



Meeting: **Corporate Governance Committee**

Date/Time: **Wednesday, 25 July 2018 at 2.30 pm**

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

Contact: **Mrs J Twomey (tel: 0116 3056462)**

Email: **joanne.twomey@leics.gov.uk**

Membership

Mr. P. Bedford CC Mr. J. Morgan CC
Mr. G. A. Boulter CC Mr. J. T. Orson JP CC
Mr. J. G. Coxon CC Mr. T. J. Richardson CC
Mr. T. Gillard CC Mr. S. D. Sheahan CC
Mr. J. Kaufman CC

AGENDA

<u>Item</u>	<u>Report by</u>
1. Election of Chairman.	
2. Election of Vice Chairman.	
3. Minutes of the meeting held on 23 April 2018.	(Pages 3 - 10)
4. Question Time.	
5. Questions asked by members under Standing Order 7(3) and 7(5).	
6. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
7. Declarations of interest in respect of items on the agenda.	
8. External Audit of the Statement of Accounts, Annual Governance Statement and Pension Fund Accounts.	Director of Corporate Resources



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|-----|---|---------------------------------------|-----------------|
| 9. | Annual Treasury Management Report 2017/18. | Director of
Corporate
Resources | (Pages 11 - 16) |
| 10. | Quarterly Treasury Management Update. | Director of
Corporate
Resources | (Pages 17 - 22) |
| 11. | Annual Report of the Director of Law and Governance on the operation of the Members' Code of Conduct. | Director of Law
and Governance | (Pages 23 - 28) |
| 12. | Risk Management Update. | Director of
Corporate
Resources | (Pages 29 - 58) |

As part of this item a presentation will be provided on Risk 3.6: If a replacement Enterprise Resource Planning (ERP) system is not implemented successfully the Council will not reap the benefits and the Council's financial and HR activity could be negatively impacted upon.

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| 13. | Internal Audit Service Progress Report. | Director of
Corporate
Resources | (Pages 59 - 74) |
| 14. | Internal Audit Service Audit Plan for 2018/19. | Director of
Corporate
Resources | (Pages 75 - 88) |
| 15. | Date of next meeting. | | |

The next meeting of the Committee is scheduled to take place on Wednesday, 24th October 2018.

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| 16. | Any other items which the Chairman has decided to take as urgent. | | |
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Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Monday, 23 April 2018.

PRESENT

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

Mr. G. A. Boulter CC
Mrs. H. J. Fryer CC
Mr. J. Kaufman CC
Mr. J. Morgan CC

Mr. J. T. Orson JP CC
Mr. T. J. Richardson CC
Mrs B. Seaton CC
Mr. S. D. Sheahan CC

60. Minutes of the previous meeting.

The minutes of the meeting held on 29 January 2018 were taken as read, confirmed and signed as an accurate record of the meeting. However, it was noted that with regard to minute 56: Quarterly Treasury Management Update, the incorrect figure had been given at the meeting for the amount that had been loaned to Northamptonshire County Council and the correct figure was £5 million not £10 million.

61. Question Time.

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

62. Questions asked by members.

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

63. Urgent items.

There were no urgent items for consideration.

64. 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. T. J. Richardson CC declared a personal interest in item 7: Quarterly Treasury Management Update as he was in receipt of a pension from Lloyds Bank.

65. Annual Report on Grants and Returns.

The Committee considered a report of the Director of Corporate Resources which presented the external Annual Report on Grants and Returns 2016/17. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The Chairman welcomed John Cornett of KPMG, the County Council's external auditors for 2017/18, to the meeting.

RESOLVED:

That the annual report on Grants and Returns 2016/17 be approved.

66. Quarterly Treasury Management Update.

The Committee considered a report of the Director of Corporate Resources which provided an update on the actions taken in respect of treasury management in the quarter ended 31 March 2018. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Arising from discussions the following points were noted:

- (i) The Annual Investment Strategy, which was agreed by the County Council every year, set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. Private Debt investments were approved by Cabinet as this was a change to the policy. Due to the short time scale for treasury management, Officers had delegated authority to make investments within the guidelines set out by the Strategy, and individual investments would be approved by the Director of Corporate Resources or his nominee.
- (ii) It was expected that globally, interest rates would slowly rise over the coming years but not reach the level they were at before the global financial crisis in 2008.
- (iii) Possible loans to other local authorities were identified through money market brokers who would search the market for a suitable authority for another authority to lend to. The name of the local authority that wanted to borrow would not be provided by the broker until the other authority had expressed an interest in arranging the loan. It was very unusual for loans to be arranged directly between authorities without the use of a broker. In response to a question from a Member the Director of Corporate Resources agreed to provide information to Members after the meeting on the brokers' fees.
- (iv) Due diligence for lending to banks was through the banks' inclusion on the approved list of the County Council's treasury management advisors. Local authorities did not usually have credit ratings, hence they did not appear on the advisor's list. Despite this local authorities had always been an authorised counterparty, due to the very low risk of default.
- (v) The winter period was the most popular for loans to be arranged between local authorities as over the summer period cash flow improved for local authorities.
- (vi) The £5 million loan from Leicestershire County Council to Northamptonshire County Council had been arranged via a broker. In response to a question from a Member the Director of Corporate Resources stated that the risk of Northamptonshire County Council defaulting was considered to be very low.
- (vii) It was noted that in addition to Northamptonshire County Council, Leicestershire County Council had loans with three other local authorities; Birmingham City

Council, Thurrock Borough Council and London Borough of Southwark, and reassurance was given by the Director of Corporate Resources that there were no concerns that these loans would not be repaid.

- (viii) In response to a question from a Member regarding the Maturity dates of the loans within the portfolio, the Director of Corporate Resources agreed to provide further information to Members after the meeting.

RESOLVED:

That the contents of the report be noted.

67. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risk areas and the measures being taken to address them. A copy of the report, marked 'Agenda Item 8, is filed with these minutes.

The Committee also received a presentation on Risk 1.4 on the Corporate Risk register: 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. A copy of the presentation slides is filed with these minutes.

Presentation – Uninsured Risks

Arising from the presentation the following points were noted:

- (i) Prior to 1964 the County Council did not have insurance in place however the Council was still receiving claims from the 1950s which had to be dealt with.
- (ii) Between 1969 and 1992 the County Council was insured by Municipal Mutual Insurance (MMI). Around that time there were not many insurance companies in the local government market to choose from. Unfortunately MMI conducted little risk management and wrote business with no excesses. As a result the company paid out on a large amount of claims which caused them to go into administration. The subsequent scheme of arrangement put in place to run off the company's tail of claims triggered a levy against all creditors of 25%.
- (iii) The County Council was now using self-insurance to a greater extent than previously which had the advantage that there was no insurer profit, lower broker commission and the insurance premium tax did not have to be paid. This position allowed for greater control over claims and the opportunity for enhanced risk management. Consideration would be given by the County Council in future to whether the level for self-insurance should be higher.
- (iv) Academies were a separate legal entity and should have their own insurance or be part of the government scheme. Responsibility for defending claims against academies would not be borne by the County Council.
- (v) In response to a question from a Member regarding whether local authorities could be responsible for claims arising against a predecessor authority that was in existence prior to local government reorganisation, it was explained that there were occasions when this would be the case. For example; following Local Government

Reorganisation (LGR) in 1974 the County Council became responsible for dealing with claims from Leicester Corporation which ceased to exist. This was the case if the County Council took over the function in question. If a claim pre-dating the 1997 LGR arose from within the City boundary, and related to a function for which the County Council was responsible, the claim would be handled by the County Council in line with the insurance arrangements in place at the relevant time.

Risk Register

- (vi) In response to a question from a Member regarding whether there was any further information regarding Risk 4.2 and the Arriva concessionary travel appeal, the Director of Corporate Resources stated that the most up to date position was as set out in the report. Members stated that they would monitor the situation with regards to Arriva.

RESOLVED:

- (a) That the contents of the report be noted;
- (b) That the current status of the strategic risks and emerging risks facing the Council, as detailed in the report, be noted;
- (c) That the update regarding counter fraud initiatives be noted;
- (d) That a presentation and report be provided for the next meeting of the Committee on Risk 3.6: If a replacement Enterprise Resource Planning (ERP) system is not implemented effectively and by 2020 then the organisation will not reap the full benefits of change.

68. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources which provided a summary of progress against the Internal Audit Plan 2017-18, reported on progress with implementing high importance recommendations, and provided an update on progress with the Internal Audit Plan 2018-19. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

With regard to the delay in producing the Internal Audit Plan 2018-19 a Member questioned whether this was partly due to the extra resource that was required as a result of the Internal Audit Service taking on Leicester City Council's internal audit function. The Director of Corporate Resources reassured Members that this was not the case and that resources were available to carry out audit functions for both authorities.

RESOLVED:

- (a) That the contents of the report be noted;
- (b) That the delay in producing the 2018-19 Internal Audit Plan be noted and a report on the Plan be brought to the meeting of the Corporate Governance Committee on 25 July 2018.

69. Internal Audit Outcome of a Peer Review.

The Committee considered a report of the Director of Corporate Resources which gave the outcome of a recently conducted peer review of the Council's Internal Audit Service. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

Members, along with the Director of Corporate Resources, gave thanks to the Head of Internal Audit & Assurance for the work he had done which led to the Internal Audit Service receiving the top rating for the peer review.

RESOLVED:

That the outcome of the peer review contained in Veritau's report be noted.

70. Internal Audit Service Annual Report 2017-18.

The Committee considered a report of the Director of Corporate Resources which presented the annual report on work conducted by the Internal Audit Service. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

In response to questions from Members the Director of Corporate Resources explained that there were job roles in the Internal Audit Service which were not currently filled however the money for those roles was available therefore it was a matter of recruiting to those posts. It was hoped that most of the vacant posts would be filled by summer 2018. The quality of applicants available varied according to the nature of the role. The Internal Audit Service was looking to develop its own Audit staff and also use CIPFA trainees and apprentices. Links were also being developed with Birmingham University to recruit their MBA students. In response to further questions the Director of Corporate Resources again gave reassurance that the quality of the Internal Audit Service for the County Council was not being affected by the Service carrying out Leicester City Council's internal audit function as well.

RESOLVED:

- (a) That the Internal Audit Service Annual report for 2017-18 be noted;
- (b) That an update be provided at the meeting of the Corporate Governance Committee on 25 July 2018 regarding progress with filling job vacancies in the Internal Audit Service.

71. Annual Governance Statement 2017/18.

The Committee considered a report of the Director of Corporate Resources which explained the approach taken to producing the Annual Governance Statement (AGS), and presented the AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council. A copy of the report, marked 'Agenda Item 12', is filed with these minutes.

With regards to Governance issues relating to Help to Live at Home, Members noted that contingency providers were being used to support the delivery of care in areas where the lead provider could not pick up all of the new packages in their lot, and this issue had been fully explored at the Adults and Communities Overview and Scrutiny Committee.

RESOLVED:

- (a) That the draft 2017/18 Annual Governance Statement be approved;
- (b) That it be noted that the Statement, which may be subject to change as required by the Code of Practice in Local Authority Accounting, has been prepared in accordance with best practice.

72. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on 25 July 2018 at 2:00pm.

10.00 - 11.35 am
23 April 2018

CHAIRMAN

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CORPORATE GOVERNANCE COMMITTEE – 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT OF THE 2017/18 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT & PENSION FUND ACCOUNTS

Purpose of Report

1. The purpose of this report is to set out the key findings from the external audit of the 2017/18 financial statements and to seek the Committee's approval of the draft letter of representation.

Background

2. KPMG LLP, the County Council's external auditor, are required to communicate the results of the 2017/18 audit of the Council's financial statements to those charged with governance prior to certifying the statement of accounts. The draft 2017/18 Statement of Accounts, Annual Governance Statement (AGS) and Pension Fund Accounts can be viewed on the Council's website via the following link:-

<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2018/5/31/statement-of-accounts-annual-governance-statement-and-pensions-account2017-18.pdf>

3. A copy of the auditor's report (ISA260) is attached as Appendix A to this report.
4. A copy of the letter of representation is attached as Appendix B to this report for member consideration.
5. John Cornett, the KPMG LLP Director responsible for the County Council audit will attend the Committee meeting to communicate any significant findings and answer any questions.
6. The audit of the 2017/18 accounts is the final year of KPMG LLP as the external auditor of the County Council.

Key Findings of the External Auditor

7. The auditor has reviewed the financial statements and has concluded that there are no material accounting issues to report. The external auditor anticipates issuing an unqualified opinion.

8. The auditor has raised five recommendations:

- No periodic user access responsibility review (to the financial system, Oracle). The last significant review was 3 years ago. There had been some initial delays in developing suitable reports, but these have now been resolved and a full review will be undertaken during 2018.
- Timely revoking of system (Oracle) access for leavers. From a full review of all assignment (employment) end dates, there were 20 cases where access to the system was still available after the end dates. Subsequent testing showed no inappropriate actions had been undertaken. A review of the process will be undertaken to ensure that end dates are updated on a timely basis.
- Payroll BACS authorisation. For one payroll in December 2017 the file was prepared and approved by the same person. A shortage of staff at the time resulted in the team manager certifying the preparation and approval of the file to meet the payroll deadlines. This will be reviewed to ensure adequate cover is available in future.
- Pension Fund – Investment Asset Reconciliation. The quarterly Net Asset Valuations (NAV) reports from fund managers are reconciled for each quarter but are not input into the general ledger until year end. The Council has agreed that best practice is to input them quarterly and this will be implemented during 2018.
- Pension Fund – Bank Reconciliation. The pension fund bank account is reconciled on a daily basis and reviewed by a senior officer at the end of each month, but there is no formal monthly reconciliation statement signed by the preparer and the approver. This will be implemented in 2018.

9. There was also one correction to the accounts identified during the audit. This related to the valuation of assets, £1.4m, and was due to a difference between the valuation system and the fixed asset register. The issue has been identified and changes will be made for next year. The correction, to reduce the value of land and buildings, has been made in the 2017/18 accounts.

Recommendation

10. The Committee is asked to consider the issues raised in the auditor's report and approve the draft letter of representation.

Equal Opportunities Implications

11. None.

Circulation Under the Local Issues Alert Procedure

12. None.

Background Papers

None.

Officers to Contact

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Appendices

Appendix A - External Auditors report
Appendix B - Letter of Representation

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External Audit ISA260 Report 2017/18

**Leicestershire County
Council and Pension Fund**

July 2018



Summary for Corporate Governance Committee

This document summarises the key findings in relation to our 2017-18 external audit at Leicestershire County Council ('the Authority') and the Local Government Pension Scheme.

This report covers both our on-site work which was completed during June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements. The report is prepared for presentation at the Corporate Governance Committee 25 July 2018. We will update the Corporate Governance Committee at its meeting on any significant matters contained in this report.

Organisational and IT environment and control over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We consider that your organisational controls are effective overall.

General IT Controls - We have deemed your IT controls are effective overall, but noted two areas for further improvement in relation to omission of specific user responsibility review and timely removal of leaver user access.

Key Financial System Controls - we have determined that the controls over the majority of the key financial systems are sound. We noted a weakness in respect of payroll BACS authorisation process, whereby for one of the three BACS payroll payments for one of the months tested, the same officer had both input and authorised the BACS payment.

Further detail can be found at page 6 and in Appendix 1.

Accounts production

The Authority's overall process for the preparation of its financial statements was good. We received a completed set of accounts on 31 May 2018.

The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers being made available to the audit team at the start of the onsite visit. However, there were some issues with the quality of data initially provided for our Data Analytics work which delayed this element of testing.

Summary for Corporate Governance Committee (cont.)

Financial statements

Subject to completion of the remaining work and all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

There are currently the following outstanding matters:

- Final audit Director review;
- Addressing any remaining audit queries and any matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the working papers and amended accounts.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):

- **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 have checked the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated
- **Pensions 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 have reviewed 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** – 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 have worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.
- We have identified one audit adjustment with a total value of £1.36 million. See page 18 for details. There is no impact on the reported outturn position or the general fund balance as a result of this adjustment.

Summary for Corporate Governance Committee (cont.)

Financial statements cont.

Based on our work, we have raised 5 recommendations, which includes 2 relating to the Pension Fund. Details of our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our audit opinion and VFM conclusion before 31 July 2018. We expect to issue our completion certificate and Annual Audit letter before the end of September 2018.

Pension Fund financial statements

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11:

- **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.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. We have identified the following significant VFM audit risks:

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

See further details on page 24.

Summary for Corporate Governance Committee (cont.)

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. Particularly the Strategic Finance Technical Accounting Team whose continued hard work and professionalism enabled the Authority to meet the earlier deadline this year without loss of quality of the Financial Statements or working papers.

Section one

Control Environment



Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Despite this, we have noted two areas for further improvement:

- **No periodic user access responsibility review; and**
- **Timely removal of leaver user access.**

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted two of areas for further improvement:

- **Issue 1: No periodic user access responsibility review** – Discussions with the EMSS Systems Administration Team identified that user access responsibility reviews are not carried out on a periodic basis. The last significant user access responsibility review that was carried out was in 2015.
- **Issue 2: Timely revoking of leavers user access** – We reviewed over 2400 leavers covering the period 01/04/17 to 18/02/18 to ensure that individuals leaving the authority have their access to the authority's systems is revoked in a timely manner. Of these, 20 required further investigation as their access had not been revoke in a timely manner. It was identified that 5 had logged onto their Oracle accounts after their leaving date, although 4 only had access to Internet Expenses to access their final pay advice. The remaining leaver who had logged on had access to "IP Adults & Communities" which allows employees to raise and receipt orders, however any orders would need to have been approved. Our investigation confirmed that the individual had not raised any orders or made any requisitions since their leaving date.

Recommendations are included in Appendix 1.

Organisational and IT control environment (cont.)

Aspect of controls	Assessment
Organisational controls:	
Management’s philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

However, there is a weaknesses in respect of Payroll BACS authorisation process.

Work completed

We evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound.

We noted one weaknesses in respect of an individual financial system:

- Weakness: Payroll BACS authorisation process we found that for one of the three monthly BACS payroll payments in one of the months tested, the same officer had both input and authorised the BACS payment.

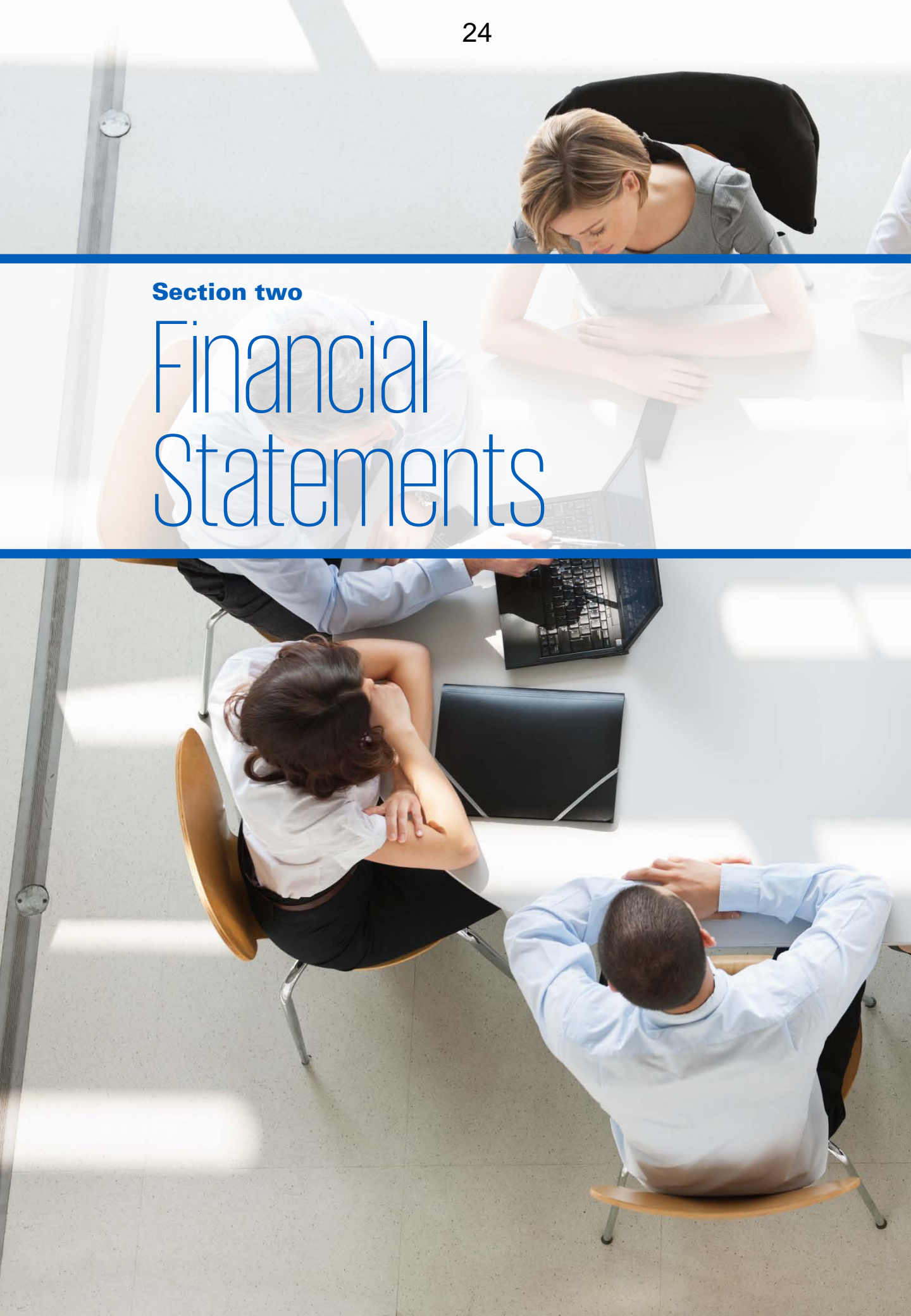
Recommendation are included in Appendix 1.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	2
Pension Fund	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of both the Authority and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority or Pension Fund to continue as a going concern.

Implementation of recommendations

We raised two recommendations in our ISA 260 Report 2016/17, both of which have been implemented. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to officers before the start of the audit. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority and the Pension Fund to provide audit evidence in line with our expectations.

The working papers provided this year have been of a good standard. The requested working papers were available at the start of the audit visit and the finance team responded promptly to any requests for additional information or explanation.

However, there were some issues with the quality of data initially provided for our Data Analytics work which delayed this element of testing.

Response to audit queries

Finance staff were available throughout the audit visit to answer our queries and the queries were responded to promptly. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements and those of the Pension Scheme.

Specific audit areas

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.

<p>Risk:</p>	<p>Valuation of PPE</p> <p>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. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
<p>Our assessment and work undertaken:</p>	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We considered movement in market indices between revaluation dates and the year end the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>There are no matters from our work which we need to draw to your attention.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 16.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

<p>Risk:</p>	<p>Pension Liabilities</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>Our assessment and work undertaken:</p>	<p>As part of our work we reviewed 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 also evaluated the competency, objectivity and independence of Hymans Robertson.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies.</p> <p>Some elements of this work are still in progress at the date of this report. Subject to completion of the remaining work we would expect to determine that the net pension liability had been properly accounted for and disclosed in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	<p>Faster Close</p> <p>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.</p> <p>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 was still required in order to ensure that the statutory deadlines for 2017/18 were met.</p> <p>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:</p> <ul style="list-style-type: none"> — 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 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. <p>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.</p> <p>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.</p>
Our assessment and work undertaken:	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>As a result of this work we determined that the Authority had met the earlier financial reporting requirement.</p>

Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

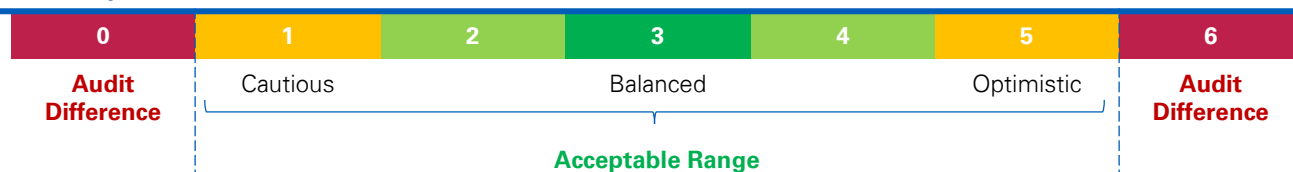
Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:	<p>Valuation of hard to price investments</p> <p>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.</p> <p>In the prior year financial statements, £1,033 million out of a total of £3,873 million of investments, or 27%, were in this harder to price category. For year ended 31 March 2018, £1,248 million out of a total of £4,075 million of investments, or 30%, were in this harder to price category</p>
Our assessment and work undertaken:	<p>As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.</p> <p>As a result of this work we determined that investment assets had been correctly 'tiered' into the fair value hierarchy levels. We also determined that management had challenged the valuations reported by investment managers, especially when valuations had been 'rolled-forward' on a cash flow basis.</p>

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective area

2017-18 2016-17 Commentary

Subjective area	2017-18	2016-17	Commentary
Insurance Provisions	3	3	The authority's Insurance provision is the largest elements of long term provisions, £3.5m (2016/17 £3.9m). There have been no significant changes in the approaches to determining the estimate. The change in the level of the provision on the previous year is not material.
Business Rates provision	3	3	We have not identified any material misstatement or issues of concern for the Authority's attention in relation to the Business Rates provision £2.5m (2016/17 £2.4m).
Property Plant & Equipment	3	3	The Authority has utilised it's own internal valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.

Judgements (cont.)

Subjective area **2017-18** **2016-17** **Commentary**

Valuation of pension assets and liabilities

3 **3**

The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £175,268 million.

The actual assumptions adopted by the actuary fell within our expected ranges with the exception of Discount rate and Life expectancy as set out below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.70%	2.20-2.60%	2
CPI inflation	2.40%	1.90-2.50%	3
Net discount rate	0.3%	0.10-0.30%	3
Salary Growth	CPI plus 1%	CPI plus 0% to 2.0%	3
Life expectancy			
Current male / female	22.1/24.3	22.1/23.5	2
Future male/female	23.8/26.2	23.9/25.4	



Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance Committee on 25th July 2018 and signing of the Statement of Accounts at the Constitution Committee on 27th July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £15.25 million. Audit differences below £0.75 million are not considered significant.

We did not identify any material misstatements. We identified an issue that has been adjusted by management. There were no unadjusted misstatements identified during our audit that we are required to report to you.

The table below illustrate the total impact of audit differences on the balance sheet as at 31 March 2018. There is no impact on the General Fund for the year as a result of this adjustment.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Balance Sheet as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref ¹
Property, Plant & Equipment	£938.5m	£937.1m	T1.1
Net worth	£313.0m	£311.6m	
Unusable reserves	£150.3m	£148.9m	T1.1
Total Reserves	£313.0m	£311.6m	

¹ See referenced adjustments in Appendix 3.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension Fund financial statements

We anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance Committee on 25 July 2018 and signing of the Statement of Accounts at the Constitution Committee on 27 July 2018 .

Pension Fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a higher materiality level of £31 million. Audit differences below £1.550 million are not considered significant.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Fund account as at 31 March 2018			Net assets as at 31 March 2018		
£m	Pre-Audit	Post-Audit	£m	Pre-Audit	Post-Audit
Opening net assets of the scheme	3,881	3,881	Net investments	4,075	4,075
Contributions and transfers in	192	192	Net current assets	8	8
Benefits and leavers	(171)	(171)	Net assets of the scheme	4,083	4,083
Management expenses	(6)	(6)			
Return on investments	187	187			
Closing net assets of the scheme	4,083	4,083			

Annual report

The statutory deadline for publishing the annual report is 1 December 2018. The Pension Fund Annual Report is due to be approved by the Local Pension Committee by this date. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leicestershire County Council and Leicestershire Local Government Pension Scheme for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and Leicestershire Local Government Pension Scheme its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer for presentation to the Corporate Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

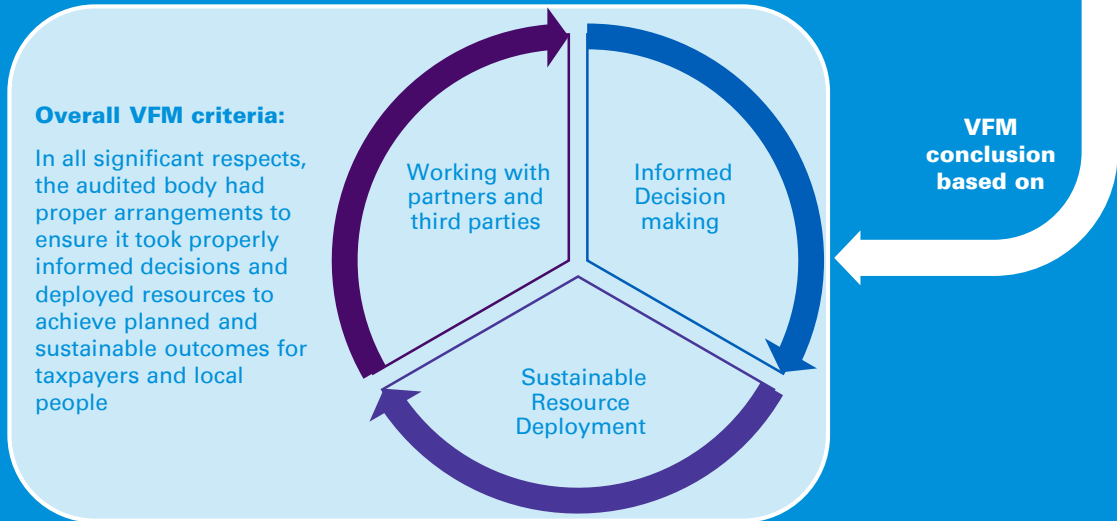
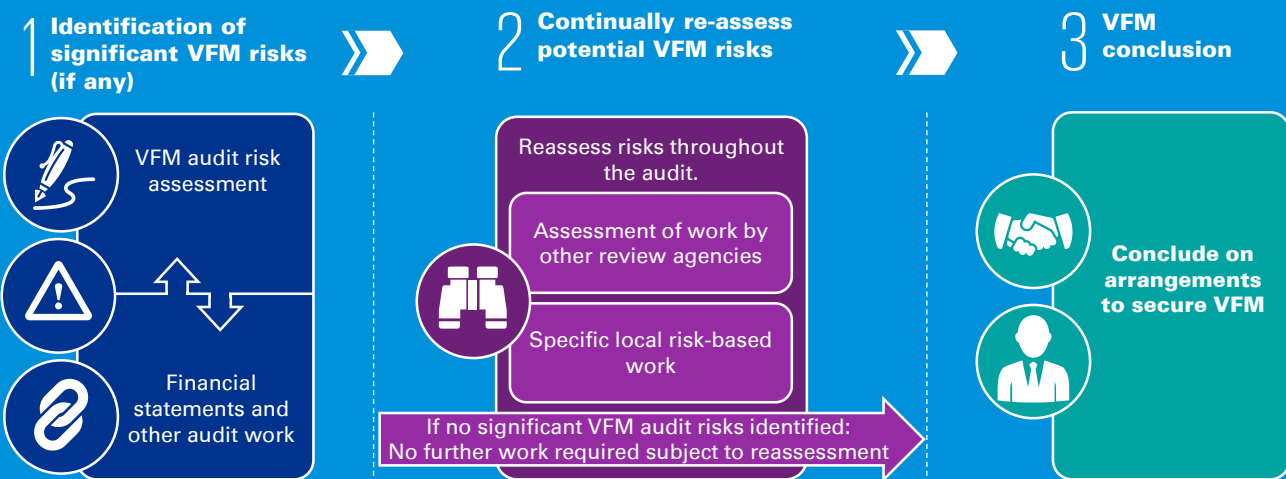
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, we identified a risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

Risk:	<p>Delivery of budgets</p> <p>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.</p> <p>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.</p>
Our assessment and work undertaken:	<p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. For 2017/18 the Authority's outturn was contained within budget and as forecast throughout the year</p> <p>The Authority's MTFs details a balanced budget for 2018/19 including savings of £17.6 million in year, all of which have been identified. However, the MTFs details the increasingly difficult financial challenges faced each year, resulting in the need for continued year on year savings. The authority is currently developing further saving plans to address budget shortfalls on 2020/21 and 2021/22 amounting to a total of £13.2m. We reviewed a number of the Authority's saving schemes and have found that overall there are good-quality schemes and robust reporting.</p> <p>The level of reserves held by the Authority include balances held on behalf of schools and for joint projects with partners. As at 31 March 2018 the General County Fund £24.0 million (2016/17 £25.8 Million) and Earmarked Revenue Reserves £125.1 million (2016/17 £109.4million). The level of reserves are appropriate for the size of the organisation given the continued uncertainties and risk that lie ahead for the whole sector and the individual pressure and challenges the Authority faces in the short to medium term.</p> <p>The Authority will need to continue to keep the level of reserves under review on a periodic basis as its reserve requirements change.</p> <p>We are satisfied that there were adequate arrangements in place at 31 March 2018 and there are no significant matters relating to this risk area which prevent us from giving an unqualified VFM conclusion.</p>

Appendices



Key issues and recommendations

Our audit work on the Authority and Pension Fund’s 2017-18 financial statements has identified five issues that have been listed in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	<p>Priority One: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> <p>Recommendations Raised: 0</p>	2	<p>Priority Two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> <p>Recommendations Raised: 3</p>	3	<p>Priority Three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> <p>Recommendations Raised: 2</p>
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No.	Risk	Issue & Recommendation	Management Response
1	2	<p>No periodic user access responsibility review</p> <p>Discussions with the EMSS Systems Administration Team identified that user access responsibility reviews are not carried out on a periodic basis. The last significant user access responsibility review that was carried out was in 2015.</p> <p>Risk</p> <p>Users have inappropriate access responsibilities for their role which could lead to the misappropriation of the Authority’s assets.</p> <p>Recommendation</p> <p>That the Authority implements regular reviews of user access responsibilities for appropriateness for users current roles.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>October 2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	<p>Timely revoking of IT access for leavers</p> <p>Over 2400 leavers covering the period 01/04/17 to 18/02/18 were reviewed to ensure that individuals leaving the authority had their access to the authority's IT systems revoked in a timely manner. Of these, 20 required further investigation as their access had not been revoke in a timely manner. It was identified that 5 had logged onto their Oracle accounts after their leaving date, although 4 only had access to Internet Expenses. The remaining leaver who had logged on had access to "IP Adults & Communities" which allows employees to raise and receipt orders, however any orders would need to have been approved. Our investigation confirmed that the individual had not raised any orders or made any requisitions since their leaving date.</p> <p>Risk</p> <p>Misuse of Authority IT systems by users who have left the authority.</p> <p>Recommendation</p> <p>To review the current process of identifying users whose access need to be revoked due to them having left the Authority.</p> <p>In addition the Authority has started its Oracle ERP system replacement programme and should ensure that as part of the replacement the weakness within the current Oracle system for revoking leavers access in a timely manner is addressed.</p>	<p>Agreed</p> <p>Responsible Officer Chris Tambini</p> <p>Implementation Deadline October 2018</p>
3	2	<p>Payroll BACS authorisation</p> <p>Payroll BACS authorisation process we found that for one of the three monthly BACS payroll payments in one of the months tested, the same officer had both input and authorised the BACS payment.</p> <p>Risk</p> <p>Incorrect payroll payments made to employees.</p> <p>Recommendation</p> <p>Ensure that the input and authorisation of BACS payments are always undertaken by two separate officers.</p>	<p>Agreed</p> <p>Responsible Officer Chris Tambini</p> <p>Implementation Deadline October 2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
4	3	<p>Pension Fund – Investment Asset Reconciliation</p> <p>Quarterly NAV statements received from Fund Managers are not input into the ledger until the year end, during accounts closedown process.</p> <p>Risk</p> <p>Changes in market values of the Fund’s investments is not journaled into the ledger correctly.</p> <p>Recommendation</p> <p>The Fund should reconcile the Fund Manager NAV statements back to the ledger on a quarterly basis. This should be prepared and approved by two separate officers.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>December 2018</p>
5	3	<p>Pension Fund – Bank Reconciliation</p> <p>Pension Fund cash is currently reconciled on a daily basis. We noted that this reconciliation is not formally reviewed.</p> <p>Risk</p> <p>Cash is incorrectly reconciled between the bank and the ledger.</p> <p>Recommendation</p> <p>The Fund should implement a formal month end bank reconciliation, which is prepared and approved by two separate officers. This will also align the Fund’s processes with the ones of the County Council.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>October 2018</p>

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

In the previous year we raised two recommendations which we reported in our *ISA 260 Report 2016/17*

Number of recommendations that were

Included in the original report	2
Implemented in year or superseded	2
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status of recommendation
1	2	<p>Approval of the 2016/17 Final Statement of Accounts within the earlier deadline.</p> <p>For 2016/17 the Authority decided to keep the approval of the Final Statement of Accounts to September even though they planned for and successfully produced the draft Statements to meet the new 2017/18 deadline. This decision was to allow for any slippage in the planned earlier close down and accounts production, thereby avoiding the risk of having to alter committee dates at short notice.</p> <p>However, in order for the Authority to meet the new 2017/18 deadline, arrangements for the earlier approval of the final Statement of Accounts will need to be in place.</p> <p>Recommendation</p> <p>Ensure that arrangements have been made for the appropriate approval of the final Statements of Accounts in accordance with the new 2017/18 deadline.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>31 December 2017</p>	Fully implemented
2	2	<p>Key Staff changes within the Strategic Finance Technical Accounting Team</p> <p>The Strategic Finance Technical Accounting Team (TAT) successfully produced the draft statements two months earlier this year in preparation for the new 2017/18 deadline. However, a key officer within the team left during the year and their replacement is not due to take up post until October 2017. The new officer will be under pressure to learn the requirements of their new role whilst also supporting the team to maintain the early closedown and draft statement production.</p> <p>There is a risk that this may lead to delays in the production of the draft statements and/or quality issues with supporting working papers. Both of which could have an adverse impact on the length of our audit and the Authority meeting the new 2017/18 deadline.</p> <p>Recommendation</p> <p>Ensure adequate support and training is available to TAT during closedown and production of the statements and continue to have regular catch up meetings with ourselves, particularly running up to close down, to monitor progress and address any issues as they arise.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Chris Tambini</p> <p>Implementation Deadline</p> <p>31 December 2017</p>	Fully implemented

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Corporate Governance Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Technical Accounting Team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Leicestershire County Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences – Authority (£'m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Surplus on Revaluation of Property, Plant and Equipment	Unusable Reserves Total Comprehensive Expenditure and Income	Property, Plant and Equipment – Land and Buildings		Unusable Reserves – Revaluation Reserve	Difference between asset value per K2 property system and Fixed Asset Register following download from K2.
	Cr 1.36	Dr 1.36	Cr 1.36		Dr 1.36	Total impact of adjustments

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

None of these adjustments were not significant and it is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Pension Fund

We also identified a number of presentational adjustments required to ensure that Pension Fund's financial statements for the year ending 31 March 2018 are fully compliant with the Code.

None of these adjustments were not significant and it is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £15.25 million which equates to around 1.9% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

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 misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Authority.

Where management have 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.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £31 million which is approximately 0.8 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.55 million for 2017-18.

Required communications with the Corporate Governance Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted audit differences with a total value of £1.36 million. See page 18 for details. This adjustment did not impact the reported deficit on provision of services. We have identified no adjusted differences as a result of our audit of the Pension Fund's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's and Pension Fund's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Corporate Governance Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment in Section one of this report. We identified two IT control environment and one key financial systems control deficiencies which are reported from page 6.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Corporate Governance Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



Declaration of independence

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

Professional ethical standards require us to provide to you at the conclusion 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 Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement 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

On 12 October 2017 we wrote to the Council outlining a breach in relation to the FRC Ethical Standard in respect of the engagement of KPMG EU Tax Funds team in February 2011 and April 2013 to provide tax services in relation to the recovery of withholding tax on manufactured overseas dividends to Leicestershire County Council Pension Fund.

These tax engagements have been terminated and we do not consider the breach to have been significant in terms of our independence and objectivity as your auditors for the following reasons:

Declaration of independence (cont.)

- 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 County Council Pension Fund.
- The tax claims made amount to £1,464,999.51. This is not regarded as material to the financial statements of Leicestershire County Council Pension Fund.
- The tax claims were still unsettled at the point in time when the engagement was terminated and consequently the potential tax repayment had not been recognised in the accounts of the pension fund.

Based on the above, in our professional judgement, we have concluded that our objectivity as auditor has not been compromised and the firm and the engagement team maintained their independence of Leicestershire County Council Pension Fund.

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 controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	76,950	76,950
Audit of the Pension Fund	27,637	27,637
Total audit services	104,587	104,587
Audit related assurance services	2,500	2,500
Total Non Audit Services	2,500	2,500
Total fees payable	107,087	107,087

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 4%. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

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 table on the following page.

Declaration of independence (cont.)

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return	The nature of these audit-related services is to provide independent assurance on the return. As such we do not consider them to create any independence threats.	Fixed Fee	2,500	nil

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

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, 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, which is consistent with prior year and in line with the scale fees published by PSAA.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Leicestershire County Council)	76,950	76,950
PSAA Scale fee (Leicestershire Local Government Pension Fund)	27,637	27,637
Total audit services	104,587	104,587
Audit-related assurance services		
Teachers' Pension Return (work planned for September)	3,000	2,500
Total non-audit services	3,000	2,500
Grand total fees for the Authority	107,587	107,087

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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.

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Mr J Cornett
KPMG LLP
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Date: 25 July 2018
My Ref:
Your Ref:
Contact: Chris Tambini
Phone: 0116 305 6199
Fax:
Email: Chris.Tambini@leics.gov.uk

Dear John

This representation letter is provided in connection with your audit of the financial statements of Leicestershire County Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes (including the Expenditure and Funding Analysis). The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Corporate Resources

Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RB
Email: resources@leics.gov.uk

Chris Tambini, Director of Corporate Resources

www.leics.gov.uk

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and

- b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

11. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Corporate Governance Committee on 25th July 2018.

Yours faithfully,

Chris Tambini
Director of Corporate Resources

Mr. P. Bedford CC
Chair of the Corporate Governance Committee

Appendix to the Authority Representation Letter of Leicestershire County Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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CORPORATE GOVERNANCE COMMITTEE – 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ANNUAL TREASURY MANAGEMENT REPORT 2017/18

Purpose of Report

1. The purpose of this report is to advise the Committee on the action taken and the performance achieved in respect of the treasury management activities of the Council in 2017/18.

Policy Framework and Previous Decisions

2. Under the CIPFA Code of Practice it is necessary to report on treasury management activities undertaken in 2017/18 by the end of September 2018. This report will be referred to the Cabinet in September 2018.

Background

3. The term treasury management is defined as:-

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

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

Treasury Management 2017/18

5. The Treasury Management Policy Statement for 2017/18 was agreed by the full Council on 22nd February 2017, in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.
6. The criteria for lending to Banks are still derived from the list of approved counter parties provided by the County Council’s advisors, Link Asset Services.

The list is amended to reduce the risk to the County Council by removing the lowest rated counterparties and reducing the maximum loan duration.

7. For local authority lending the policy is unchanged with no loans permitted in excess of 12 months duration or £10 million in value. During May, Moody's, one of the world's best known credit rating agencies, re-affirmed its view that the UK local government sector has a high credit quality. The implication being that the sector continues to be a good risk for lenders.
8. During the year there were no divergences from the agreed policy.
9. In 2016 it was agreed that any counterparty that was downgraded whilst a loan was active, and where the unexpired period of the loan, or the amount on loan, would then breach the limit at which a new loan could be made to that counterparty, this would be included in the quarterly treasury management report to this Committee. There were no such incidents during 2017/18.
10. Following the November 2017 increase in UK base lending rates to 0.5% the impact on short-dated investments in Money Market Funds improved marginally over time, but took in excess of 4 months to achieve parity with base rates. However, the medium to longer term rates included the impact of the rate increase immediately and also priced in expectation for future base rate rises which created opportunities to improve returns.
11. At the February 2018 Bank of England (BoE) Monetary Policy Committee meeting, market guidance from the BoE left no doubt that rates would rise again as soon as May 2018 and this impacted on higher rates across the yield curve. The premium for lending long to highly rated UK financial institutions continued to out-weigh the risk of a rate increase, so investments for periods of 6 months and 12 months were made during the quarter. Despite predictions, as the May BoE meeting neared, inflation fell to 2.2% and the poor quarter one GDP figure of 0.1%, which was below trend, saw rates remain on hold. With rates on hold for a further quarter at least the decision to lend into the longer end of the yield curve will be advantageous.
12. On the debt portfolio, no new loans were taken. A total of £10m was repaid in the year, as well as a short dated maturing PWLB loan of £7.5m, £0.5m in respect of three Equal Instalments of Principal loans, and a £2m external market loan, thereby reducing the overall balance of the loan portfolio, but marginally increasing the average 'Pool' rate.
13. The Authority has not raised any external loans since August 2010 and external debt is around £100m lower than it was at its peak in November 2006. There are no current plans to raise any further external debt, and opportunities to reduce it will be considered if they are cost effective.

Position at 31st March 2018

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

	31 st March 2017			31 st March 2018		
	Principal	Average Rate	Average Life	Principal	Average Rate	Average Life
Fixed Rate Funding						
- PWLB	£169.1m	6.61%	33 yrs	£161.1m	6.77%	32 yrs
-Market	£ 2.0m	8.12%	1 yr	£ 0.0m	n/a	n/a
Variable Rate Funding:						
- Market (1)	£103.5 m	4.37%	1 yr	£103.5 m	4.37%	1 yr
Total Debt	£274.6m	5.78%	20 yrs	£264.6m	5.83%	20 yrs

(1) The lenders all have an option to increase the rates payable on these loans on certain pre-set dates, and if they exercise this option we can either repay or accept the higher rate. The average life is based on the next option date.

15. The position in respect of investments varies throughout the year as it depends on large inflows and outflows of cash. Over the course of the year the loan portfolio (which includes cash managed on behalf of schools with devolved banking arrangements) varied between £187m and £268m, and averaged £220m. Investments as at 31 March 2018 were £206m.

Debt Transactions

16. The Council began the financial year £6.9m over-borrowed compared with the amount required to fund the historic capital programme - the Capital Financing Requirement.
17. The major reason for this is that there has been no requirement to borrow to fund the capital programme (which leads to debt financing costs that fall on the revenue budget), and also the Governments change a number of years ago to award grants to fund the capital programme rather than the previous approach of supporting borrowing. Given the large penalties that would currently be incurred by prematurely repaying existing debt, there is little that can be done to reduce the likelihood of the position increasing unless long-term interest rates rise significantly.
18. At the end of the financial year, after the repayment of debt and setting aside funding for the Minimum Revenue Provision (MRP) - a charge (c. £11m) that is intended to ensure that loans raised to finance capital expenditure are paid off over the longer term – the Council was £7.7m over-borrowed.
19. The lack of opportunity to reduce the debt portfolio because of historic stagnant interest rates makes the punitive redemption costs prohibitive. The debt portfolio stands at £264.6m and the average pool rate 5.83%.

20. The action taken on the debt portfolio marginally increased the average rate of external debt over the course of the year as the interest rate on the largest maturing loan (£7.5m) was at a lower rate (3.16%) than the portfolio average.

Investments

21. The loan portfolio produced an average return of 0.60% in 2017/18, compared to an average base rate of 0.35% and the average 7 day LIBID (London Interbank Bid Rate) index (representative of what could be achieved if only short-term loans within the money market were made) of 0.23%.
22. The loan portfolio has outperformed both the average base rate and the local authority 7 day deposit rate in every one of the last 23 years, which is when the figures started to be produced. The level of the out performance is flattered somewhat by the significant over performance achieved both during and in the immediate aftermath of the credit crunch. The average rate of interest earned on the portfolio in the last 23 years is 3.97%, and this compares to an average base rate and the average LIBID index which have both produced a return of 3.32%.
23. The variability of balances makes it difficult to calculate the excess interest that the over performance has achieved over the whole of the 20+ year period for which performance records are available, but it is estimated to be at least £28m. Almost half of this added value came in the five financial years from 2008 to 2013, which can be categorised as the start of the financial crisis and a period in which a number of loans placed during the financial crisis were earning interest at rates that (relative to base rates) were extraordinary.

Summary

24. Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in significant savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
25. The loan portfolio has produced an exceptional level of over performance in the period in which performance figures have been calculated. Adding significant value in a period of extremely low interest rates is very difficult. Ironically a period in which there begins to be differentiation in expectations for both the pace and extent of future base rate rises will make the cash sums that can be gained larger, whilst also giving a higher level of risk that the decisions taken might be wrong. Such a period has intermittently seemed to get closer in recent years, only to be consistently put back.

Equality and Human Rights Implications

26. None.

Background Papers

Report to County Council on 22nd February 2017 – ‘Medium Term Financial Plan’:
<http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf>

Appendix K ‘Treasury Management Strategy Statement and Annual Investment Strategy 2017/18’
<http://politics.leics.gov.uk/documents/s126539/Appendix%20L%20-%20Treas%20Man%20Strat.pdf>

Circulation under local issues alert procedure

None.

Officers to Contact

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CORPORATE GOVERNANCE COMMITTEE – 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of Report

1. The purpose of this report is to update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 29th June 2018.

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. Domestic economic data has improved recently and expectations are that GDP (Gross Domestic Product) will be 0.4% in quarter two (calendar year 2018), showing a steady rebound from the poor quarter one figure of 0.1% which was clearly affected by the severe weather conditions experienced across the country.
5. Following the February Bank of England (BoE) Monetary Policy Committee (MPC) meeting there was a clear indication that interest rates were likely to rise by 0.25% as early as May 2018. However, improved inflation figures, with Consumer Price Index (CPI) at the end of April being 2.2% compared with 2.7% at the start of the year, together with the poor quarter one GDP figure, saw the BoE leave rates on hold. Speculation that the next 0.25% rate rise will follow the August BoE meeting has begun to surface, but economic data to be released ahead of that meeting will be the key guide as to whether any such increase is likely.

6. UK economic growth continues to lag behind that being produced elsewhere in the world, but it remains reasonable given the significant uncertainties relating to Brexit. There has been a lack of real (i.e. after adjusting for inflation) wage growth for many years and household budgets remain stretched, with high levels of personal debt.
7. Inflation has remained stubbornly high, but much of this is directly correlated to the weakening of sterling and the impact on the cost of imports that followed the vote to leave the EU. Recent data has seen a fall in inflation as price increases from over a year ago fall out of the calculation. When combined with signs of slightly higher wage growth across the economy, there is an expectation of a period of real wage growth that should assist in maintaining decent economic growth. Strong economic growth across the rest of the world should also assist in the UK economy in continuing to perform reasonably, although there remains an expectation of underperformance relative to other economies.
8. In Europe quarter one GDP was 0.4%, down from 0.7% in the preceding two quarters, and early indicators for quarter two show little sign of a rebound. This is likely to see European interest rates on hold for the time being.
9. There is no doubt that US interest rates will continue to be raised at a moderate pace, and at a faster pace than almost anywhere else in the world, 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 in both the short and long-term. A recent escalation in the tit-for-tat trade tariffs with China and Russia increases the general economic risks; fortunately these risks come against a background of synchronised global growth, but the potential for an economic slowdown exists.
10. Central Banks are keen to avoid policy mistakes that may disrupt this global growth, so it is likely that increases in interest rates will be carried out in a considered manner that does not surprise markets.

Action Taken during March Quarter

11. At the end of the quarter the investment loan portfolio stood at £221.4m, which was an increase from the £206.3m balance at the end of March 2018. This increase is within the normal tolerances of cash movements over any quarter, and mainly relates to the timing of precepts and grants.
12. During the quarter, six investment loans of £10m or more matured and all of these loans were for periods of either 6 or 12 months. Of these two loans were re-invested with the same counterparty on the same day for the same term. Of the other four loans, three were re-called and one for £15m was switched from a six month 'Notice' account to an Instant Access account with the same counterparty because of an anomaly in rates that saw the Instant Access account paying 10 basis points more.

13. Three new loans were generated during the quarter, two for £10m and one for £15m, and all were invested for a period of twelve months at an average rate of 0.95% with approved banking institutions. The average rate of the six maturities was 0.68%, and the average rate for the two renewals, the loan switch and the three new loans was 0.89%.
14. In April 2018 a further £3m was 'drawn down' by the private debt fund 'Partners Group' making an investment of £10m to date, out of a targeted £20m. A further £5m is likely to be called before the end of July 2018 with the remaining £5m expected in quarter three 2018. The private debt fund has a variable capital value, and for the purposes of this report the investment is shown at 'par' (i.e. the amount drawn, adjusted for any capital repayments when these occur in the future); if there is any meaningful fall in value to below par this will be stated in the narrative. It also has a variable interest rate and the calculation of the average rate being earned by the loan portfolio will exclude the private debt fund investment and will relate only to the cash portfolio.
15. At the end of June the average rate of interest on the cash portfolio was 0.75%, in comparison to 0.73% at the end of March 2018. The loan portfolio at the end of June was invested with the counterparties shown in the list below:

	£m	Maturity Date
Instant Access		
Money Market Funds	21.4	July 2018
Santander UK	20.0	July 2018
6 Months		
Close Brothers	£5.0	September 2018
Close Brothers	£5.0	September 2018
Close Brothers	£10.0	September 2018
Goldman Sachs	£10.0	October 2018
Goldman Sachs	£10.0	December 2018
12 Months		
RBS	£10.0	July 2018
RBS	£20.0	August 2018
Toronto Dominion Bank	£10.0	October 2018
Thurrock BC	£10.0	November 2018
Lloyds (BOS)	£10.0	November 2018
Lloyds (BOS)	£10.0	November 2018
London Borough of Southwark	£10.0	November 2018
Northamptonshire County Council	£5.0	January 2019
Lloyds (BOS)	£10.0	May 2019
Australia & New Zealand Bank	£15.0	May 2019
National Westminster Bank PLC	£10.0	May 2019

Beyond 12 Months		
Partners Group	£10.0	Open Ended
Danske Bank	£10.0	September 2027
Total Portfolio Balance at 29th June 2018	£221.4	

16. In addition to the above, there were two further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and both of these loans had original maturities of five years. These do not form part of the treasury management portfolio, but are listed below for completeness (balances as at 29th June 2018):

- 5 year loan for £2m, commenced 1st August 2013 at 2.31%
- 5 year loan for £1m, commenced 31st December 2013 at 3.08%

Counterparties that breached authorised lending list

17. There were no active loans during the period that breached the authorised counterparty list at the time 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

18. 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

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

Recommendation

20. The Committee is asked to note this report;

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

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CORPORATE GOVERNANCE COMMITTEE – 25TH JULY 2018

REPORT OF DIRECTOR OF LAW AND GOVERNANCE

ANNUAL REPORT ON THE OPERATION OF THE MEMBERS' CODE OF CONDUCT 2017/18

Purpose of Report

1. This report fulfils the requirement for the Monitoring Officer to report to the Committee on an annual basis on the operation of the Members' Code of Conduct in accordance with a decision of the Committee on 24th September 2012.

Background

2. In the light of the changes introduced in the Localism Act 2011 a new Members' Code of Conduct was adopted at the County Council meeting on 4th July 2012 following prior consideration at the Constitution Committee on 22nd June and the Corporate Governance Committee on 29th June that year.
3. The effect of the changes was to give this Committee responsibility for dealing with matters relating to the Code of Conduct for Members.
4. Detailed arrangements for dealing with allegations against Members were considered by this Committee on 24th September 2012 and a procedure for dealing with allegations was agreed.
5. The Committee received the report on 26th November 2012 to address concerns which had been received as to the steps which could be taken in the event that a Member who had been the subject of the complaints process refused to comply with the outcome of those procedures. Concerns were expressed at the lack of sanctions in the regime for dealing with the conduct of Members in the light of changes to the legislation and the Committee asked that in the event of non-compliance, the Monitoring Officer report the cases to this Committee. To date this situation has not arisen.
6. In January this year the Committee on Standards in Public Life launched a consultation to inform its review of local government ethical standards to:
 - Examine the structures, processes and practices in local government in England for:
 - maintaining codes of conduct for local councilors

- investigating alleged breaches fairly and with due process
 - enforcing codes and imposing sanctions for misconduct
 - declaring interests and managing conflicts of interest
 - whistleblowing
- assess whether the existing structures, processes and practices are conducive to high standards of conduct in local government
 - make any recommendations for how they can be improved
 - note any evidence of intimidation of councilors, and make recommendations for any measures that could be put in place to prevent and address such intimidation
7. The Council has participated in the review through this Committee. The Chair of the Committee on Standards in Public Life has indicated an intention to report to the Government by the end of the year.

Complaints received under the Members' Code of Conduct

8. Since May 2017 there have been seven complaints (relating to five members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as follows:

Outcome of complaint	Number of members
Resolved informally	2
Complaint did not meet threshold for further investigation as set out in the 'initial test'	2 (3 complaints)
Complaint upheld by Member Conduct Panel	1 (2 complaints)

9. In addition to the above, two complaints have been received but not followed up by the complainants.
10. As in previous years there are no trends in relation to the subject matter or in relation to the members who have been the subject of a complaint.
11. As members will be aware, complaints alleging failure to register a Disclosable Pecuniary Interest are matters for consideration by Leicestershire Police as the Localism Act 2011 has made such failures a criminal offence. No such complaints have been received during the period under review.

Member Conduct Panel

12. As referred to above, two complaints have been referred to the Member Conduct Panel for consideration both of which related to the same member, Mr M. H. Charlesworth CC, and arose out of the same events. The complaints were made by Mr. N. J. Rushton CC, the Leader of the County Council, and Dr.

T. Eynon CC, the Leader of the Labour Group.

13. The complaints alleged that comments made by Mr. Charlesworth CC at a meeting of the full County Council on Wednesday 27th September 2017 during its consideration of a report of the Independent Remuneration Panel on Members' Allowances, breached the code of conduct as Mr Charlesworth failed to show respect and courtesy towards the three independent members of that Panel.
14. The complaints were first referred to the Member Conduct Panel in December 2017 following an initial assessment and early assessment undertaken by me as the Monitoring Officer in accordance with the Council's approved Procedure for dealing with allegations of a breach of the Members' Code of Conduct. The Panel agreed that the complaints should be referred for investigation.
15. An independent investigator was subsequently appointed to conduct the investigation (Mr Jonathan Goolden of Wilkin Chapman LLP). His report and findings were received in May 2018 and thereafter referred to the Panel for consideration.
16. The Panel met on 26th June 2018. Mr Charlesworth did not attend, but taking account of his request for the Panel to carry on regardless of whether or not he attended, the Panel resolved to proceed in his absence. The Panel also agreed for the hearing to proceed in public, having taken account of Mr Charlesworth submission prior to the meeting that this should be the case.
17. The investigator attended to present his report and the independent person appointed in this case also attended to give her views.
18. The Panel unanimously agreed that it had been proven that Mr Charlesworth had breached paragraph 3.1 (you must treat others with respect) and 3.5 (you must not conduct yourself in a matter which could reasonably be regarded as bringing your office or the Authority into disrepute) of the Members' Code of Conduct when, at the meeting of the full County Council held on 27th September 2017, he made comments which called in to question the independence of the three members of the Independent Remuneration Panel who were not present at the meeting. These comments were unwarranted, unjustified and personalised, did not treat the Panel members with respect and thereby brought the office and the Authority into disrepute.
19. Having made the above decision, the Panel then decided unanimously to impose the following sanctions:
 - (i) That the Monitoring Officer write a formal letter to Mr Charlesworth setting out the decision of the Panel, the sanctions it has imposed, and its disappointment at having to make the decision that the Code of Conduct has been breached. A copy of this letter will be published on the Council's website and displayed on Mr Charlesworth's webpage for a year.

- (ii) That Mr Charlesworth send a letter of apology to each of the three members of the Independent Remuneration Panel within 14 days of receipt.
- (iii) That Mr Charlesworth make a public apology to the members of the Independent Remuneration Panel and the Council at the Council meeting to be held on 26th September 2018.
- (iv) That Mr Charlesworth undertake training to be organised by the Monitoring Officer on the Code of Conduct and in particular, the standards expected of members during meetings.

20. The formal letter referred to in (i) above was sent to Mr Charlesworth on Tuesday 3rd July and has been published on the Council's website and displayed on Mr Charlesworth's webpage. Attached to this were the three letters of apology to be sent to the members of the Independent Remuneration Panel as referred to in (ii) above.
21. At the time of writing this report, the 14 day timescale for Mr Charlesworth to send the letters of apology to each member of the Independent Remuneration Panel has not expired (19th July 2018). However, on 8th July, Mr Charlesworth sent an email acknowledging receipt of the formal letter and indicating that he would not make the apology or undertake training as ordered by the Member Conduct Panel. His response was copied to his Group Leader, Mr S. J. Galton CC. A further update will be provided at the meeting.

Recommendation

22. The Committee is asked to note this Report.

Equality and Human Rights Implications

None.

Background papers

Guide to the Leicestershire County Council Members' Code of Conduct

Leicestershire County Council's Procedure for dealing with allegations of a breach of the Members' Code of Conduct.

Report to the Corporate Governance Committee on 24 September 2012 - 'Arrangements for dealing with Member Conduct Complaints'

Report to the Corporate Governance Committee on 26 November 2012 - 'Arrangements for dealing with Member Conduct Complaints'

Circulation under the Local Issues Alert Procedure

None. However, copies of this report have been circulated to the following for information:

- Mr. M. H. Charlesworth CC as he was the subject of two complaints which are detailed in this report.
- Mr. S. J. Galton CC as the Liberal Democrat Group Leader.
- Mr. N. J. Rushton CC and Dr. T. Eynon CC as they were the complainants against Mr. Charlesworth CC.
- All Members of the Member Conduct Panel who attended the recent meeting to consider the investigation carried out in respect of the complaints made against Mr. Charlesworth.
- The three Members of the Independent Remuneration Panel.

Officer to contact

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CORPORATE GOVERNANCE COMMITTEE - 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of Report

1. One of the key roles of the Corporate Governance 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
 - Counter Fraud Update
 - Insurance update
 - Risk Maturity Health Check

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. Movements since the CRR was last presented to the Committee on 23 April 2018 are detailed below.

Risks Added

- Risk 1.7 (Corporate Resources) – If the Council fails to be non-compliant with HRMC IR35 regulations regarding the employment of self-employed personnel then there is a risk of significant financial penalties.
- Risk 1.8 (Corporate Resources) - If public sector partners and major providers of services to the public sector get into financial difficulties there could be an impact on both the Council's financial position and services.

Risks Removed

- Risk 10.1 (Environment & Transport) – Winter Maintenance

The absence of a depot in the North East of the County may impact on the delivery and cost of the Winter Maintenance Programme for 2019/2020.

The Department has reduced the impact and likelihood scores leading to a reduction in the current risk score from 16 to 12. Property Services are progressing with completion of planning consent for Sysonby Farm by March 2019. The Department are working on a build programme to deliver the new facility before the end of September 2019.

Removal of the risk from the CRR at this point was queried because of the length of time to obtain planning consent, but assurances were received from the Director that the risk will be managed within the Environment and Transport Departmental Risk Register.

- Risk 2.4 (Adult & Communities) – Domiciliary Care

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.


The Help To Live At Home (HTLAH) project is now closed. This risk was closed and formulated into a market sustainability risk for the Department. The current risk score for the social care market is 12 and the risk is being managed within the Adults and Communities Departmental Risk Register.




Risks Reworded




- Risk 3.6 – Oracle Enterprise Resource Planning (ERP) system risk has been slightly reworded to reflect the potential impact on resources (financial and people (HR)) management.
- Risk 9.1 – Ash dieback


If the ash dieback disease causes shedding branches or falling trees then there is a possible risk to life and disruption to the transport network.




6. At its meeting on 23 April 2018, it was agreed that as part of the Corporate Governance Committee meeting on 25 July 2018, there would be a presentation on Risk 3.6 - If a replacement Oracle ERP system is not implemented successfully the Council will not reap the benefits, and the Council's financial and human resource activity could be negatively impacted upon.
7. 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. The full CRR is attached as an appendix to this report.
8. 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 May 2018	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	<p><u>MTFS</u> Recent announcements by the Government to award additional funding to the NHS are likely to put other Government Departments such as Ministry of Housing, Communities and Local Government under pressure with the result that local government funding will continue to be restricted or further restricted.</p> <p><u>Transformation</u> Transformation Unit is working with all Departments to continue to deliver existing savings targets and to identify new opportunities for savings through the development of relevant business cases.</p>	 Expected to remain high/red




				The development of a business case for the Early Help Review (including Children's Centres) has been rescheduled following the conclusion of a consultation process and will be reported to the Transformation Delivery Board in September.	
CE	1.3	If S (106) monies for the Council as a whole are not managed properly then there could be financial risks as well as legal challenges.	16	<p>MASTERGOV software has now been installed and is being tested for monitoring and output reporting. The aim is to make it easier to identify elements of funding and their potential/actual use.</p> <p>A review of S (106) will take place over the Summer and the results reported to Cabinet in September.</p>	 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	See Insurance update	 Expected to remain high/red
C&FS	1.5	<p><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</p>	20	Note: No change to previously reported position.	 Expected to remain high/red



		children's social care placement budget, which funds the care of vulnerable children.			
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	16 (score reduced from 20)	The High Needs Project Board has developed a clear strategy for reducing spend. This includes increasing provision across the County to meet assessed need in particular areas and ensuring the continued effectiveness of robust assessment. Activities already undertaken have had a positive impact on reducing the budget deficit. This work is now being overtaken by the Sufficiency Provision and Inclusion project.	 Expected to remain high/red
CR	1.7	If the Council is not compliant with the HRMC IR35 regulations regarding the employment of self-employed personnel then there is a risk of large financial penalties	20 (new)	A recent tax specialist report identified that the Council could be non-compliant against the regulations with regard to self-employed personnel. A report has been prepared for Chief Officers. Whilst there is a policy and guidelines in place with tax expert advice available, there is a need to further develop this area. Further mitigations identified are : <ul style="list-style-type: none"> • Establishment of a central control point • Development of guidance and training and improved comms for managers. • Review of all current identified posts separate from the Reed Employment to identify issues • Improve standard of checks available from other agencies 	 Expected to move to medium/amber
CR	1.8	If public sector partners and major providers	16 (new)	The Council is linked to the wider public sector in a number of ways. These include trading	 Expected to



		of services to the public sector get into financial difficulties there could be an impact on both the Council's financial position and services		<p>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.</p> <p>The following mitigating actions are being considered :</p> <ul style="list-style-type: none"> • Extra resources will be put in place to assess the financial health of maintained schools (and academies) and the financial planning service enhanced to support them. • Continued use of credit weightings to inform decision making but also take into account their limitations. • Monitoring of key partner organisations including regular dialogue. 	increase
2. Health & Social Care Integration					
All	2.2 (i)	NHS Leicester, Leicestershire and Rutland's (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	<p>The County Council raised concerns about the current governance and viability of the STP and has determined not to be a signatory to a further draft plan. The NHS has decided not to publish a further plan but to promote partnership activity under the Better Care Together banner. Progress with any sort of medium term local NHS plan is largely dependent on the award of significant capital funding for which a business case is being prepared.</p> <p>NHS commissioning arrangements are now under</p>	 <p>Expected to remain high/red</p>



	(ii)	Sub risk: Impact on County Council services due to the risk of the local NHS being unable to manage demand and achieve financial balance in the current financial year.		<p>review.</p> <p>Increased risks in relation to:</p> <ul style="list-style-type: none"> • Setting and delivering pooled budgets between Clinical Commissioning Groups (CCGs) and LA (including Better Care Fund (BCF)) due to increasing CCG activity levels, financial pressures, and larger savings targets • risk to delivering BCF metrics such as Delayed Transfer of Care and Non elective admissions due to increased demand on the health and care system • potential policy risks linked to new NHS funding requirements (when known) and the delays to the green paper on Adult Social Care. 	 Expected to increase
All	2.3	Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.	16	<p>Work has progressed on this risk as follows:</p> <ul style="list-style-type: none"> • Engagement with Departments to raise awareness of welfare reform risks and Officers now to consider impacts on individual departments. • Departments will identify any specific risks (welfare reform related) and retain and monitor via individual departmental risk registers 	 Expected to remain high/red
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	<p>With regard to training on Information Security and Data Protection latest data on LMS shows 77% compliance. New data protection policy on training has been agreed. Application of the policy is likely to reduce the number of people required to complete mandatory e-learning. New General Data Protection Regulation (GDPR) mandatory e-learning has been launched.</p>	 Expected to move to medium/amber

				<p>Phase 1 milestones set for GDPR compliance have been met. The areas where work is being progressed relates to the completion of asset registers and issue of contract variations. Phase 2 planning is now underway.</p> <p>With regard to the implementation of the Information Commissioners Office (ICO) Audit Improvement Plan, 94% of actions have been completed and the remaining actions (6) are on track for completion.</p>	
All	3.5	If the Council fails to maintain robust records management processes to 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.	15	The physical organisation of file management has been flagged as a significant issue under GDPR. The scale of work to be undertaken has been scoped and will be reported to Chief Officers to consider the proposed approach.	 Expected to move to medium/amber
CR	3.6	If a replacement (ERP) system is not implemented successfully the Council will not reap the benefits and	20 (score increased from 15)	<p>Implementation phase of the project has commenced with meetings with the implementation partner. Lead resource for all the work streams is in place.</p> <p>More information will be</p>	 Expected to move to medium/

		the Council's financial and HR activity could be negatively impacted upon		provided in the presentation to Committee.	amber
C&FS	3.7	If the quality of data in Children and Families (C&FS) Information Management System is too low to satisfy statutory requirements (e.g. data returns) this will impact upon service delivery	20	Regular meetings regarding data quality are being held to cover priorities over specific areas.	 Expected to move to medium/amber
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	<p>Proposals for the Corporate Resources contracts dashboard (covers high risk and value business critical contracts) are going to be presented to the Corporate Services Management Team for approval. Once approved, the dashboard will be populated in line with Contract Managers contract quarterly reviews.</p> <p>Good progress has been made with regard to the rollout of training to contract managers. Further training is scheduled once the new tool kit is developed and rolled out.</p> <p>Savings (£250k) identified in the MTFS have been delivered against the target for 2017/18. On track to deliver a further £250k by the end of 2018/19.</p>	 Expected to move to medium/amber
E&T	4.2	If Arriva is successful in its	15	Adjudicator has been appointed and advised. Arriva has	

		concessionary travel appeal then reimbursement costs for the total scheme could increase significantly.		submitted two further appeals against the 2018/19 scheme and a decision note on pros and cons of agreeing immediate stays for information by Arriva in light of the appeal requested by Department for Transport. This appears to be a national concern as Derbyshire and Shropshire have both reported the same approach. As previously reported the maximum risk for the Arriva appeal remains at £916,000.	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	IICASA has indicated that the Janner Investigation Public Hearing will not be held before April 2019.	 Expected to remain high/red
6. Brexit					
All	6.1	Uncertainty and significant knock on consequences on public services (including potential legal, regulatory, economic and	16	Initial scoping work will be reported to Chief Officers in July. This will distinguish between the risks to the County Council as a service provider and the risks to the local economy. A reassessment of the risk level will be considered by Chief Officers.	 Expected to remain high/red

		social implications), and the local economy as a result of the United Kingdom leaving the European Union			
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	<p>The Intensive Support Project is ongoing. Part 2 of the training on mental health and stress is current being delivered. HR advisors are now contacting Managers to provide support as soon as staff with mental health issues are identified. Two new services are now receiving intensive support - Recycling Waste (E&T) and Customer Service Centre (CR).</p> <p>The Absence Management Policy will be revised and consultation with the unions will start shortly.</p>	 Expected to move to medium/amber
All	7.2	<u>Recruitment and retention</u> If departments are unable to recruit and retain skilled staff promptly then some services will be over-reliant on the use of agency staff resulting in budget overspends and poor service delivery	25	<p><u>C&FS (risk score =25)</u> No change to previously reported position.</p> <p><u>E&T (risk score =12)</u> The Departmental Management Team (DMT) has reduced the level of risk (to Amber) as a result of the positive recruitment projects being delivered as part of the Department's workforce plan.</p> <p><u>A&C (risk score =16)</u> The rates of pay are not competitive for certain posts resulting in recruitment difficulties.</p>	 Expected to remain high/red
8. Business Continuity					

CE	8.1	If suppliers of critical services do not have robust business continuity plans in place, the Council may not be able to deliver services.	20	Not all contracts are procured through the Corporate Commissioning Unit (CCU). A detailed report on current practices and concerns to be submitted to Chief Executive's DMT seeking guidance on further action.	 Expected to remain high/red
9. Environment					
E&T	9.1	If the ash dieback disease causes shedding branches or falling trees then there is a possible risk to life and disruption to the transport network	15	Cross departmental governance is in place and a draft Ash Dieback action plan has been produced and presented to Chief Officers in June and will go to Cabinet in July. The collection of condition data will begin end summer/early autumn.	 Expected to move to medium/amber

Counter fraud update

9. The Head of Internal Audit and Assurance Service (HoIAS) along with financial accounting officers compiles statements each year to assist the External Auditor with its responsibilities relating to the risk of fraud in the annual audit of the financial statements. This is a requirement of International Standard on Auditing (UK and Ireland) (ISA 240).
10. The ISA is very clear that the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the organisation. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced through active oversight by those charged with governance.
11. When performing risk assessment procedures and related activities to obtain an understanding of the Council and its environment, including its internal control, the External Auditor obtains information from management and the

internal audit function. Further inquiries are asked of those charged with governance. It is accepted practice that the HoIAS prepares the Committee's responses to these inquiries following consultation with the Chair of the Committee. Due to the need to return these to the External Auditor in order for them to complete their audit, the HoIAS consulted with the proposed new Chair of the Committee on 6th July regarding this year's response.

Insurance update

12. Municipal Mutual Insurance (MMI) is currently engaged in a litigation process concerning the amounts it is able to recover from its reinsurance arrangements whilst it was in a position to write insurance business. It has been working with its solicitors in relation to the presentation and allocation of mesothelioma reinsurance claims. The essence being whether claims must be allocated proportionately to the period of exposure or whether claims can be 'spiked' into the single most advantageous reinsurance year with only one deductible applying rather than a deductible applying in each individual year of exposure. Success would result in a significantly higher value for the reinsurance asset.
13. Arbitration proceedings have been entered into against MMI's reinsurer Equitas. The decision handed down was favourable to MMI on all grounds. However, the Court of Appeal has since granted Equitas permission to appeal. This case has significant ramifications for the wider insurance industry and thus is likely to go through to the Supreme Court in due course.
14. MMI's management accounts as at 31st December 2017 note a contingent reinsurance asset of £31m should the litigation ultimately prove successful. At present there is no indication that the rate of levy on claims is likely to change. Success in the litigation will make such a possibility more remote.

Risk Maturity Health Check

Background

15. The last independent external assessment of the Council's risk management arrangements and maturity was carried out in 2012. The report concluded that in accordance with the ALARM National Performance Model for Risk Management in Public Services, the Council was between Level 2 - described as "Happening", and Level 3 - described as "Working", but there was recognition that resources were limited and that ambitions for the future must be realistic and achievable. The target was set of achieving Level 4 – described as "Embedded & Working". A number of recommendations contained in the action plan to the report were implemented in subsequent years.

16. A further detailed maturity review was undertaken (this was an internal assessment but the results were validated by an independent officer within the Council) and reported to this Committee in January 2015. This assessed the Council's level of risk maturity as between levels 3 "Working" and 4 "Embedded and Working" i.e. an improvement in maturity.
17. It was planned that a re-evaluation of the Council's risk maturity against ALARM guidance would take place on a three-yearly frequency (maximum) with the next review planned for December 2017. However, this was delayed and has been rescheduled to be undertaken in the late summer/early autumn 2018.

Current Position

18. In order to independently evaluate the Council's risk management arrangements against best practice, the HoIAS has agreed with the Director of Corporate Resources to approach Risk Management Partners (RMP), the managing agent of the Council's current insurers, in order to utilise some of the days it offers for risk management training. RMP are providers of insurance and risk management services to the public sector who develop and deliver effective risk advice, provide guidance, risk management reviews, health-checks, and training programmes. RMP will use their partner Gallagher Bassett (GB) to conduct the health check.
19. The health check is a multi-level assessment of the degree of maturity and effectiveness of the Council's current risk management practices. It is designed to provide a third-party perspective on the strengths of current practices and identify any perceived opportunities for potential improvement. It is based the HM Treasury document 'Risk Management assessment framework: a tool for departments' (July 2009) and is constructed using a series of pre-determined question sets. The question sets include the following components: -
 - 1) Leadership and management
 - 2) Strategy and policy
 - 3) People
 - 4) Partnerships, shared risks and resources
 - 5) Processes
 - 6) Risk handling and assurance
 - 7) Outcomes and delivery
20. It's proposed that the Director of Corporate Resources will 'sponsor' the health check to promote its importance. GB will firstly conduct a desk-top review of policy, reports, documents and guidance. As well as a series of scheduled one-to-one interviews with members, directors and other officers, a wider

engagement with the organisation can be achieved through the use of an online questionnaire which focuses upon selected elements of the health check.

21. On completion of the one-to-one interviews and online questionnaire process, a structured report will be formulated which will present the outcomes of both processes, seeking to identify the strengths of current risk management practices and any potential opportunities for improvement.
22. The health check review will need to be structured to ensure that it is tailored to the Council's specific needs. There are no financial implications to the Council other than officer and member involvement to attend a short interview and/or to complete the online questionnaire.
23. The timing of the review is scheduled through August/September with an intention to report back to the Committee in October.

Recommendations

24. 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 now provided on counter fraud and insurance;
 - d) Supports the approach to receiving an external assessment of the Council's risk management arrangements via the Council's insurers RMP.

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, 19 February, 13 May, 23 September and 25 November 2016; 17 February, 26 May, 22 September and 17 November 2017; 29 January 2018 and 23 April 2018

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Appendix

Corporate Risk Register

Dept.	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Current Risk Score			Risk Response; Tolerate Treat Terminate Transfer	Further Actions / Additional Controls	Residual Risk			Action Owner / (Date)	Action Complete (Yes or No)
							I	L	Risk Score			I	L	Risk Score		
1. Medium Term Financial Strategy (MTFS)																
All	1.1	Risk around the MTFS including the ability to deliver savings through Service Redesign/ Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures	<ul style="list-style-type: none"> Reducing government funding Increased demand for the most vulnerable continues to increase: Adult Social Care / CYPS Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Negative impact on all services as further service cuts will be required to reduce deficit <p><u>Reputation</u></p> <ul style="list-style-type: none"> Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted <p><u>Financial</u></p> <ul style="list-style-type: none"> Loss of income Restricted funding from other sources 	Chief Executive/ All Directors	<ul style="list-style-type: none"> Four year MTFS approved Monitoring processes in place at service, departmental and corporate level Progress with savings monitored and reported to Scrutiny Commission regularly Reporting of Transformation Programme aligned with Corporate Finance reporting Progress on savings from Transformation Programme monitored regularly to resolve early issues Design Authority operational. Transformation Programme aligned to MTFS Introduction of the Business Consultant role within the TU to focus on supporting the development of Business Case development Deliverability assessments on all Business Cases and newly identified opportunities for savings now routinely completed. 	5	5	25	Treat	<ul style="list-style-type: none"> Further work on the Council's low funding position to make the case for increased funding to government. <p><u>Transformation Programme</u></p> <ul style="list-style-type: none"> Development of business case for Early Help Review including Children's Centres TU resources are being focused on work with all Departments to identify new opportunities for savings and develop relevant business cases 	5	5	25	Chief Executive / All Directors During 2018/19	
CE	1.3	If S106 monies for the Council as a whole are not managed properly then there could financial risks as well as legal challenges	<ul style="list-style-type: none"> Due to the pooling limitations imposed by the Community Infrastructure Levy Regulations 2010 (as amended) on the use of s106 planning obligations. 	<p><u>Financial</u></p> <ul style="list-style-type: none"> Failure to secure funds putting LCC at financial risk <p><u>Reputation</u></p> <ul style="list-style-type: none"> Possible need for challenge / defend challenge in high court 	Director of Law & Governance Head of Planning, Historic & Natural Environment	<ul style="list-style-type: none"> Agreed positions established with District Councils Analysed data of s106 contributions since 2010 Infrastructure and Development Oversight Group in place- work programme and timetable in place Approach to projects and pooling established (subject to individual project circumstances). Regular updates to Cabinet on planning decisions that do not reflect the County Council's section 106 requirements. Members notified of requests for section106 	4	4	16	Treat	<ul style="list-style-type: none"> Improve procedures and practices MASTERGOV software now installed and being tested for monitoring and output reporting. Lack of staff resources to manage all the workload Developer Contributions Policy under active review A review of S (106) will take place over the summer and the results reported to Cabinet in September. 	4	2	8	Head of Planning, Historic & Natural Environment During 2018/19	

						contributions that fall within their division.										
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	<ul style="list-style-type: none"> Estimates from MMI continue to report a liability Potential to increase MMI levy as a result of recent foster care judgement and could impact the SOA. The judgement has an unknown impact Any claims arising from the time Independent were insurers would need to be self-funded. 	<u>Financial</u> <ul style="list-style-type: none"> Amounts involved are large and LCC is currently the MMI's largest creditor <u>Service Delivery</u> <ul style="list-style-type: none"> Reduced funds available to support services 	Director of Finance (Corporate Resources)	<ul style="list-style-type: none"> Detailed review of MMI claims undertaken before payments made Process for defending claims in place Ongoing partnership work with MMI to improve claims handling to reduce and manage losses A separate 'Uninsured Loss Fund' is established to meet to mitigate against such consequences of MMI an similar situations Training held to inform staff an management who undertake placement decisions re potential for future liabilities following 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 	4	4	16	Tolerate			4	4	16	Head of Internal Audit Service and Insurance Manager Ongoing 2018/19
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.	<ul style="list-style-type: none"> Demand for high cost placements increasing especially in relation to behaviour & CSE issues 	<u>Financial</u> <ul style="list-style-type: none"> High cost and overspending of budget 	Director - Children & Family Services	<ul style="list-style-type: none"> Weekly tracking of admissions and discharges of Children in Care - Panel process reviewed to introduce tighter HOS control of children entering care and legal proceedings (Child Decision Making Panel established January 2018) Annual Market Position Statements were published to ensure marketing and recruitment for placement sufficiency remains appropriately targeted (2015-17) - mainstream and specialist Foster Carer recruitment targets for 2017-18 will be met by the end of April 2018 (one month over); two new strategies (Recruitment and Retention Strategy and Adoption and Permanence Strategy) will sit under an overarching Placement Strategy to be launched April 2018; targets against both these Strategies have already been agreed. 16+ placement framework was introduced during 2016 and has effectively allowed the service to manage costs of these placement but ensure we have sufficiency to enable to move children from more costly 	4	5	20	Treat	<ul style="list-style-type: none"> Word Of Mouth project – six year programme of targeted savings Consultant advising on additional growth and to deliver a revised payment scheme Advice being taken for additional growth to recruit foster carers Approach to Fostering being looked at by Transformation unit through consideration of use of market for contracted residential beds 	4	5	20	Director - Children & Family Services During 2018/19	

						<ul style="list-style-type: none"> placements or for UASC. Complex Care Panel with health is ongoing, allows shared decisions for children in care with more complex and continuing needs Processes have been amended so that requires for residential placements must now be signed off by the Director and requests for independent fostering and 16+ by the AD for CSC – this is helping to ensure appropriateness and quality of requests and allowing closer scrutiny of processes Monthly high level DMT reviews are ongoing. Panel meetings also held to look at high cost placements in residential care and to ensure that appropriate plans and resources are in place to support placements Adoption complaints significantly reduced during 2017 with the introduction of a dedicated Service Manager for Permanence, the introduction of a support worker following the growth bid and a programme of training and awareness to promote staff understanding of the child's permanence journey - further improvements in Permanence (adoption and SGO) will be achieved in 2018, with an ongoing programme of awareness, introduction of dedicate staff for SGO support and recruitment of a third therapeutic worker for post 3 year adoption placement 									
C&FS	1.6	<p><u>Education</u></p> <p>If the provision of support to high needs pupils (including SEN placements) cannot be reduced, then required savings against this budget will</p>	<ul style="list-style-type: none"> Services requesting support for high needs including SEN placements. Insufficient budget 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Unable to meet the needs of all vulnerable children effectively Unable to meet the department's statutory duties around SEN Placements <p><u>People</u></p> <ul style="list-style-type: none"> Resources tied up in independent provision and not wide benefitting Leicestershire children and young people <p><u>Reputational</u></p>	Director – Children & Family Services	<ul style="list-style-type: none"> High Needs Project Board in place Work with our maintained and academy mainstream and special schools to increase their capacity to meet higher levels of need Work with Behaviour Partnerships to increase their capacity to offer provision New improved contract and procurement arrangements now in place New extended offer at Oakfield for children with 	4	4	16	Treat	<ul style="list-style-type: none"> Development of mainstream resource and special school capacity: We have two Secondary Resource bases already in place – Wigston and Iveshead – and are opening further resource bases at Rawlins Academy (10 place) Hinckley Academy (10 up to 20 places) and All Saints Primary Wigston (10 place) from April/Sept 2018. Co-production with parents has taken place to design this provision. Criteria for EHCP and top up 	4	4	16	Head of Service SEND & CDS During 2018/19

		not be achieved		<ul style="list-style-type: none"> Bad publicity and low confidence in Local Authority to support vulnerable children and young people Low confidence in ability of department to manage it's services, budgets and meet savings targets (MTFS). Poor outcomes at SEND Inspection <p><u>Financial</u></p> <ul style="list-style-type: none"> Budget overspent / continuing budget overspend which is unsustainable Required savings targets not met 		<ul style="list-style-type: none"> behavioural difficulties is now in place New extended offer at Maplewell Hall and Birchwood School for children with Autism now in place review of pupils in independent provision at key transition points. Post of SEND Inclusion Development Officer established, to lead on sufficiency planning 															
CR	1.7	If the Council is non-compliant with HRMC IR35 regulations regarding the employment of self-employed personnel then there is a risk of large financial penalties	<ul style="list-style-type: none"> Clear Policy not in place Guidance, training and COMMS not in place for managers Lack of monitoring to identify contracts where issues exist. 	<p><u>Financial</u></p> <ul style="list-style-type: none"> Large financial penalties <p><u>Reputation</u></p> <ul style="list-style-type: none"> Loss of reputation as a good employer Adverse media coverage loss of public confidence <p><u>Legal</u></p> <ul style="list-style-type: none"> Risk of legal action against the Council for non-compliance 	All Directors	<ul style="list-style-type: none"> Guidelines in place Policy in place Tax expert able to provide advice on compliance Management of self-employed through Reed agency 	5	4	20	Treat	<ul style="list-style-type: none"> Establish central control point Develop guidance, training and improved COMMS for managers Review of all current identified post outside of Reed employment to identify issues Improve the standard of checks and information available from other employment agencies Review the T&C for CIS contracts 	4	3	12	Assistant Director - Corporate Services Assistant Director – Strategic Finance & Property Corporate Resources 2018/19						
CR	1.8	If public sector partners and major providers of services to the public sector get into financial difficulties there could be an impact on both the Council's financial position and services	<ul style="list-style-type: none"> Monitoring arrangements re key partners are not in place 	<p><u>Financial</u></p> <ul style="list-style-type: none"> Additional budgetary pressures 	Director of Corporate Resources	<ul style="list-style-type: none"> Attendance at LALAT Oversight and monitoring of other organisations finances 	4	4	16	Treat	<ul style="list-style-type: none"> Extra resources will be put in place to assess the financial health of maintained schools (and academies) and the financial planning service enhanced to support them. Continued use of credit weightings to inform decision making. Need to be aware of their limitations. Monitoring of key partner organisations including regular dialogue 	4	4	16	Assistant Director – Strategic Finance & Property Corporate Resources 2018/19						
2. Health & Social Care Integration2																					
A & C	2.2 (i)	LLR Sustainability and	<ul style="list-style-type: none"> the partnership may breakdown, the Council may withdraw from the process and levels of demand will continue to increase from partners leading to financial and safety risks. 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> STP programme outcomes are not delivered and the programme fails leading to reputational risks, partnership breakdown and financial instability within the health and care economy STP care pathway changes fail to maintain safe, high quality clinical care 	Chief Executive Director- Adults & Communities and Director of Health and Social Integration	<ul style="list-style-type: none"> 5 year Strategic Plan has identified five key strands for change, they include the development of : new models of care focused on prevention, and moderating demand growth, and an integrated urgent care offer. A reconfiguration of hospital 	4	4	16	Treat	<ul style="list-style-type: none"> The County Council raised concerns about the current governance and viability of the STP and has determined not to be a signatory to a further draft plan. The NHS has decided not to publish a further plan but to promote partnership activity under the Better Care Together banner. Progress with any sort of medium term local NHS plan 	4	6	16	Director- Adults & Communities &						

		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.	<ul style="list-style-type: none"> The shift of care from acute to community settings is not modelled or implemented effectively leading to unforeseen pressure in other parts of the health and care economy <p><u>Financial</u></p> <ul style="list-style-type: none"> The investment case within the SOC is not fully supported, leading to gaps in the financial plan/assumptions for delivering the programme The savings from STP are not achieved, leading to gaps in the financial plan/assumptions for delivering the programme. A notional figure of £5m impact on ASC has been highlighted within the Strategic Outline Case. <p><u>People</u></p> <ul style="list-style-type: none"> Partners are unable to provide sufficient staffing resource to deliver the programme leading to failure to deliver at the required pace and scale Lack of LLR integrated workforce plans <p><u>Reputational</u></p> <ul style="list-style-type: none"> The communication and engagement plan for BCT is ineffective leading to lack of public support or opposition to the plans 		<ul style="list-style-type: none"> based services, subject to consultation. Redesigned pathways to deliver improved outcomes for patients and residents. STP Governance arrangements have been developed which includes a new System Leadership Team (SLT) with membership from the five NHS partner organisations and the three upper tier local authorities. Refreshed finance and capacity modelling is being undertaken as part of the development of the sustainability and transformation plan. 								is largely dependent on the award of significant capital funding for which a business case is being prepared.	<ul style="list-style-type: none"> NHS commissioning arrangements are now under review 	And Director of Health and Social Integration
A & C	2.2 (ii)	Impact on County Council services due to the risk of the local NHS being unable to manage demand and achieve financial balance in the current financial year	<ul style="list-style-type: none"> Transferring patients early from UHL to ICRS 2 community services 	<ul style="list-style-type: none"> Initially this will increase the number of service users requiring assessment and services and potentially increase in demand on social care and providers. 	Director- Adults & Communities & Assistant Director – Strategy & Commissioning	<ul style="list-style-type: none"> Working closely with health to identify the potential increase in demand, impact on social care and how we can mitigate for this. Development of new models of care including integrated locality teams and Home First services will identify any cost pressures 	4	4	16	Treat	<ul style="list-style-type: none"> Risk regarding setting and delivering pooled budgets between Clinical Commissioning Groups (CCGs) and LA (including Better Care Fund (BCF)) due to increasing CCG activity levels, financial pressures, and larger savings targets risk to delivering BCF metrics such as Delayed Transfer of Care and Non elective admissions due to increased demand on the health and care system potential policy risks linked to new NHS funding requirements (when known) and the delays to the green paper on Adult Social Care. 	4	4	16	Director- Adults & Communities & Assistant Director – Strategy & Commissioning Adults and Communities Ongoing

All	2.3	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act	<ul style="list-style-type: none"> Decreased income Continual economic climate High unemployment / Reduction in wage increases Changes in the benefit system Introduction of Universal Credit transfers responsibility to vulnerable people Inadequate information for business cases jeopardising robust decision making More demand for advice services No central funding for Local Welfare Provision post April 2015 PIP migration for new and existing service users including appointee and deputyship in receipt of DLA who were under 65 on 8 April 2013 commences 13/7/15 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies <p><u>People</u></p> <ul style="list-style-type: none"> Families less able to maintain independence Difficulty in identifying and implementing effective preventative measures 'Hard to reach' groups slip through the net <p><u>Reputation</u></p> <ul style="list-style-type: none"> Cases of hardship / lack of support in media Potential inspection Public confused as to which Agency has responsibility <p><u>Financial</u></p> <ul style="list-style-type: none"> A&C debt increases Demand led budgets under more pressure Risk of litigation / judicial review Increased risk due to the migration from Disability Living Allowance to Personal independence Payments locally effective from 13 July 2015 over the following 2 years. The longer term risk has also now increased in relation to the Governments roll-out timetable that most existing benefit claimants will be moved over to Universal Credit during 2016 and 2017. However, it has now been acknowledged that at least 700,000 claimants will not be on Universal Credit by the end of 2017. 	All Directors	<p>The Welfare Reform risk within the A&C Departmental Risk Register is scored as 6 (Green). Work has progressed on this risk as follows:</p> <ul style="list-style-type: none"> A&C have been working with CE (Policy Team) to group and map the risks to see how they fit together and understand how they flow into the strategic risks (reputational, service and financial) for the Council. This information has been shared with Departmental Risk Champions with a view to: <ul style="list-style-type: none"> raise awareness of welfare reform risks; Officers within Departments to consider impacts on their individual departments. Departments have been advised to identify any specific risks (welfare reform related) and retain and monitor via individual departmental risk registers. Any escalation of risks should take the normal route 	4	4	16	Treat	<p>The largest reduction in benefits started in 2018/19 and therefore impact has been relatively low and additionally universal credit is being rolled out across the county at the moment. Therefore this risk will be retained at a Corporate level and updates will be provided where relevant.</p>	4	4	16	All Departmental Management Teams During 2018/19
3. ICT, Information Security															
All	3.2	If the Council fails to meet the information security and governance requirements then there may be breach of the	<ul style="list-style-type: none"> Increased information sharing and direct access to systems across partnerships Increased demand for flexible working increases vulnerability of personal, sensitive 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Diminished public trust in ability of Council to provide services Failure to comply with Public Service Network (PSN) Code of Connection standard would result in the Council being 	Assistant Director – Corporate Services / Head of Information Management &	<ul style="list-style-type: none"> New, simplified Information Security and Acceptable Use Policy in place PSN compliance achieved Regular penetration testing and enhanced IT health checks in place Improved guidance about 	4	4	16		<ul style="list-style-type: none"> Training on Information Security and Data Protection being actively rolled out. Work progressing to move towards compliance with the new EU General Data Protection Regulation (new data 	4	3	12	

		statutory obligations	<p>data taken offsite.</p> <ul style="list-style-type: none"> • More hosted technology services • Greater emphasis on publication of data and transparency • Greater awareness of information rights by service users • Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence. 	<p>disconnected from PSN services, with possible impact on delivery of some vital services.</p> <p><u>People</u></p> <ul style="list-style-type: none"> • Loss of confidential information compromising service user safety <p><u>Reputation</u></p> <ul style="list-style-type: none"> • Damage to LCC reputation <p><u>Financial</u></p> <ul style="list-style-type: none"> • Financial penalties 	Technology	<p>data transfer tools in place</p> <ul style="list-style-type: none"> • Programme of communications in place to re-inforce data security practices • Mobile device management process in place • New security governance arrangements in place • Increased communication and guidance on cyber security issues • E-learning for all staff in place- made mandatory for all staff. All staff enrolled first of February 2017 • Induction process includes requirements around information security • New firewall in place providing two layers of security protection in line with PSN best practice • E-learning -refresher course is now available online on the new Learning Management System • Intrusion Detection Policy • Learning Management System provides Improved monitoring of e-learning completion. • COMMS Plan in place to raise awareness with staff 				Treat	<p>protection act)</p> <ul style="list-style-type: none"> • ICO Audit in September 2017 – implement the ICO Audit Improvement Plan 				Assistant Director - Corporate Services	During 2018/19
All	3.5	If the Council fails to maintain robust records management processes to 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	<ul style="list-style-type: none"> • Lack of a co-ordinated approach in place to index, review and manage historical case files (paper and electronic) with regard to retention or disposal decisions • Retention periods could be exceeded and therefore personal and sensitive data held longer than necessary • Retention schedules not developed or compiled with • Indexing training not in place or provided 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> • Service delivery adversely affected by out of date data <p><u>People</u></p> <ul style="list-style-type: none"> • Personal information held longer than required <p><u>Reputation</u></p> <ul style="list-style-type: none"> • Potential adverse media attention and public lack of confidence • Subject access requests may not be compiled with <p><u>Financial</u></p> <ul style="list-style-type: none"> • Potential financial penalties • Insurance implications <p><u>Legal</u></p> <ul style="list-style-type: none"> • Non – compliance with IICSA Inquiry. • Destruction of records could lead to a Criminal Offence • Non-compliance with ICO and Data Protection Act - Principle 	All Directors	<ul style="list-style-type: none"> • Information Governance Board. Monthly monitoring of GDPR compliance work plan and regular review of risks. • Completion of ICO 2017 audit action plan <p>Note : Legal services view is that fines for not retaining data when it should be retained for example in litigation or ICOSA would be greater than if data is kept securely for longer than is legally required . However records should not be held for an indefinite period of time.</p>	5	3	15	Treat	<ul style="list-style-type: none"> • Ongoing work plan towards GDPR compliance • Plans in place to tackle physical file management issues • Identification of additional resources required • Ongoing work plan towards GDPR compliance 	5	2	10	Director (Corporate Resources) and Director of Law and Governance	2018/19

				5													
CR	3.6	If the replacement ERP system is not implemented successfully the organisation will not reap the benefits and the organisations finance and HR activity could be negatively impacted.	<ul style="list-style-type: none"> Lack of an agreed project plan to procure replacement system Users are not engaged through focus groups or workshops Monitoring arrangements not in place to identify early any emerging issues Governance arrangements not in place between partners 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Unable to deliver critical business services and other projects delayed. <p><u>Financial</u></p> <ul style="list-style-type: none"> Implement cost increase. <p><u>Reputation</u></p> <ul style="list-style-type: none"> Adverse publicity due to negative impact on supplier, customers and staff. 	Director of Corporate Resources	<ul style="list-style-type: none"> Contract agreed for new system (Oracle Fusion) experienced implementation partner procured and Programme Director appointed. 	5	4	20	Treat	<ul style="list-style-type: none"> Implementation team being built. Working with implementation partner to create delivery plan Assessment of readiness by implementation partner and workstream leads in progress. New governance structure for implementation phase being developed 	5	2	10	Assistant Director – Strategic Finance Corporate Resources During 2018/19		
C&FS	3.7	If the quality of data in C&FS Information Management System is too low to satisfy statutory requirements (e.g. data returns) this will impact upon service delivery	<ul style="list-style-type: none"> Data quality processes not defined, communicated Users not trained Report are not routinely produced and queries are not investigated and resolved 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Inability to effectively plan at a strategic and operational level (including individual plans for children, young people and families) Potential for poor inspection outcomes <p><u>People</u></p> <ul style="list-style-type: none"> Inability to support vulnerable children, young people and families in Leicestershire Poor outcomes for children, young people and families in Leicestershire <p><u>Financial</u></p> <ul style="list-style-type: none"> Inability to effectively make financial plans and therefore meet savings targets (i.e. MTFS) and plan sustainable service delivery in the future <p><u>Reputational</u></p> <ul style="list-style-type: none"> Potential for poor inspection outcomes Negative publicity for the Council and department 	Director of C&FS	<ul style="list-style-type: none"> Self-service of improved set of data quality reports (tied to MOSAIC) Improved training, development and guidance for staff Data Quality processes established and in place (such as weekly runs of Annex A (Ofsted SIF Inspection Framework) data files; Statutory data validation (as part of Statutory returns process); and, data matching (NHS Number and Education Database) Ongoing training and development (Frameworki and Capita) - resource for this post currently (Dec 16) in discussion with L&D Additional capacity (consultant) involved in improving practice guidance for using IMS. Mosaic reporting group established and working through reporting requirements. L&D resource being moved to CFS for closer working with IM&TT. 	4	5	20	Treat	<ul style="list-style-type: none"> Self-service of improved set of data quality reports ((tied to MOSAIC) Improved training, development and guidance for staff Monthly data quality improvements meetings with associated task groups established New Business Support structure will provide capacity within IM&T to support and guide services in data quality and the structure has also provided capacity within services to improve data quality 	3	4	12	Head of Business Services Children & Family Services During 2018/19		

4. Commissioning & Procurement

All	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	<ul style="list-style-type: none"> Lack of robust contract management /performance measures for in-house services Robustness of supply chain Reduced funding and resources Staff turnover leading to lack of continuity in contract management Insufficient investment in contract management skills and competencies 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Business disruption due to cost and time to re-tender the contract Standards/quality not met resulting in reduced customer satisfaction Relationships with providers/suppliers deteriorate <p><u>People</u></p> <ul style="list-style-type: none"> Additional workload where disputes arise <p><u>Reputation</u></p> <ul style="list-style-type: none"> Customer complaints <p><u>Financial</u></p> <ul style="list-style-type: none"> VfM/ Efficiencies not achieved Increased costs as LCC has to pick up the service again Unfunded financial exposure 	Director – Corporate Resources & Transformation / Assistant Director – Corporate Services	<ul style="list-style-type: none"> Departments currently undertake management and monitoring of contracts Commissioning & Procurement Strategy in place with agreed framework for measuring progress against key principles to identify issues at earliest opportunity New governance arrangements in place Contract Management Framework available in the Toolkit Recruitment completed for Commissioning Support Unit to strengthen contract management arrangements LLR and LCC Commissioning Programmes completed 	5	3	15	Treat	<ul style="list-style-type: none"> Implement improved KPIs for all contracts Implement training for all contract managers Complete key supplier cost reduction programme 	4	3	12	Head of Commissioning and Procurement Support Corporate Resources During 2018/19
E&T	4.2	If Arriva is successful in its concessionary travel appeal then reimbursement costs for the total scheme could increase significantly	<ul style="list-style-type: none"> Potential for significant additional expenditure or contraction of the commercial bus service network 	Director E&T	<ul style="list-style-type: none"> Current mitigating actions include an appeal response to the DfT on 29/1/18 (use of external consultant to support). Submission of evidence has refuted all claims for additional costs by Arriva save for reclassification of service types. The timescale for appeal determination is possibly up to 18 months therefore until the appeal is determined the maximum risk for the Arriva appeal remains at £916,000 (of which reclassification is approx. £118,000). Using expert consultant resource to supplement local submission of data to the DfT to dispute the appeal detail provided by Arriva 	5	3	15	Treat	<ul style="list-style-type: none"> Submit appeal detail to DfT There is a further risk that if the approach adopted by Arriva is found to be appropriate then the county is likely to be exposed to a further financial risk from other operators. 	5	2	10	Assistant Director - Highways Environment & Transport 2018/19	
5. Safeguarding															
CFS	5.1	<u>Historic:</u> If as a result of a concerted effort to explore abuse by the Independent Inquiry into Child Sexual	<u>Historical</u> Concerted effort to explore historical exploitation and abuse in response to the Independent Inquiry and Police Operations	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Need to review and redesign current service in the light of lessons learnt <p><u>Reputation</u></p> <ul style="list-style-type: none"> Potential adverse media and 	<p><u>Reputation</u></p> <p>Chief Executive</p> <p><u>Reputation & Service Delivery</u></p>	<p><u>Historical</u></p> <ul style="list-style-type: none"> Established Independent Inquiry Strategic Governance Group to oversee planned investigation and information gathering Pro-active engagement with 	5	5	25		<p><u>Historical</u></p> <ul style="list-style-type: none"> Establish close working relationships with other authorities Further revision of Comms Strategy 	4	5	20	<p><u>Reputation</u></p> <p>Chief Executive</p> <p><u>Reputation & Service Delivery</u></p> <p>Director - Children &</p>

		Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified.		<p>political risk</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> Increased cost of settling claims and service redesign 	<p>Director - Children & Family Services</p> <p><u>Legal</u></p> <p>Director of Law & Governance</p> <p><u>Financial</u></p> <p>Director - Corporate Resources</p>	<p>the Independent Inquiry</p> <ul style="list-style-type: none"> Refreshed Communication Strategy and Implementation Plan Appointed Legal Support and Counsel Member briefings held (x2) Partnership governance is in place CSE Executive Role and Terms of Reference revised and agreed 				Treat	<ul style="list-style-type: none"> Review of current internal governance arrangements Continue to work closely with the IICSA team Set funding aside to meet the costs of the inquiry Review activity in the light of the delay to the Janner investigation public hearings Carefully plan activity and monitor progress and expenditure 				<p>Family Services</p> <p><u>Legal</u></p> <p>Director of Law & Governance</p> <p><u>Financial</u></p> <p>Director - Corporate Resources</p> <p>Ongoing</p>
6. Brexit															
All	6.1	Uncertainty and significant knock on consequences on public services (including potential legal, regulatory, economic and social implications), and the local economy as a result of the United Kingdom leaving the European Union	Uncertainty and impact on local government	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Uncertainty around ESIF and other funding streams Uncertainty around any potential changes to government policy following the formation of a new government. Lack of steer for local policy making. Impact on the Economy due to uncertainty during the negotiation period. Impact on staffing in commissioning contracts involving high numbers of non UK citizenship e.g. home care and cleaning. <p><u>Legal</u></p> <ul style="list-style-type: none"> Changes in UK/EU legislation e.g. procurement, employment <p><u>Financial</u></p> <ul style="list-style-type: none"> Uncertainty around EU funding, inward investment Further austerity measures and demand pressures <p><u>People</u></p> <p>Impact on incumbent workforce who have non UK citizenship e.g. agency workers</p>	CE/Directors	<ul style="list-style-type: none"> Working with partners to maximise benefit from existing European bids and programmes Review of significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment; Assessment of impact of the risk assessment on the assumptions used to generate the medium term financial plan Access a diverse range of external funding opportunities Reflection of Brexit impact in revised Enabling Growth Plan Gathering intelligence and modelling future scenarios relating to Brexit impacts to inform future policy. The LLEP's Business Board has agreed to monitor Brexit impacts (both negative and positive) on the economy and the Economic Growth Team will undertake this work for the LEP 	4	4	16	Treat	<ul style="list-style-type: none"> Monitor post Brexit negotiations and national policy direction and maintain an overview of the developing situation. Leicester and Leicestershire Business survey is being commissioned to review business confidence, investment plans and barriers to growth. Initial scoping work will be reported to Chief Officers in July. This will distinguish between the risks to the County Council as a service provider and the risks to the local economy. A reassessment of the risk level will be considered by Chief Officers. 	4	4	16	<p>Assistant Chief Executive</p> <p>Chief Executive</p>
7. People															
CR	7.1	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be	<ul style="list-style-type: none"> Policy and Procedures are not in place Lack of training for managers Monitoring and reporting systems 	<p><u>Service delivery</u></p> <ul style="list-style-type: none"> Increased pressure on services to provide same/more with less Increased requirement for temporary/casual staff. <p><u>People</u></p>	Director of Corporate Resources	<ul style="list-style-type: none"> Revised Policy in place. HR advice being provided to Managers. Training for Managers in place. Comprehensive monitoring and reporting (Manager; 	4	4	16		<ul style="list-style-type: none"> Targeted work with managers and services (Intensive Support Project). Develop, agree and implement Increment Policy (on hold) Implementation of absence management triage project - 	4	3	12	<p>Assistant Director, Corporate Services</p> <p>(Corporate</p>

		impacted	are inadequate or not in place	<ul style="list-style-type: none"> Negative impact on staff if they perceive absences are not managed properly Loss of productivity 		Depts, DMT; CMT) to identify issues/solutions.				Treat	impact reporting at 3; 6 & 12 mths before full roll out. Pilot has ended – not taken forward				Resources) During 2018/19	
			<ul style="list-style-type: none"> Support mechanisms not in place 	<ul style="list-style-type: none"> Avoidable costs to LCC in difficult times 		<ul style="list-style-type: none"> Support from Mental Health First Aiders being utilised. 					<ul style="list-style-type: none"> Revise Absence Management Policy Revise Terms and Conditions 					
All	7.2	If Depts. are unable to recruit and retain skilled staff promptly (social workers and team managers) then some services will be over-reliant on the use of agency staff resulting in budget overspend and poor service delivery	<ul style="list-style-type: none"> No Recruitment or Retention Strategy 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Children and young people potentially left at risk of harm <p><u>People</u></p> <ul style="list-style-type: none"> Additional training in Signs of Safety for agency workers Additional time required for permanent staff to support agency staff Recruitment and retention of staff <p><u>Reputational</u></p> <ul style="list-style-type: none"> The Local Authority is not seen to support staff through impact on recruitment and retention <p><u>Financial</u></p> <ul style="list-style-type: none"> Additional budget costs leading to overspend Required savings targets not met 	Director of Children & Family Services	<ul style="list-style-type: none"> Monthly reporting on agency staff and associated costs Working with Corporate communications on a new Social Worker recruitment campaign Monthly reporting on caseloads and supervision policy Completed a growth bid and identified establishment for additional staff 	5	5	25	Treat	<ul style="list-style-type: none"> Development of a recruitment and retention strategy Continue actively recruiting to permanent posts Continue supporting Social Workers, e.g. Newly Qualified Social Workers, through recruitment and retention strategy 	5	3	15	Assistant Directors Children's Social Care and Adults and Communities During 2018/19	
8. Business Continuity																
CR	8.1	If suppliers of critical services do not have robust business continuity plans in place, the Council may be unable to deliver services.	<ul style="list-style-type: none"> No BC framework in place i.e. definition of a critical supplier or identification of critical services. Failure to develop a BC Plans Guidance or communication not in place No monitoring of supplier or business continuity compliance for critical services Contract specifications are not clear as to BC arrangements 	<p><u>Service Delivery</u></p> <ul style="list-style-type: none"> Delays in services may place vulnerable people at risk Re-work /re-planning due to clash of priorities <p><u>People</u></p> <ul style="list-style-type: none"> Council unable to support people in receipt of service to adverse outcomes for individuals <p><u>Reputation</u></p> <ul style="list-style-type: none"> Damage from negative publicity and loss of trust with the public <p><u>Financial</u></p> <ul style="list-style-type: none"> Supplier BC failure results in additional costs to source alternative providers 	Assistant Chief Executive Chief Executive's Department	<ul style="list-style-type: none"> Contract Management and compliance monitoring in place. Improved Frameworks for commissioning services detailing BC requirements. 	5	4	20	Treat	<ul style="list-style-type: none"> Complete an assurance exercise to ensure all critical contracts have BCP in place. Not all contracts are procured through the Corporate Commissioning Unit (CCU). A detailed report on current practices and concerns to be submitted to DMT seeking guidance on further action 	5	3	15	Head of Policy and Strategy (CE) Resilience & Business Continuity Manager During 2018/19	
9. Environment																
E&T	9.1	If the ash dieback disease causes shedding branches or	<ul style="list-style-type: none"> Lack of preparation to deal with the impact of Chalara i.e. Awareness, Planning, Action and 	<ul style="list-style-type: none"> Potential for serious physical harm/damage to property Potential for insurance claims against council Ecological/landscape impacts 	Director of Environment and Transport	<ul style="list-style-type: none"> Cross departmental project team set up to devise approach to council's response to Ash Dieback including associated costs 	5	3	15		<ul style="list-style-type: none"> Draft Ash Dieback action plan produced and being presented to CMT June and Cabinet July 2018 Implementation of the cross 	5	2	10	Assistant Director Highways &	

	falling trees then there is a possible risk to life and disruption to the transport network	Recovery	<ul style="list-style-type: none"> Reputational damage Financial – additional resources to undertake tree inspections, replanting strategy, availability of qualified tree surgeon to undertake work 	for implementation	<ul style="list-style-type: none"> Assessment of current extent and progress of disease in Leicestershire 				Treat	departmental ash dieback action plan (to timescales included in the plan) to include collection of condition data end summer / early autumn.			Transport Environment & Transport During 2018/19
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Department

A&C = Adults & Communities
 CE = Chief Executives
 CR = Corporate Resources

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

C&FS = Children and Families Services

Risk Removed from the Corporate Risk Register

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
C&FS	1.2	Local Authority legal requirements to meet deficit budgets from maintained schools becoming sponsored academy, and pressure from Sponsors to meet repair costs.	16	Agreed by Corporate Governance Committee	17 November 2015
E&T	5.2	LLEP-insufficient funding for transport schemes to deliver economic growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council	20	The risk has been downgraded from red to amber as the likelihood has reduced from 4 to 2 following the confirmation of future local growth funding in the Autumn 2015 Statement (further details to follow in the new year). As the risk score has been revised from 20 to10, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment & Transportation Departmental Risk Register.	19 February 2016
E & T	4,1	Impact of an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply which could have an adverse impact on the functioning of the transport network.	15	The risk has been downgraded from red to amber as the likelihood has been reduced from 5 to 4 as a result of Districts having moved through the consultation phases and firmer programmes are now in place for publishing Core Strategies. LCC is also starting discussions with Districts on possible cumulative impact studies. As the risk score has been revised from 15 to 12, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment & Transportation Departmental Risk Register.	13 May 2016
A&C	2.1	Care Act 2014 Funding Risk for 2016/17 and beyond due to Care Act Phase 2 implementation delayed by Ministers until April 2020	16	The current risk score has been reduced from 16 to 12 as a result of ongoing implementation of the Adult Social Care restructure, which has enabled the department to ensure the risk of unfunded posts, is significantly reduced. The Commissioning and Quality Action Plan has been completed and the Care Pathway and Business Support action plans are in progress. The risk will continue to be monitored as part of the A&C Departmental Risk Register	26 May 2017
C&FS	4.1	Supporting Leicestershire Families (SLF) - If LCC is not able to provide adequate outcomes data to partners then partner contributions to the pooled budget may not continue.	15	The risk has been reviewed (Assistant Director – Education & Early Help) and the current risk score re-evaluated and reduced so that this is now being managed within the Supporting Leicestershire Families Delivery Plan. The risk has been reduced as all partners have agreed continued funding and further work has been undertaken on outcomes data.	26 May 2017
C&FS	1.7	If suitable placements are unavailable for unaccompanied asylum seeking children (UASC) who arrive in the County, either planned or unplanned, as a result of : <ul style="list-style-type: none"> potential mandatory requirement to engage in the National Transfer Scheme; resettlement of UASC from Calais in line with the requirements of Dublin III agreement and the Dubs amendment; continuing response to spontaneous cases of UASC arriving in the County then there will be significant pressures on meeting the department's statutory duties to UASC as well as financial	20	The UASC team is now established and the numbers of UASC are not as high as initially forecast. The current risk score as been reduced from 20 to 12. The risk will continue to be monitored as part of the Children & Families Services Departmental Risk Register	22 September 2017

		pressures in meeting their complex needs.			
CR	3.1	If there is an outage ICT systems may not be able to be restored quickly and effectively which could have a major impact on service delivery	15	The further mitigating actions have been completed and the current risk score as been reduced from 15 to 12. The risk will continue to be monitored as part of the Corporate Resources Departmental Service Risk Register.	22 September 2017
CR	3.4	If there is insufficient capacity to provide information technology solutions then service improvements and savings will not be achieved.	16	The current risk score has been reduced from 16 to 12 as a result of ongoing implementation of the New Target Operating Model and improved resource planning processes. The risk will continue to be monitored as part of the Corporate Resources Departmental Register	22 September 2017
CFS	5.1	Safeguarding- Current Risk element 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	25	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 (<i>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</i>) 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	29 January 2018
CE	2.5	Health & Social Care Integration (BCF) 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	The level of financial risk was reduced after a letter was received from the Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government) and Department of Health and Social Care (formerly – Department of Health) Secretaries of State on 6th December 2017 to confirm that due to the improved the DTOC (Delayed Transfer of Care) performance that there will be no impact on the Improved Better Care Fund – (IBCF) allocation for 2018/19. The risk will be reviewed following the publication of the National BCF Operational Guidance for 2018/19 which is due to be published soon. The current risk score has been re-evaluated and reduced (from 16 to 9)	23 April 2018
All	3.3	ICT, Information Security (Business Intelligence) 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 current risk score has been reduced from 15 to 12 as good progress has been made across a number of areas: <ul style="list-style-type: none"> Data and Business Intelligence Strategy and Implementation Plan in place. Ongoing support for front line managers in managing data and provision of Tableau data quality reports to identify weaker areas. Tableau self-service dashboards rolled out across many areas of the council. BI Development team established and Business Partners in post to manage relationships with each Department and with IT. Ongoing work to improve data quality issues. Many performance dashboards have an accompanying data quality dashboard. The risk will continue to be managed within the CE Departmental Risk Register.	23 April 2018
E&T	9.1	Health & Safety (SEN risk assessments) 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	All outstanding SEN transport risk assessments were completed by the end of January 2018. Processes have been embedded to ensure assessments are revisited with increased staff resource focussing on planned review updates. The Current Risk Score has been reduced to 5 and the risk will be managed at Departmental level.	23 April 2018
E&T	10.1	Winter Maintenance 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 2019/2020	16	The Department has reduced the impact and likelihood scores leading to a reduction in the current risk score from 16 to 12. Property Services are progressing with completion of planning consent for Sysonby farm by March 2019. The Department are working on a build programme to deliver facility before end of September 2019. Removal of the risk from the CRR at this point was queried because of the length of time to obtain planning consent but assurances were received from the Director that the risk will be managed within the Environment and Transport Departmental Risk Register	25 July 2018
A&C	2.4	Domiciliary Care (HTLAH) 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	The HTLAH project is now closed. This risk was closed and formulated into a market sustainability risk for the department. The current risk score for social care market is 12 and the risk is being managed within the A&C Departmental Risk Register.	25 July 2018

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CORPORATE GOVERNANCE COMMITTEE - 25 JULY 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 for 2017-18 and of work conducted in 2018-19;
 - (b) report on progress with implementing high importance recommendations.

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 closing off 2017-18 work and 2018-19 audits as at 6 July 2018. The outcome of audits completed since the last progress 'cut off' (6 April 2018) reported to the Committee on 23 April is shown in **Appendix 1**.

5. For assurance audits (pages 1 and 2 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 then confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded as high importance, but collectively would require a targeted follow up to ensure improvements have been made.
6. LCCIAS also undertakes consulting/advisory type audits (pages 3 and 4 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. Pages 5 to 7 of Appendix 1 record: -
 - Where LCCIAS either undertakes or assists with unplanned investigations. These are not reported to the Committee until the final outcome is known;
 - '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;
 - Where LCCIAS auditors are utilised to undertake work assisting other functions. None occurred during this period.

Progress with implementing high importance recommendations

8. The Committee is 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.
9. To summarise movements within Appendix 2:
 - **New** – Public Health Clinical Governance Framework
 - **Extended** - A&C - Area office safes – almost complete. Follow up to end of September.
 - **Closed** - C&FS – Iveshead School visit; A&C - Direct Payments Cards; Public Health Clinical Governance Framework.

Resources Implications

10. None

Equality and Human Rights Implications

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

Recommendations

12. That the contents of this report and the update now provided be noted.

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.

Officer to Contact

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Appendices

Appendix 1 - Summary of Internal Audit Service work undertaken between 7 April and 6 July 2018

Appendix 2 - High Importance Recommendations

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Summary of Internal Audit Service Work – 7th April to 6th July 2018

Appendix A

Assurance Audits

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 6/7)</u>	<u>Opinion</u>	<u>HI Rec'n</u>
Adults & Communities	Alerts to Care Packages	18-Apr-18	Substantial	No
Children & Family Services	Wymeswold CE Primary School	27-Apr-18	Substantial	No
Children & Family Services	Woodstone Community Primary School	4-May-18	Substantial	No
Children & Family Services	Thurlaston Primary School	3-May-18	Substantial	No
Children & Family Services	Heather Primary School	11-May-18	Substantial	No
Children & Family Services	Oxley Primary School	25-May-18	Substantial	No
Children & Family Services	Foxton Primary School	29-Jun-18	Substantial	No
Children & Family Services	Scaford CE Primary School	6-Jul-18	Substantial	No
Consolidated Risk	Aged Debt Management	12-Jun-18	Substantial	No
Consolidated Risk	Faster Payments	23-Apr-18	Substantial	No
Consolidated Risk	Data Quality - Card Access	Draft issued	TBC	TBC
Consolidated Risk	Key ICT Controls	Draft pending	TBC	TBC

Corporate Resources / Children & Family Services	Placements Budget (LAC Action Plan)	Draft Issued	TBC	TBC
Environment & Transport	Vehicle fleet – motor insurance database	6-Jul-18	Substantial	No
Public Health	Clinical Governance Framework	8-May-18	Partial	Yes
Public Health	Usage of Grant	11-May-18	Full	No

Consulting audits

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 6/7)</u>
Consolidated Risk	ISRA - Skype for Business	Signed off: 24-Apr-18
Consolidated Risk	ISRA - MasterGov	Signed off: 02-May--18
Consolidated Risk	ISRA - Vuelio	WiP
Consolidated Risk	ISRA – Casper	WiP
Consolidated Risk	ISRA – Body Worn Cameras	WiP
Consolidated Risk	ISRA – EventBrite	WiP
Consolidated Risk	ISRA – Members Recordings	Signed off: 24-05-18
Consolidated Risk	ISRA – On-Line ASC Financial Assessments	WiP
Consolidated Risk	GDPR Readiness – part 2	15-May-18
Consolidated Risk	Risk management related advice on Local Pension Board and Bradgate Park Trust	Complete
Corporate Resources	Fit for the future (Oracle replacement project)	Ongoing

Corporate Resources	Advice to Corporate HR regarding M-Star contract, specifically the avoidance of penalty fees when agency staff move from temporary to permanent positions.	Concluded – no formal report
Corporate Resources	<p>Attendance at Information Assurance Group and IT Security Controls Groups; 2 x Advisory; 1 x IDEA work for Pensions; Review of the following Policy and Procedures (mainly due to GDPR changes):</p> <ul style="list-style-type: none"> • Data Protection Training Policy • Information and Data Governance Policy • Data Capture and Storage Policy • Retention and Disposal Policy • Website Data Protection and Privacy policy • Data Protection Policy • Information and Data Access and Use Policy • Information Security Incident Management Policy and Procedure • Public Access to Data Policy • Third Party Access Policy • Records Management Policy • Review of Information Governance procedure and clearance of buildings • Review of PSN CoCo wording 	Ongoing

Investigations

<u>Department</u>	<u>Entity</u>	<u>Outcome</u>
Adults & Communities	Irregular practice for service user bank accounts.	No funds stolen. Resigned
Adults & Communities	Accusations by relative that the funds of a service user in residential care were being misused	Care home visited. No evidence to support
Chief Executive	Evidence of claiming single persons discount whilst co-habiting	Passed to council tax authority
EMSS	Academy email hacked; bank coordinates changed on a payment form by an unauthorised person, which was then sent to EMSS for a payment which was made.	Reported to Action Fraud.

Other control environment/assurance work

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 6/7)</u>
Adults & Communities	Personal Property Working Group	Ongoing
Consolidated Risk	Counter Fraud – planning for NFI 2018-19, progressing blue badge amnesty campaign, blue badge investigations in conjunction with Leicester City Council, publishing requirements under the Local Government Transparency Code, CIPFA fraud and corruption tracker (annual survey), revision of anti-fraud policies and procedures.	Ongoing

Consolidated Risk	Completion of 'inquiries' forms to assist the annual audit of the Council's financial statements & brief Chair of Corporate Governance Committee	Complete
Corporate Resources	Carbon Reduction Targets – note energy efficiency improvements are reducing consumption which reduces charges	Signed off 11-07-18
Consolidated Risk	Property & Occupants Risk Management Group -	Ongoing
Consolidated Risk	Consultation, review, and approval of the Risk Management Strategy and Policy	Complete
Consolidated Risk	Preparation of April and July Risk Management Updates to CGS including: <ul style="list-style-type: none"> • Challenge departments' risk registers evaluations. E.g. Business Continuity; H&S; Brexit, Ash dieback etc. 	Ongoing
Consolidated Risk	Re-establishment of the Corporate Risk Management Group: <ul style="list-style-type: none"> • Agenda, meeting, minutes, develop and agreed terms of reference for the group 	Meeting in May and ongoing (2 meetings scheduled)
Consolidated Risk	Annual Governance Statement 2017/18: <ul style="list-style-type: none"> • Update and issue Departmental and Corporate guidance; • Collate responses from Departments, further challenges and comments from Chief Officers; • Compilation of draft and final AGS. 	Complete
Consolidated Risk	Risk Management Health Check – Initial contact with LCC Insurer managing agent, provision of information	Ongoing
Consolidated Risk	Work with Business Intelligence – Performance Team to refine and reformat excel risk register reports for preparation of Tableau Dashboards for Corporate and Departmental Risk Registers	Complete

Consolidated Risk	Provision of ongoing risk management training to new Departmental Risk Champions and Senior Officers on specific risk areas	Ongoing
Consolidated Risk	Development of risk management pages for SharePoint	Ongoing
Consolidated Risk	Attendance at East Midlands Region Risk Management Group and share risk management related information with Group Members	May 2018
Consolidated Risk	External Audit requirements – provision of narrative for 2017/18 Financial Statements on governance and risk related areas	Complete
Consolidated Risk	<p>Welfare Reform Risk: Meeting held with Departmental Risk Champions (June) to share the information produced by Chief Executive (Policy Team) with a view to :</p> <ul style="list-style-type: none"> • raise awareness of welfare reform risks; • Officers within Departments to consider impacts on their individual departments. 	Complete

Work assisting other functions

<u>Department</u>	<u>Entity</u>	<u>Position</u>
None		

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High Importance Recommendations at 6 July 2018

<u>Audit Title (Director)</u>	<u>Summary of Finding(s) and Recommendation(s)</u>	<u>Management Response</u>	<u>Action Date (by end of)</u>	<u>Confirmed Implemented</u>
Reported July 2018				
Clinical Governance Framework	<p>Reporting on provider clinical governance activity and serious incidents was still at development stage</p> <p>Recommended:</p> <ol style="list-style-type: none"> 1. Departmental Management Team (DMT) to provide oversight and challenge to reports covering provider clinical governance activity and serious incidents. 2. With specific regard to serious incidents, to introduce a process where they are regularly reported to DMT until such time the incident is ‘de-escalated’ through a formal ‘sign-off’ process. 	<p>Reports have started to be received at DMT from April 2018. A programme of reporting is being developed which will set out the proposed schedule of reporting for 2018/19.</p> <p>Critical (i.e. serious) incidents will be collated and discussed as part of the regular reports plus these incidents continue to be monitored by the clinical governance lead and service leads on a daily basis.</p>	May 2018	<p>Yes</p> <p>Evidence of reports for the past 3 months.</p>

Reported April 2018				
Iveshead school (C&FS)	<p>A full review was undertaken of the School's financial systems and procedures and a review of the internal controls in place following the merger of Hind Leys College and Shepshed High School, given the significant deficit held by the School. This audit was specifically commissioned by the local authority to give assurances, or otherwise, regarding the School's financial systems and processes.</p> <p>A number of improvements required with some high risk issues to be addressed.</p>	<p>The School devised an action plan which was approved by the governing body on March 6th.</p> <p>HI recommendations have been implemented. The school will be brought into the 'normal' pattern of audit visits, ie. Two yearly for a school this size.</p>	June 2018	<p>Yes</p> <p>Finance Business Partner (CR) has independently tested and confirmed the HI's have been addressed.</p>
Reported January 2018				
Office Safes (A&C)	<p>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.</p> <p>The Department had previously identified gaps in its management of service user'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</p>	<p>Agreed</p> <p>A policy governing the retention of service users' cash and other belongings, including pets is 95% developed. The policy is underpinned by a clear understanding that the Council will only take on custody of such items as a last resort, i.e. where there are no family or friends able to. The policy will be tabled at the departmental policy oversight group and subsequently the department's Management Team for formal approval and subsequent adoption. Further work will be required to ensure that these systems are also adopted by C&FS as best practice</p>	<p>March 2018</p> <p>Extend to end of June 2018</p> <p>Extend to end of September 2018</p>	

	rolled out to Area Offices regarding safes and contents. Unannounced follow up audit visits will take place.	<p>across their services. It is anticipated therefore that it will be tabled at a joint management team – date to be arranged.</p> <p>Management has given assurances that it has put in place standards/protocols around safes in local offices. Internal Audit Service will test this without giving notice.</p>		
Reported September 2017				
Direct Payments (A&C)	<p>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.</p> <p>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.</p>	<p>Agreed.</p> <p>An exercise has taken place to ensure that up-to-date signed DP agreements are on file for all DP service users (approx. 3000 s/u). Approximately 100 agreements are outstanding and are being worked through with Care Pathway colleagues. These are cases where mental capacity is unknown or has changed since the DP agreement was set up and Care Pathway colleagues are now working with families to resolve these.</p>	June 2018	<p>Yes</p> <p>Significant progress made</p>

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CORPORATE GOVERNANCE COMMITTEE - 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE AUDIT PLAN 2018-19

Purpose of Report

1. The purpose of this report is to provide members with information about the County Council's outline Internal Audit Plan for 2018-19 and internal audit resources allocated both to other assurance functions and in providing services to other organisations.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider the annual Internal Audit Plan, which outlines where audit focus will be in 2018-19. Internal audit is an essential component of the Council's corporate governance and assurance framework.

Construction of the 2018-19 Plan

3. The Public Sector Internal Audit Standards (the PSIAS) which were revised from April 2017 require the Head of Internal Audit Service to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the County Council's agenda and priorities. The Plan must take into account the requirement for the Head of Internal Audit Service (HoIAS) to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment. The scope of internal audit activity should be wide ranging.
4. The PSIAS advise that when constructing the Plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation.

5. The HoIAS has responsibility for the development of, monitoring and reporting on the Council's corporate risk management framework. In order to conform to PSIAS 1130, this potential impairment to independence and objectivity is included within the Internal Audit Charter along with controls that would need to be applied if an internal audit of the framework was undertaken.
6. The Council's Risk Management Policy and Strategy has been recently reviewed and revised. This was considered by this Committee at its meeting of 29 January 2018 before being approved by the Cabinet on 9 February. Whilst a detailed review of the Council's risk management maturity level was not undertaken at the time, based, by and large, on the knowledge that a robust framework exists within the Council, it was reported that the maturity level remained at Level 3/4 – between 'Working' and 'Embedded & Working'. An independent review of the framework, processes and maturity is scheduled for the later this summer. Details of this are set out in the Risk Management Update report elsewhere on the agenda.
7. Overseeing that the corporate framework is being consistently applied, reviewing the quarterly updating of department risk registers, confirming their consideration by departmental management teams, and producing the Corporate Risk Register for review by Chief Officers and this Committee, ensures the HoIAS is kept up to date with the risk environment. This increases the HoIAS' confidence in the Council's approach to identifying, evaluating and managing risk, which in turn allows for greater reliance to be placed on management's risk assessments and consequently for internal audit resources to be better targeted towards higher risks and flexed in accordance with major shifts in the risk environment.
8. The HoIAS is also responsible for developing and promoting the Council's approach to countering the risk of fraud and corruption. A significant amount of work continues including reviews, revisions and developments of a suite of anti-fraud and corruption policies, procedures, guidance and tools, which enables the Council to report conformance to the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). An exercise to identify fraud risks to the Council is conducted biennially which facilitates targeted counter fraud audits and related activity. Counter fraud campaigns are planned which may lead to investigations. The Council's vulnerability to Serious and Organised Crime remains a priority and some targeted audits are planned in 2018-19.
9. The HoIAS also oversees the management of the Council's insurance function. This adds to the compendium of knowledge on the Council's overall risk portfolio and can give an indication of where internal audit assurance may be needed e.g. to reduce the possibility of claims occurring.
10. The PSIAS require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming the annual internal audit opinion and any work required by the County Council's Internal Audit Service

(LCCIAS) to place reliance upon those other sources. The HoIAS is responsible for compiling both the Local Code of Corporate Governance and the Annual Governance Statement (AGS). These processes include receiving and reviewing departments' annual self-assessments of their governance and assurance arrangements. Directors are requested to identify and record specific examples of other sources of assurance both internal and external (e.g. independent assurance from inspections, compliance reviews etc.), the objective and scope of the assurance, when it occurred and the outcome/overall opinion. Compiling the 2017-18 AGS has revealed some good information on other forms of assurance obtained across the organisation.

11. Each individual audit engagement requires the auditor to identify any other assurances. Where these are considered as fundamental to the achievement of objectives, then a view on the robustness of the assurance will be formed. To assist this and avoid subjectivity, guidance developed by the Institute of Internal Auditors will be adopted.
12. Additionally, the HoIAS has scope to plan audits that are either outside of, or 'cut across' risk register boundaries, for example:
 - a. the requirement to undertake internal audits each year on the key financial systems which the Council's External Auditor has the opportunity to use in its judgement of risk when planning the annual audit of the financial accounts (the scope of work will be discussed with the Council's incoming External Auditors, Grant Thornton);
 - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Cabinet Office and ensuring any data matches are investigated (the next cycle of NFI is planned to start in October 2018);
 - c. certifications of grants and returns for government departments;
 - d. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated;
 - e. general advice on governance, risks and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Director of Corporate Resources and the Corporate Governance Committee;
 - f. a contingency remains for any unplanned audit work, including investigations and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
13. The 2018-19 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in the Council's business, risks, operations, programs, systems, and controls. The HoIAS will

discuss and agree material changes with the Director of Corporate Resources and these will be reported to the Committee.

14. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners in advance of each audit. The Committee will continue to receive quarterly reports on progress against the Plan detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.

Themes emerging in the 2018-19 Plan

15. Risks contained within Corporate and Departmental Risk Registers remain key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them.
16. Areas of focus in 2018-19 include:
 - a. The continuing impact of significant financial challenges and reductions in net expenditure; risk of failing to achieve savings; the potential impact of suppliers and partners' failing financial resilience;
 - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
 - c. The planning, transition and implementation of the Council's financial, payroll and HR system – see below;
 - d. Developing the commercial culture and service offers aligned to reputation damage of any poor service delivery;
 - e. Preparation for the impact of major changes caused by Brexit;
 - f. Response to demographic changes which are increasing the demand for social care support and the costs of protecting vulnerable people;
 - g. The risks behind failure to further integrate health and social care services;
 - h. Dependency on information technology to support both transformational change and embedded processes;
 - i. The risks of failure to successfully implement systems changes;
 - j. Requirements to secure information and data amongst a range of partners and users;
 - k. Countering the risk of fraud and corruption
17. The Council has embarked on a major programme to change its financial, payroll and HR system under the banner 'Fit for the Future'. The programme is being run in conjunction with Nottingham City Council which is the Council's strategic delivery partner for those services operating under the East Midlands Shared Services (EMSS) joint committee arrangements. The programme will cover business processes at all three organisations and risks from changing the control environments are significant. The Director of Corporate Resources has asked the HoIAS to devise a joint internal audit plan for the programme with his

counterpart at Nottingham City Council to cover programme assurance, the impacts on each Council's business systems and interfaces and those within EMSS. An initial meeting has already taken place with both internal audit teams meeting the programme manager for an overview. A more detailed meeting is planned for early August, whereupon a joint plan with resource requirements will be delivered to the EMSS Board, and then to the respective Committees for those charged with governance. The scale of the change is likely to result in commissioning some external resource.

18. Resource is utilised in servicing the requirements of the corporate client e.g. the HoIAS professional duties and servicing the Corporate Governance Committee, liaison with external auditors, corporate meetings, generic research and advice etc.
19. A summary plan of areas where assurance has either been requested or otherwise identified is shown in the Appendix attached to this report. Where appropriate, links to the Corporate Risk Register are shown. The Director of Corporate Resources will be notified of and approve significant variations.
20. Internal Audit Plans for organisations for which Leicestershire County Council is the accountable body, (i.e. Eastern Shires Purchasing Organisation (ESPO), Leicestershire Local Pension Board and the Bradgate Park Trust), or a strategic delivery partner (i.e. East Midlands Shared Services), are presented to their respective governance forums.
21. LCCIAS provides the internal audit function for Leicester City Council, Leicestershire Combined Fire Authority, some academy schools and provides some assurance for Derbyshire and Nottinghamshire fire services on fire-service pensions, which are administered by the Leicestershire County Council Pension Service.

Resource Implications

22. The Service received the delegation of Leicester City Council's internal audit function in November 2017. Four staff TUPE transferred into the County Council's Internal Audit Service. The City Council pays a set amount for the provision of this service. The LCCIAS currently has vacancies and needs to replenish its resources in order to continue to provide an adequate level of audit. Over the remaining summer months, the HoIAS is due to undertake a structure and process review to enable LCCIAS itself to be 'fit for the future', which will provide more detail about resource requirements including whether there is a need to run with a fully employed establishment or retain a 'bank' of call on employees when demand is high. A review of working patterns will also be part of the scope of this exercise.

23. Until then there has been some progress on short to medium term resource arrangements including:
- a. A finance and accounting under-graduate placement will start in the LCCIAS on 23 July;
 - b. Adverts were placed on 12 July to recruit three CIPFA trainees one of which is to be placed in the LCCIAS for the long(er) term with short duration rotations to other functions;
 - c. Leicester City Council has a bank of CIPFA trainees that will be seconded to the LCCIAS, but this might not be until the end of the financial year;
 - d. The Corporate Resources Department is exploring employing apprentices and the HoIAS has registered interest. The Institute of Internal Auditors is still developing its apprenticeship scheme, but there are other schemes that might be satisfactory;
 - e. Temporary arrangements with external organisations to provide specialist internal audit support has already been explored.
24. There will need to be:
- a. An acceptance that any trainees will require training and guidance from other staff that will impact productivity and progress;
 - b. Additionally, the HoIAS' time (and to an extent other staff) will be impacted by the structure and process review. Continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency;
 - c. Continuing co-ordination of the four County Council (sub) functions to optimise the overall assurance that can be given.
25. Should the additional resource occur as planned, the HoIAS plans to deliver almost 1,500 audit days (inclusive of contingency and servicing the client) and over and above other time allocated for risk management, counter fraud, annual governance statement and insurance.

Equal Opportunities Implications

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

Recommendation

27. That the Committee notes the Internal Audit Plan for 2018-19.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Sensitive Issues Procedure

None.

Officers to Contact

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Appendix

Leicestershire County Council's Summary Internal Audit Plan 2018-19

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Leicestershire County Council - Summary Internal Audit Plan 2018-19

NOTE: Below is a list of audits identified through discussions with senior officers and management where they have requested assurance. Whether the audit is undertaken, the priority afforded to it and the resource to be allocated will be determined as other risks and issues arise. 'CON' relates to consolidated risks i.e. not specific to a department. (CRR x.x) signifies a match to the corporate risk register.

	<u>Complete 2017-18 audits</u>
A&C	Alerts to Care Packages
C&FS	Supporting Families March Claim
CR	Placement Budget overspend
CR	Aged Debt Management
E&T	Vehicle fleet – motor insurance database
PH	Grant Usage
PH	Clinical Commissioning

	<u>Follow up HI recommendations</u>
A&C	Area Office Safes (Inventory Check)
A&C	Direct payments
C&FS	Iveshead School
PH	Clinical Governance Framework
	<u>Asset Risks</u>
E&T	Assistance with quarterly stock checks
	<u>Conduct and Counter Fraud Risk</u>
CON	Serious & Organised Crime – vulnerability (Taxi contracts, waste crime, lease of LCC business units)
CON	Data matching including National Fraud Initiative outputs
CON	Declarations of interest – to include review of individual submissions and determination of process
	<u>Commissioning & Procurement Risk</u>
CON	Contract management – assessment of 2 nd line of defence assurance (CRR 4.1)
PH	Joint Procurement – Sexual Health Service (CRR 4.1)

	<u>Compliance risks</u>
CON	IR35 action plan follow up (CRR 1.7)
CON	GDPR readiness (CRR 3.2)
CON	Public Service Network compliance (CRR 3.2)
	<u>Financial Risks</u>
A&C	Disabled Facilities Grant – gain assurances from housing authorities on valid grant spend and compile return
A&C	Learning Disability Transitions
A&C	Delayed Transfers of Care (STP Project) (CRR 2.2)
A&C	Care records input – data quality and timeliness
A&C	Fee Review – long term residential placements
A&C	Residents’ Money control
CEx	Section 106 agreements (CRR 1.3)
C&FS	Maintained School Visits
C&FS	Supporting Families Returns x 3
C&FS	Budget management – to include methodology for growth and monitoring savings (CRR 1.5 & 1.6)

CON	'Fit for the future' ORACLE implementation – incl. programme assurance & effects on financial and HR systems interfaces (CRR 3.6)
CON	Transactional finance systems e.g. Direct Payments – package agreement process & clawback of balances
CR	Carbon Reduction Targets
CR	Commercial programme
CR	Key financial systems – scope to be arranged after discussion with incoming External Auditor
CR	Treasury Management – scope to be arranged
CR	Wider public sector financial sustainability plans (CRR 1.8)
E&T	Health Funded Adult Transport
E&T	<u>Grant Review & Certification</u> <ul style="list-style-type: none"> • Integrated Transport, Highway Maintenance, Pothole Action Fund and National Productivity Incentive Fund. • Pothole Fund additional grant. • Flood Resilience Funding • Bus Service Operators Grant.
E&T	Capacity to deliver against significant grants received
E&T	Recycling Waste & Household Services (RWHS) – Income
PH	Substance misuse strategy - review of partnership arrangements

	<u>Governance Risks</u>
CON	Corporate Asset Investment fund
CON	Planning for BREXIT (CRR 6.1)
CON	Sustainability & Transformation Plan (STP) Delivery (CRR 2.2)
	<u>Information & Technology Risks</u>
A&C	Management of Information – departmental (CRR 3.2)
A&C	Information Security Breaches – departmental (CRR 3.2)
CR	Asset Management replacement system
CR	Wide Area Network replacement
CR	Replacement insurance claims handling system
CR	Key ICT Controls 2018/19
CON	ICT Policies – Part of ITSCG and IAS Board (will look at progress on ICO Action Plan and C3IA Action Plan)
CON	Information Security Risk Assessments (ISRA's) (CRR 3.2)
CON	Records management – ICO audit recommendation to widen internal audit scope (CRR 3.5)

	<u>People Risks</u>
A&C	Sustainability of Social Care Market
CON	Absence management – targeted areas proposed by the Head of People Services (CRR 7.1)
CON	Welfare reform roll out – impact on the vulnerable people of Leicestershire (CRR 2.3)

K: 4.2 Audit Planning & Reporting/Draft Internal Audit Plan 2018-19