite Staement

OR

Individual Risk Appetite Statements are applied to each Objective

GENERIC (CORPORATE) RISK APPETITE STATEMENT TYPES

AVOID	No appetite. Not prepared to accept any risks.	Examples: Health &Safety, Business Critical systems, Customers, Safeguarding, Data Security,
AVERSE	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognising that these will have little or no potential for reward/return.	
CAUTIOUS	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.	Examples: Delivery partners, Non- critical systems,
MODERATE	Tending always towards exposure to only modest levels of risk in order to achieve acceptable, but possibly unambitious outcomes.	
OPEN	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.	Examples: Leadership; Devolution; Collaboration; Alternative delivery models; Integration; Transformation; Digital; Commercial trading, Property investment, Suppliers; People etc.
HUNGRY	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.	

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	<£50k
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	£50k-£250k Minimal effect on budget/cost
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	£250k - £500k Small increase on budget/cost: Handled within the team/service
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	£500-£750k. Significant increase in budget/ cost. Service budgets exceeded
5	Very High/ Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers	>£750k Large increase on budget/cost. Impact on whole council

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/ recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

IMPACT					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1	2	3	4	5
	Very Rare/ Unlikely	Unlikely	Possible	Probable/ Likely	Almost certain

Likelihood*

*(Likelihood of risk occurring over lifetime of objective (i.e. 12 months).

Risk Tolerance/Reporting Criteria

Tolerance Levels	Original / Current Risk Score	Expected Actions by Risk and Action Owners	
White	1 to 2	Controls	No action required
		Monitoring =	No action required
		Escalation =	No action required
Low	3 to 6	Accept Risk or Maintain Controls	Existing controls may be sufficient. No additional controls are required unless they can be implemented at very low cost (in terms of time, money, and effort). Actions to further reduce these risks are assigned low priority.
		Monitoring =	Review six monthly /Reporting to Service Area
		Escalation =	Service Area manager
Medium	8 to 12	Maintain Controls or Further Controls to reduce rating	Controls required but consider in light of 4 Ts- Consideration should be as to whether the risks can be lowered, where applicable, to a tolerable level, but the costs of additional risk reduction measures should be taken into account (time, money and effort).
		Monitoring =	Continued Proactive Monitoring/Review at quarterly / Reporting to DMT
		Escalation =	Business Partners / Relevant AD / DMT
High	15 to 25	Further Action/ Controls to reduce rating	Controls and further actions necessary. Substantial efforts should be made to reduce the risk. Arrangements should be made to ensure that existing controls are maintained. The risk reduction measures should be implemented within a defined time period.
		Monitoring =	Continued Proactive Quarterly Monitoring / Report to CGC
		Escalation =	Chief Officer / CMT / Lead Member

A Departmental risk with a current risk score of 15 or more **must** be escalated into CMT's domain (either as an addition to the CRR, or as an emerging risk for further debate). Directors should not retain any risks with a current risk score of 15 or more in their Department's register without debate and approval from CMT.

Risk Management Roles & Responsibilities – Detail

Leadership:

Cabinet

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

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

Lead Members

- Responsibility for gaining an understanding of the risks facing their area of accountability (in conjunction with the relevant Director) and how these risks are being managed.

Corporate Management Team (CMT)

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

- Establishing a control environment and culture in which risk can be effectively assessed and managed;
- Directing the level of risk the Council is prepared to accept (appetite and tolerance levels);
- Encouraging the promotion of risk awareness, rather than risk avoidance;
- Reviewing and, approving the Council's corporate and strategic risks on the CRR quarterly and their importance against the Council's vision and priorities;
- Assisting with the identification of significant new and emerging risks as they become known - for consideration and addition to the CRR;
- Following the review and approval of the CRR, CMT to determine whether a potential reputation or consultation matter needs to be forwarded to the Communication Unit;
- Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control) ;
- Ensuring that risk assessments (if appropriate) are detailed in Cabinet or Scrutiny reports upon which decisions are based;
- Reviewing annually the Council's Risk Management Policy and Strategy.

Corporate:

Corporate Governance Committee (CGC)

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

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

Corporate Risk Management Group (via Departmental Risk Champion)

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

- Acting as the main contact for their department and its management on risk matters (including specialist risks (H&S, Insurance etc.);
- Representing their department at the Corporate Risk Management Group;
- Encouraging the promotion of risk awareness, rather than risk avoidance;
- Assisting in the implementation of any revisions to the risk management framework and promoting use of the Risk Management Toolkit;
- Providing support and training on risk management to Directors, Heads of Service and other managers within their service/department;
- Providing support to the other departments' Risk Champions;
- Maintaining on behalf of the service Directors and Heads, a departmental risk register that complies with corporate guidelines;
- Providing regular risk updates to DMT's as per the agreed reporting criteria and risk timetable;
- Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control);
- Ensuring that corporate risk information and requirements are communicated to the Department;
- Assessing the relevance of corporate, other departmental service, programme, project and partnership risks and their impact on their department;
- Reviewing cross cutting risk areas where risks of one department impacts on the risks of another;
- Providing overview and scrutiny to the results of the Fraud Risk Assessment process, in relation to departmental risks;
- Providing regular updates to the Internal Audit Service for corporate risks to enable reporting to the CMT and Corporate Governance Committee;

Departmental:

Departmental Management Teams (DMT)

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

- Appointing a Risk Champion /Representative for the department and authorising him/her to progress effective risk management that adheres to corporate guidelines, across their services;
- Ensuring that risk management is integrated within the annual service planning process;
- Taking full ownership of risks within their departmental risk register and agreeing risk mitigation actions, with defined timescales and responsibilities – including those departmental risks that are also in the CRR;
- Reviewing and challenging risk registers for their Service Areas on a quarterly basis if appropriate;
- Adhering to the corporate risk reporting timetable so that DMT meetings and risk monitoring tasks are aligned;
- Ensuring that the CRR accurately reflects only those key strategic risks facing the Council. The DMT scrutiny process should encompass a review of all departmentally identified corporate risks (new and those already identified), to critically evaluate the following:
  - Whether the risk is an ongoing corporate risk
  - Are all mitigating actions identified, they are SMART (i.e. Current Controls in place) and working adequately or are additional actions necessary.
  - The Current Risk Score (Impact and Likelihood) is accurate and is not 'over-scored' in terms of likelihood particularly if a range of current controls have been identified as embedded and working adequately
  - Only consider any further actions/ additional controls after determining whether any cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. If required, further actions should be SMART and record 'expected timeframe/due date' which should improve the robustness of the Target Risk impact and likelihood scores
- Receiving reports on risk management activity and review key risks regularly;
- Undertaking regular departmental horizon scanning for new or emerging risks, ensuring communication of these through appropriate channels and incorporation within the Departmental Risk Register if appropriate;
- Suggesting recommendations for the removal of current corporate risks that are considered as lower levels of risk;
- Taking ownership of identifying and managing project, partnership and business as usual risks effectively;
- Ensuring that risk management considerations are included in all Cabinet, Scrutiny and Regulatory bodies reports in respect of strategic policy decisions;
- Providing assurance on the effectiveness of risk management within their department as part of the Annual Governance Statement process;
- Following the review and approval of the Departmental Risk Register, DMTs to determine whether a potential reputation or consultation matter needs to be forwarded to Communication Unit.

Service Managers

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

- Ensuring that risk management within their area of responsibility is implemented in line with the Council's Risk Management Strategy (i.e. identify, assess, manage and monitor);
- Managing risks on a day to day basis;
- Adhering to the risk scoring mechanism (original, current and target risk scores) outlined in the Strategy to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Communicating the results of their service risk assessment to the DMT via their Risk Champion, demonstrating effectiveness of controls in place to mitigate/reduce service risks;
- Managing risks from their areas of responsibility that have been included within the departmental risk register. Where further actions/ additional controls are necessary, ensure they are completed by the planned completion date;
- Identifying new and emerging risks or problems with managing known risks and escalating to the Risk Champion where appropriate;
- Assessing fraud risk within their service areas as part of the Fraud Risk Assessment process;
- Ensuring that they and their staff are aware of corporate requirements, seeking clarification from their Risk Champions when required;
- Identifying risk training needs of staff and informing this to Risk Champions;
- Using the Risk Management Toolkit and guidance.

Programme/Project/Partnerships

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

- Ensuring risk management is a regular item on Partnership / Programme/Project Board agendas;
- Reviewing and monitoring risks identified on programme/project/partnerships risks, ensuring that suitable controls are in place and working, or that plans are being drawn up to strengthen existing controls or put in place further controls;
- Identifying new and emerging risks or problems with managing known risks, ensuring communication of these through appropriate channels;
- Escalating appropriate Project, Programme or Partnership risks to the relevant Departmental or Corporate Risk Register where those risks may impact at a Departmental or Corporate level – ultimately the project or programme SRO/Sponsor is accountable for ensuring this happens;
- Ensuring any ongoing risks or issues identified at Project/Programme closure are transferred to the relevant business owner and where appropriate are escalated to Departmental or Corporate Risk Registers.

Risk Champions

- See Corporate section

Staff

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

Assurance Services:

Risk Management function (in conjunction with the Director of Corporate Resources):

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

- Leading in the development and implementation of the risk management framework and promoting use of the Risk Management Toolkit;
- Meeting with departments as per the risk management timetable to review and challenge risk registers and emerging risks;
- Identify any potential future internal audit requirements to the Head of Assurance Services;
- Coordinating risk management activity across the Council with the support of Departmental Risk Champions/Representatives;
- Collating the changes to departmental risks and ensure that the Corporate Risk Register is amended to reflect current position;
- Regular horizon scanning (in conjunction with CMT, DMT Risk Champions and Head of Assurance Services) of information from relevant publications and minutes from key meetings to provide a basis for including additional risks on the Corporate Risk Register;
- Reporting progress on the Corporate Risk Register and other risk management related initiatives to the CMT, Corporate Governance Committee and Cabinet as per the risk management timetable;
- Supporting Departmental Risk Champions/Representatives in their risk management role;
- Communicating corporate risk management information and requirements;
- Reviewing the Risk Management Policy and Strategy at least annually to reflect best practice and initiate improvements;
- Arranging for the review of risk management maturity; benchmarking scrutiny and challenge
- Establishing links with external groups and organisations in order to gain knowledge and share best practice on risk management issues;
- Supporting the development and delivery of relevant risk training

Assurance function (Internal Audit Service)

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

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

Action Plan

This Strategy sets out the developments / actions the Council proposes over the short term future to further improve risk management maturity. These developments include the following actions: -

Action	Target Implementation Date	Complete
To review and revise the Council's Risk Management Policy and Strategy and related guidance with endorsement from Corporate Management Team and Corporate Governance Committee.	Ongoing annually	Yes
Assist Update of Departmental Service Planning Guidance 2016/17: Alignment of Risk Registers to the Service Planning Process - 2017/18. To ensure risks recorded link back to departmental and service planning objectives.	Ongoing	Yes
Update and communicate through Manager's Digest, the Council's intranet Risk Management pages to include; Revised Risk Management Policy & Strategy All relevant guidance on methodologies and processes, including the revised Risk Assessment Criteria and Map Risk Management Toolkit containing the revised risk register templates with guidance Who to contact: details of the risk management "network", Links to further information and guidance e.g. ALARM web-site	February/March 2017	Partly Yes No No Yes No Develop in 2018/19
Provision of support to Departmental Risk Champions if necessary with the implementation of the revised Risk Register Template.	Ongoing	Yes Ongoing
Develop and introduce key performance indicator(s) for risk management activity to maintain and improve the maturity rating.	Ongoing	Partly – Developed dashboards on Tableau
Develop a training matrix to identify the levels of training that need to be attained by staff at different levels in the organisation. Explore differing options E.g. Face to face, CIS, external training. Explore the free training offering from the Council's Insurance providers - Gallagher Bassett's risk management consultancy service.	Ongoing	Partly – face to face training and use of Council's Insurers to deliver training
To ensure that risk management awareness is given adequate prominence in the Council's staff induction procedures.	August 2017	No 2018/19
To develop an e-learning module on risk management and to promote its uptake by all relevant officers.	September 2017	No 2018/19
To liaise with Chief Executive's Department on any corporate guidance to ensure risks associated with partnerships are captured, particularly where the Council is the lead accountable body. CIS to be updated accordingly.	September 2017	No 2018/19
Maintain effective horizon scanning process and communication of new/ emerging risks to Risk Champions for assessment and consideration.	Ongoing	Yes
Undertake risk maturity exercise in conjunction with other members of the East Midlands Risk Management Group.	2017/18	Yes
Undertake Risk Maturity Assessment	2018/19	Summer 2018

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 29TH JANUARY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. To update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 31st December 2017.

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. Due to a change in the scheduling of meetings of this Committee, it will no longer be possible to incorporate all of the statistical data relating to the quarter to which the Quarterly Treasury Management Report relates. This is because even preliminary quarterly data will not have been released at the time of writing the report.

5. In future it is intended that economic commentary will be based on the data for the quarter *prior* to the period to which this report relates plus any pertinent observations. As commentary for the September quarter has already been provided (in the report for the meeting held on 17th November 2017), the commentary included in this report simply relates to a number of observations that are considered relevant.

6. In November 2017 the Bank of England raised base rates for the first time in over 10 years (from 0.25% to 0.5%). The market had been strongly guided towards this rise, and has now been guided to expect one further 0.25% rise in 2018 and another in 2019. The progression towards what would have previously been seen as 'normal' interest rates is likely to be slow-and-steady, but it is worth noting that economists now consider the neutral level of interest rates to be a much lower level than would have previously been expected.

7. The UK economy continues to lag growth being produced elsewhere in the world. The lack of real wage growth, a high level of personal debt and risks associated

with Brexit make it unlikely that there will be any meaningful acceleration of growth in the foreseeable future.

8. Europe is currently growing at a very strong pace, although it did suffer a much bigger economic downturn than much of the rest of the world. The European Central Bank continues to exercise quantitative easing, although at a slower pace, and is very keen to see an uptick in inflation (and an end to the threat of deflation) before it is likely to consider interest rate rises. Consumer spending and business investment are simultaneously strong, and the economic upturn appears to be self-sustaining.

9. There is no doubt that US interest rates will continue to be raised at a moderate pace, but the strength of the economy should mean it is able to withstand the increases. Recent changes to taxation for both corporates and individuals are likely to boost the economy.

10. Emerging market economies continue to grow strongly and there is meaningful synchronised global growth for the first time in many years. Central Banks are keen to avoid policy mistakes that may disrupt this growth, so it is likely that increases in global interest rates will be carried out in a considered manner that does not surprise markets.

Action Taken during December Quarter

11. At the end of the quarter the loan portfolio stood at £193.7m, which was a reduction of £20.7m from its size at the end of September. Towards the end of the quarter £10.8m was invested in an investment property, so after adjusting for this the portfolio reduction was just under £10m. This level of variance is normal and reflects the timing of precepts and grants.

12. During the quarter £80m of loans that were originally for periods of 6 months or more matured, and the average rate of these loans was 0.60%. £100m of new loans were placed for a period of 6 months or more at an average rate of 0.73%. The £20m additional new loans were funded by a reduction in Money Market Fund investments, and a further £20.7m was withdrawn from Money Market Funds to reflect the overall reduction in the loan portfolio. The impact of this activity was to increase the average rate earned from 0.52% at the end of September to 0.67% at the end of December. This increase is flattered somewhat by the sizeable change in the balance held in Money Market Funds – because they yield lower rates than direct loans they have the effect of reducing the portfolio rate and the higher the balance held in them, the greater the reducing impact onto the average rate.

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

	£m
Money Market Funds	8.7
Lloyds Banking Group/Bank of Scotland	30.0
Royal Bank of Scotland	40.0
Santander UK	20.0
Landesbank Hessen Thuringen	5.0
Goldman Sachs International	20.0
Close Brothers	20.0
Danske Bank	10.0
Toronto Dominion Banks	10.0
Local Authorities	30.0
	193.7

14. At the end of December there were also three further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and all of these loans had original maturities of five years. One LAMS loans matured during the quarter (£1.4m at 2.19%). These do not form part of the treasury management portfolio, but are listed below for completeness:

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%

Loans to counterparties that breached authorised lending list

15. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made, and also none that had already been placed to a counterparty that subsequently fell below the threshold that would have been acceptable for the remaining period of the loan following a credit-rating downgrade.

Resource Implications

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

Equality and Human Rights Implications

17. There are no discernible equality and human rights implications.

Recommendation

18. The Committee is asked to note this report;

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 29TH JANUARY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

Purpose of the Report

1. To allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2018/19, which will follow as a supplementary to this report.

Background

2. The treasury management strategy statement and annual investment strategy form part of the Medium Term Financial Strategy and will be considered by the Council at its meeting of 21st February 2018.

3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.

4. In recent months there have been a number of consultations into certain treasury management issues and in December 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. There are some areas of these Codes which are open to interpretation and on which further guidance is expected, and CIPFA itself has openly recognised that the timing of the issuing of the new Codes (being so close to the dates that most Local Authorities will be approving their Treasury Management Strategy Statement and Annual Investment Strategy), combined with the lack of guidance in certain areas, means that implementation of the new Codes may be very difficult for the 2018/19 financial year.

5. Leicestershire has waited as long as possible to write its Strategies, in the hope that the outstanding issues with the Codes would be resolved and implementation of them would be possible for 2018/19, but it is now clear that this will not be possible. As a result the 2018/19 Treasury Management Strategy Statement and Annual Investment Statement are based on the previous codes, and the Strategies are in-line with those produced in previous years.

6. The major changes to the Codes reflect discomfort within Central Government about a trend towards authorities making investments in assets which are not required for service reasons, in an attempt to generate additional resources to

assist the revenue budget. Most (but not all) of these investments have been in commercial property and many have been funded by external borrowing. Taking a loan at 2½% and generating an income yield of 5% is clearly cashflow (and revenue budget) enhancing, but there is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment. The new Code attempts to ensure that members are fully informed of the details of these types of investments, and in particular that they have a better understanding of the associated risks.

7. Leicestershire's Annual Investment Strategy is very similar to that agreed last year. The ability to invest in pooled private debt funds (which this committee considered in November 2017 and was subsequently approved by the Cabinet) is included in the list of authorised investments, and there are changes to reflect the structural reform of Money Market Funds that is due to happen in July 2018. It is not yet clear how these structural reforms will impact the running of Money Market Funds, and how they will choose to reclassify themselves. The intention of these changes to the types of Money Market Funds included within the list is to allow flexibility for the treasury management activities to react to the changes in a manner that is consistent with the current low-risk approach adopted by the Council. It is entirely possible that the current type of Money Market Fund utilised by the Council (Constant Net Asset Value) will cease to exist, or will offer returns that are so low as to make them of little use, but it is intended that the type of Money Market Fund utilised will remain at the very low end of the risk spectrum.

Resource Implications

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

Equality and Human Rights Implications

9. There are no discernible equality and human rights implications.

Recommendation

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

Background Papers

None.

Circulation under the Local Issues Alert Procedure

None

List of Appendices

Appendix A – Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 (to follow)

Officers to Contact

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CORPORATE GOVERNANCE COMMITTEE
29 JANUARY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE PROGRESS REPORT

Purpose of Report

1. The purpose of this report is to: -
   a. provide a summary of progress against the Internal Audit Plan 2017-18;
   b. report on progress with implementing high importance recommendations;
   c. explain the requirement for an external assessment of the Internal Audit Service and ask the Committee to support the preferred approach.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan.

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 guidance to management. These 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 2017-18

4. This report covers the position with 2017-18 work as at 12 January 2017. The outcome of audits completed since the last progress 'cut off' (6 November 2017) reported to the Committee on 17 November is shown in **Appendix 1.** Changes to the Council's committee cycle to accommodate an earlier closure and reporting of the financial accounts, has meant today's meeting is some three weeks earlier than historically and consequently the period since the last progress report is shorter. This (along with the holiday break) reflects in less

audits being finalised. Nevertheless, a considerable amount of work is in train and is close to being reported, but Members will not receive that information until the 27 April committee.

5. For assurance audits (page 1 of Appendix 1) an 'opinion' is given i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.

6. LCCIAS also undertakes consulting/advisory type audits (page 2 of Appendix 1). Where these incur a reasonable amount of resource they are also included. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies.

7. Page 2 records where LCCIAS either undertakes or assists with unplanned investigations. These are not reported until the final outcome is known.

8. Finally, side 3 of Appendix 1 contains a table for 'Other control environment/assurance work', which gives a flavour of where internal auditors are utilised to challenge and improve governance, risk management and internal control processes which ultimately strengthens the overall control environment.

<u>Progress with implementing high importance recommendations</u>

9. The Committee is also tasked with monitoring the implementation of high importance recommendations**. 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 update 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. **New -** A&C - Area office safes – plan in place. Follow up in April
    b. A&C - Direct Payments Cards - Progressing new agreements. Further audit work almost complete.
    c. E&T - SEN transport risk assessments. Current position is significantly improved. However, kept open pending additional risk.

External Quality Assessment of LCCIAS

11. Internal audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS) which were significantly updated from April 2017. Conformance to the standards is mandatory for all principal local authorities.

12. The PSIAS aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function and a key element of this is that as part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. A review of Leicestershire County Council's Internal Audit Service (LCCIAS) is due to be carried out by the end of March 2018.

13. The assessment should: -
    a. Identify what LCCIAS is doing well or where improvement is required;
    b. Support continuous improvement;
    c. Emphasise and enhance the standing of the internal audit function;
    d. Report findings and recommendations to key stakeholders including audit committees of LCCIAS' other clients.

14. External assessments may be accomplished through either a full external assessment, or a self-assessment with independent external validation. The Head of Assurance Services (Head of Internal Audit Service) has discussed the merits of each option with the Director of Finance. LCCIAS has only recently (end of November) completed the project to accept the delegation of Leicester City Council's internal audit function for three years. It was always considered prudent to await the conclusion of the merger before having an external assessment. There now follows a very busy period to integrate all staff into one single team, and in order to make LCCIAS fit for the future, there will need to be reviews and decisions made on the most effective and efficient operating structure, audit processes and the best case management system. The assessment will also occur during the annual planning process. Given this period of change and significant pressures on LCCIAS, combined with knowledge from peer Heads of Internal Audit from other counties of the quite prohibitive costs of a full External Quality Assessment from a professional body (recognised as achieving the highest level of quality assurance), the preference is for LCCIAS to opt for the second option i.e. self-assessment with independent validation being carried out through peer review.

15. Any organisation conducting a peer review still has to meet rigorous PSIAS requirements to demonstrate competence in the professional practice of internal auditing and the external assessment process. The Standards are clear that competence can be demonstrated through experience gained in organisations of similar size, complexity, sector or industry and technical issues, and that type of experience is valuable. An independent assessor or assessment team means not having either an actual or a perceived conflict of

interest and not being a part of, or under the control of, the organisation to which the internal audit activity being assessed belongs.

16. The Head of Assurance Services (Head of Internal Audit Service) has approached a large local authority shared internal audit service trading company (the Company), and they have confirmed they would be able to undertake a peer review before the end of March thereby satisfying PSIAS requirements. The Company has conducted peer reviews of other internal audit functions and, in its own assessment completed in May 2014 (by a well-respected local authority based internal audit organisation), was judged to 'Generally Conform to the Standards and Code of Ethics'. This is the top rating and means that the Company has an internal charter, policies, and processes that are judged to be in conformance with the Standards.

17. The peer review would be undertaken by the Company's Head of Internal Audit and his deputy, both very experienced internal auditors. The process would involve LCCIAS completing a self-assessment checklist and sending that along with sufficient evidence to support assertions to the Company for review. Thereafter, the reviewers would travel to Leicestershire County Council (and potentially other clients that LCCIAS provides service to) and conduct interviews with key stakeholders (audit committee Chairs and members, senior managers, internal audit staff, external auditors etc.) and review a sample of internal audit files and documents. They would feedback internally to the Director of Financ (acting as the review sponsor) and provide a report for him to present to Corporate Governance Committee on 27 April, and which can then be used for each of LCCIAS' clients.

18. The Company estimate 10 days to complete the work (including 2 to 3 days on site) which is comparable to other reviews. However, this is reliant upon LCCIAS sending them the completed self-assessment and supporting evidence beforehand, which should not be problematic. They have quoted £3,500 to include all travel, accommodation expenses. The cost is well within budget and satisfies Leicestershire County Council Contract Procedure Rule 11 'Minimum Requirements for Procurement' whereby any contract up to £5,000 requires a minimum of one oral or written quotation.

Resources Implications

19. The quotation of £3,500 to conduct a peer review is both within budget and satisfies procurement rules.

Equality and Human Rights Implications

20. There are no discernible equality and human rights implications resulting from the audits listed.

Recommendations

21. That: -
    a. the contents of the routine update report be noted;
    b. the Committee supports the preferred approach to receiving an external quality assessment of the Service.

Background Papers

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 26 May 2017 - Internal Audit Plan for 2017-18

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1 - Summary of Internal Audit Service work undertaken between 7 November 2017 and 12 January 2018
Appendix 2 - High Importance Recommendations

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Summary of Internal Audit Service Work – 7th November 2017 to 12th January 2018 **Appendix 1**

Assurance Audits

Department	Entity	Final report (or position at 12/1)	Opinion	HI Rec'n
Adults & Communities	Area Office Safes (Inventory Check)	30-Nov-17	Partial	Yes
Children & Family Services	Diseworth Primary School	7-Dec-17	Substantial	No
Children & Family Services	Snarestone Primary School	7-Dec-17	Substantial	No
Children & Family Services	Belton CE Primary School	12-Dec-17	Substantial	No
Children & Family Services	Thringstone Primary School	18-Dec-17	Substantial	No
Children & Family Services	Supporting Families Return (December 2017 return)	09-Jan-18	N/A	No
Environment & Transport	Highways Network Asset Valuation	21-Dec-17	Substantial	No

Consulting/advisory audits

Department	**Entity**	**Final report (or position at 12/1)**
Consolidated Risk	GDPR Readiness Audit – input to plan & testing	Ongoing
Consolidated Risk	Public Service Network (PSN) Accreditation – review plan	Ongoing
Corporate Resources	Fit for the Future (Oracle replacement project)	Ongoing
Corporate Resources	ICT Policies & Procedures – input to 3 x working groups and commentary on policies/procedures x 3	Ongoing
Corporate Resources	Wide Area Network (WAN) Replacement Project – governance and implementation planning	Ongoing

Investigations (Undertake/Advisory)

Department	**Entity**	**Outcome**
Adults & Communities	Concealing assets in social care calculations	Referred to Court
Adults & Communities	Mileage rates – claiming the wrong (higher) rate – by error	Reclaim
Children & Family Services	Imprest account – poor application and oversight	Written warning

Other control environment/assurance work

Department	**Entity**	**Final report (or position at 12/1)**
Children & Family Services	Costing exercise	05-Jan-18
Consolidated Risk	National Fraud Initiative	Ongoing
Consolidated Risk	ICO Audit – implement required internal audit actions	Ongoing
Consolidated Risk	Counter Fraud – whistleblowing comms; revised money laundering policy; networking with local/national counter fraud colleagues	Ongoing
Consolidated Risk	Property & Occupants Risk Management Group	Ongoing
Consolidated Risk	Review/revise corporate risk management framework	11-Jan-18
Consolidated Risk	Review/revise annual governance statement preparation and compilation	Ongoing
Environment & Transport	Assistance with quarterly stock checks (3 of 4 complete)	11-Jan-18

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Appendix 2

High Importance Recommendations at 12 January 2018

Audit Title (Director)	Summary of Finding(s) and Recommendation(s)	Management Response	Action Date (by end of)	Confirmed Implemented
Reported January 2018				
Office Safes (A&C)	**An investigation into the potential misuse of a service user's funds identified that the employee under suspicion had been able to deposit a large sum of cash into an area office safe, with no evidence of questions asked nor checks undertaken and no record of the deposit. The safe also contained cash and other valuable items held on behalf of service users which are not covered by the LCC insurance policy. Visits to other sites revealed similar with improvements required for controlling access and recording contents.** **The Department had previously identified gaps in its management of resident's personal property, including that in safes and had instigated a multi-function working group to review and improve practice and put into place a policy. Recommended that finalisation of the policy should be expedited and rolled out to Area Offices regarding safes and contents. Unannounced follow up audit visits will take place.**	**Agreed**	**March 2018**	

Reported September 2017				
Direct Payments (A&C)	Signed copies of Direct Payment (DP) Card Agreements could not be located for two service users, from a sample of seven that had transferred from cash payments to direct payment cards. The absence of an up to date agreement could cause the Council problems if any misuse, other breaches or disputes arise. Recommended that an up-to-date signed DP card agreement should be obtained for all service users who have transferred from cash payments to DP Cards.	Agreed. **A plan has been devised to ensure that where any are missing, replacement DP Card Agreements are sent out in cohorts to direct payment holders or their nominated or authorised person. The first cohort was sent out at the start of January and the Department remains confident that the exercise will be completed by the end of June 2018.** **An audit of the processes to monitor and act on ‘alerts’ and other key reports (e.g. no debit activity for 90 days; negatives; non-payment of the service-users contribution) is almost complete.**	June 2018	

Reported Sept 15				
SEN Transport risk assessments (E&T)	The Department requested an audit of the risk assessment processes applied to transporting children with SEN. The audit found a range of issues around: - 1. risk assessments including a high proportion of a sample that hadn't been completed, inconsistent processes and reactive follow up reviews 2. not always linking travel care plans (key points on how to manage the identified risks) to transport eligibility assessment forms 3. inadequate training records for transport escorts. Recommended: - 1. completing risk assessments within an agreed time limit 2. documenting processes for undertaking risk assessments and the completion of associated information to ensure consistency 3. maintaining improved training records with regular reviews	Agreed - Assurances on progress received from E&T throughout 2016 and February and May 2017. An auditor conducted more testing in October and January. **1. By 12th January, considerable effort had resulted in the SEN backlog almost being completely cleared and the position against assessing reactive and new cases is currently 'comfortable'. However, there is some long term sickness at a time when the peak workload of new SEN intake will start from February. Also, adult social care cases (lower risk and reduced in number) will need some resource.** **2. Complete** **3. Complete**	Originally March 2016 Extended to: - September 2016; October 2016; January 2018; **March 2018** Risk added to Corporate Risk Register September 2017. **Further check against #1 at the end of March 2018 in time for reporting to Committee in April 2018**	

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