APPENDIX

Leicestershire County Council

Annual Governance Statement (AGS) 2015/16

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 2015, 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.	• 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.	• 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.	• 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**
- 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 - Our Communities Strategy underpins working with the voluntary and community sector. - The Commissioning and Procurement Strategy was put into operation and an Annual Report published setting out achievements in the first year and future actions. - We publish our plans and our performance in the Annual Report and Statement of Accounts - We communicate with, and publish results of our consultations with resident's, service users and other stakeholders and take account of feedback to review outcomes so they reflect progress and wider changes - We have various channels to raise formal complaints and procedures that inform systematic service improvement. Performance against complaints is reported to the Scrutiny Commission and Corporate Governance Committee. - Departmental Management Teams and Cabinet Lead Members receive regular reports on the status of performance indicators and have a process in place to	**Average Score: 1.4** **The level of compliance is generally good and has improved as a result of developments during the year in Business Intelligence, which are expected to continue through 2016-17. The development of an Outcomes Framework and corporate activity to improve contract management will further improve compliance.**

address poor performance. • Regular communication is in place so that all staff are kept informed of key operational, departmental and corporate issues.	

PRINCIPLE B	
Members and officers working together to achieve a common purpose with clearly defined functions and roles	
How we meet this Principle	**Conclusions**
• 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 • There is an 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	**Average Score: 1.6** **The level of compliance is reasonable however improvements are required in relation to Partnership working. The new Combined Authority and any subsequent devolution deals will however necessitate a review of existing partnership arrangements.**

performance in relation to their respective committee and functions; and informal briefings on key topics • We continue to communicate with stakeholders on future plans and proposals • We have a list of eight priority partnerships that will be the primary focus for the Council's partnership work.	

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**
• 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 has agreed criteria for assessing complaints against Members, which is published on our website. • The Employee's Code of Conduct is available on the Council's website. It is also available on the Council's intranet along with the relevant supporting documents. • 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. • We revised our Anti-Fraud & Corruption	**Average Score: 1.1** **The level of compliance is good with no key improvements being required.** .

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). During the year the Council has undertaken an assessment of its level of compliance with the CIPFA Code of Practice – Managing the Risk of Fraud & Corruption, using the Assessment Tool developed by the CIPFA Counter Fraud Centre. The outcome of Leicestershire's assessment was positive • We have arrangements in place to enable staff to raise issues of concern and report wrongdoing.	

PRINCIPLE D	
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	
How we meet this Principle	**Conclusions**
• 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 Regulatory Board and, Police and Crime Panel 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	**Average Score: 1.2** **The level of compliance is good with no key improvements being required.**

full ownership of risks within their area and agree mitigating actions • 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	

PRINCIPLE E
Developing the capacity and capability of members and officers to be effective

How we meet this Principle	Conclusions
• We continue to provide opportunities to elected councillors in accordance with our agreed Member Learning & Development Strategy. • Compulsory training is provided to relevant members on Planning and Regulatory Matters and on Pensions • We provide regular briefings to members on the key issues and challenges facing the Council • 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	**Average Score: 1.5** **The level of compliance is generally good. Improvements are planned in a number of areas for 2016-17, including induction training for managers, the PDR process being reviewed and a new approach to workforce planning being developed.**

- 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

PRINCIPLE F Engaging with local people and other stakeholders to ensure robust public accountability	
How we meet this Principle	Conclusions
- We publish a detailed Annual Performance Report on progress against the Strategic Plan - Significant consultation with residents has been carried out during 15/16 with regards to key service priorities for Library Services, Children and Family Services, Public Health and Adult Social Care and proposals for a Combined Authority. - Enhanced arrangements have been put in place to support managers in communications, consultation and engagement. - We published our policy and guidance for applicants wishing to make use of the Community Right to Challenge to express an interest in running local authority services. - Our communication strategy is based on an audience-led approach which has allowed us to better target residents who use or need our services. - We published our Council Tax leaflet on the LCC website. - Reputation trackers have shown consistent improvement with those who feel informed and satisfaction increasing. More people think the	**Average Score: 1.4** **The level of compliance is generally good and improvements in consulting and engaging have been made through the Commissioning Strategy. As the Strategy is further embedded, this is expected to improve further.**

council offers value for money and more than 80% trust the council. • 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 • We have robust Freedom of Information practices in place which enable us to meet our obligations and publish our responses to requests • We report against the mandatory requirements of the Local Government Transparency Code (2014) and the Openness of Local Government Bodies Regulations 2014	

5. REVIEW OF EFFECTIVENESS

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

The Control Environment of Leicestershire County Council

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

Internal Audit Service

Leicestershire County Council Internal Audit Service (LCCIAS) 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 HoIAS conducted a further self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. Whilst, a few specific areas have been identified where action is needed these are not significant deviations to the PSIAS. Whilst there has been movement towards full conformance, 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 May. 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 2015/16 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 2015-16 there were areas of weakness in the control environment, most noticeably in Adults & Communities Department. Whilst the Director of Finance has taken action to ensure significant improvements, in respect of A&C only limited assurance can be given that internal controls operated effectively.

Internal Audit Service for East Midlands Shared Service (EMSS)

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

On the basis of audit work undertaken during the 2015-16 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a "significant" level of assurance could be given that internal control systems are operating effectively within EMSS. In reaching this conclusion the HoIA acknowledged that once again there had been a demonstrable improvement in the governance processes and that no significant issues had been discovered. In addition it was worth noting that some of the issues raised did not apply to Leicestershire 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:

The Policy and Strategy were reviewed, revised and approved by Cabinet in February 2016.The Council's risk management maturity was re-confirmed as between levels 3 "Working" and 4 "Embedded and Working"; it was concluded that whilst further development is necessary in some of the core areas, by and large, a robust framework underpinning risk management exists within the Council.

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

Corporate Risk Register (score between 15-25)
- Escalated risks
- Other specific corporate risks

Departmental Risk Register
- Identify other departmental specific risks
  - Assess and escalate risks with score of 15+

Service Area Risk Register
- Identify service specific risks
  - Escalate risks with score of 10+

Service, Departmental & Corporate Plans and Objectives
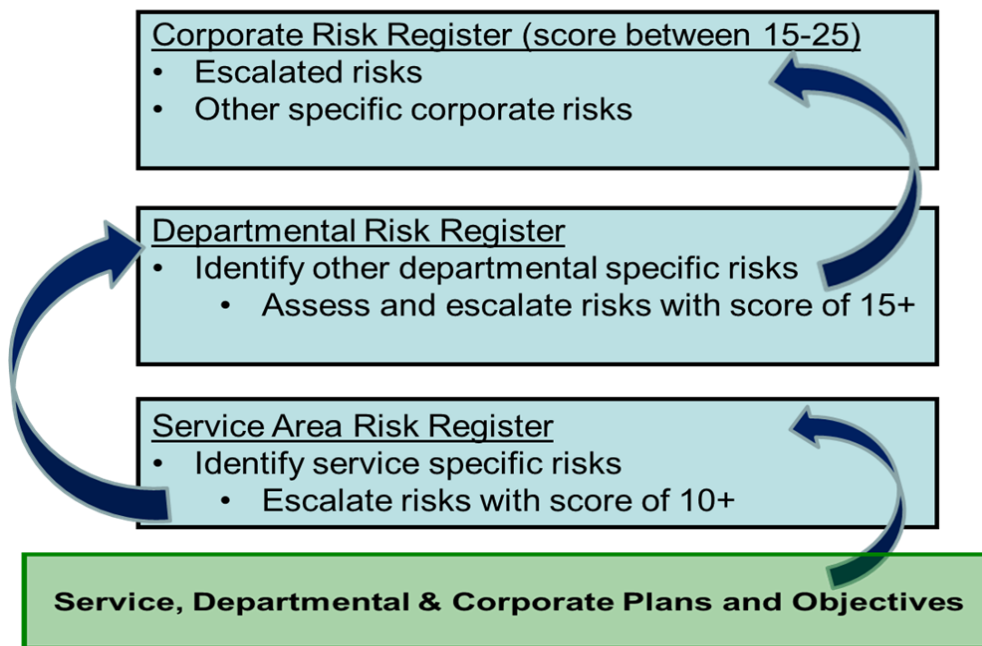
Corporate Governance Committee

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.

During 2015/16 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: 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.

June 2015	**September 2015**	**November 2015**	**February 2016**
External Review of the MTFS	External Audit of the 2014/15 Statement of Accounts and the Annual Governance Statement	Annual Audit Letter 2014/2015	External Audit Plan 2015/16
Draft Annual Governance Statement 2014/15	Ombudsman Annual Review 2014-15 and Corporate Complaint Handling	New external auditors KPMG – introduction to the Committee	Treasury Management Strategy Statement and Annual Investment Strategy 2016/17
Annual Treasury Management Report 2014/15	Annual Report on the Operation of Members' Code of Conduct 2014-15	Clinical Governance Update	Quarterly Treasury Management Update
Quarterly Risk Management Update	Quarterly Treasury Management Update	Quarterly Treasury Management Report	Quarterly Risk Management Update
Internal Audit Service Quarterly Progress Report	Quarterly Risk Management Update	Proposed Changes to the Contract Procedure Rules	Internal Audit Service Quarterly Progress Report
Internal Audit Annual Report 2014/15	Internal Audit Service Quarterly Progress Report	Proposed Changes to the Standard Financial Instructions	
Internal Audit Service Audit Plan 2015-16		Quarterly Risk Management Update	
		Internal Audit Service Quarterly Progress Report	
		Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Report	

External Audit

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

Key conclusions from work undertaken during 2015/16 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 Director of Finance (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 it's 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. SIGNFICANT GOVERNANCE ISSUES

Deprivation of Liberty Standards

A Supreme Court Case Ruling during 2015-16 led to a large increase in service users entitled to assessment and review. The risk to the Council is that legal requirements would not be met within the timescales. Action has been taken to significantly increase budgets for 2016/17 and later years and also provide additional resource in year to reduce the current waiting list.

7. FUTURE CHALLENGES

Significant challenges faced by the County Council such as the escalation of funding reductions, progressing the transformation programme and driving further Health and Social Care integration 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.

New challenges continue to emerge in particular:

The agreement of governance arrangements for the Combined Authority and any future Devolution Deals.

The Independent Inquiry into Child Sexual Abuse (Goddard Inquiry)
The challenges facing the Council will be in providing the information required, managing the press and public reaction in terms of the Council's reputation and the possible impact of any increase in referrals to social care.

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   Nicholas Rushton
Chief Executive   Leader of the Council

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