



Annual Governance Statement (AGS) 2014/15

1. INTRODUCTION

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

2. WHAT IS GOVERNANCE?

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

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

3. WHAT THE AGS TELLS YOU




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

4. HOW THIS STATEMENT HAS BEEN PREPARED


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

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


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

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


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

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


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


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


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

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

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

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

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

The Control Environment of Leicestershire County Council

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

Internal Audit Service

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

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

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

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

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

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

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

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

Internal Audit Service for East Midlands Shared Service (EMSS)

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

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

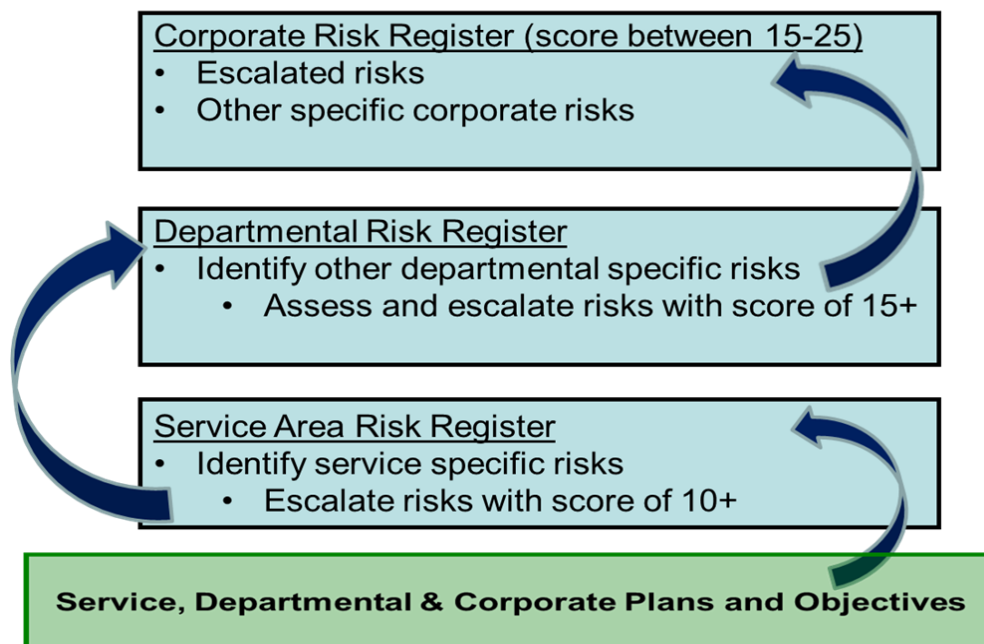
Risk Management

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

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

The Council's risk maturity was re-assessed as between levels 3 "Working" and 4 "Embedded and Working"; it was concluded that there had been significant progress since the previous review (2011) and, by and large, a robust framework underpinning risk management exists within the Council, but nevertheless, further development is necessary in some of the core areas.

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



Corporate Governance Committee

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

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

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

External Audit

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

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

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

The Role of the Chief Financial Officer (CFO)

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

The Role of the Head of Internal Audit

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

The Role of the Monitoring Officer

The Monitoring Officer has responsibility for:

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

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

6. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

6.1 2014/15 Key Improvement Areas

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

6.2 2014/15 Significant Governance Issues

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

6.3 2015/16 Key Improvement Areas

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

7. FUTURE CHALLENGES

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

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

8. CERTIFICATION

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

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

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

John Sinnott
Chief Executive

Nicholas Rushton
Leader of the Council