

Statement of Assurance on Corporate Governance and on the System of Internal Control 2004/05

1. SCOPE OF RESPONSIBILITY

Leicestershire County Council is responsible for ensuring that its 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. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Leicestershire County Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

2. CODE OF CORPORATE GOVERNANCE

The Council approved and adopted a Code of Corporate Governance on 13 May 2003 which is consistent with the principles and requirements set out in the CIPFA/SOLACE Framework – Corporate Governance in Local Government: A Keystone for Community Governance. A copy of the Code is on the Council's website at www.leics.gov.uk or can be obtained from the Public Relations Unit at County Hall. The Code reflects the Council's commitment to comply with the underlying principles of: Openness and Inclusivity, Integrity and Accountability and is framed around five dimensions:

- a) Community focus
- b) Service delivery arrangements
- c) Structures and processes
- d) Risk Management and Internal Control
- e) Standards and conduct

3. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

4. THE INTERNAL CONTROL ENVIRONMENT

The Council sets out its objectives through the Medium Term Corporate Strategy, which is developed in consultation with the Leicestershire Local Strategic Partnership and its Community Strategy. Linked to this are Service Plans, Medium Term Financial Plans, the Public Service Agreement, the Best Value Performance Plan and Action Plans arising from efficiency reviews and external inspection reports.

The Council's constitution provides the framework for its decision making processes and sets out the detailed procedures and codes of conduct by which Members and officers operate to achieve Council objectives.

Under the Constitution a Leader and Cabinet form the decision-making Executive. Their decisions must be in line with Council objectives, and are subject to examination by a number of overview and scrutiny committees. Meetings are open to the public except where confidential or exempt matters are being disclosed. Key decisions to be taken by the Executive are published in the Authority's Forward Plan and reports and background papers are available on the County Council website at www.leics.gov.uk.

The County Solicitor is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Council, Cabinet, its committees and officers, providing support and advice on the maintenance of ethical standards and advising the Council's Standards Committee.

As Chief Financial Officer, the Director of Resources is responsible for the proper administration of the Council's financial affairs. The Director has also developed the policy statement on risk management and corporate risk management strategy through the operation of a corporate risk management group. This group represents the interests and views of all departments and is responsible for embedding risk identification and assessment in service and project planning using an agreed methodology, as well as ensuring that all major risks encountered by the Council are identified, assessed and responded to at an appropriate level. Guidance has been issued and training in assessing, managing and monitoring risks has been provided to appropriate staff through risk workshops. Departmental and corporate risk registers are maintained.

To ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way functions are exercised, the Council has established a performance management framework. This framework requires each Department to produce annual service plans setting out their objectives and targets in relation to Council policy priorities. These plans form the basis of the Council's annual Best Value Performance Plan, which summarises progress against targets and sets out proposed improvements in performance and service standards. Progress against the Council's priorities is monitored and reported to Members on a quarterly basis. A process of identifying individual employee targets and development needs linked to departmental objectives has been almost wholly established, with some areas gaining the Investors in People (IIP) accreditation.

The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability.

5. REVIEW OF EFFECTIVENESS

Leicestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who in performing their statutory roles have responsibility for the development and maintenance of the internal control environment. The review process is also routinely informed by the work of the Scrutiny Committees within the Authority as well as comments made by the external auditors and other review agencies and inspectorates.

The Chief Executive has a duty to monitor and review the operation of the constitution and the Monitoring Officer (County Solicitor) has a duty to report to Cabinet on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer undertakes an annual assessment of the Authority's compliance with the Code of Corporate Governance. In 2004/05 the Council's internal auditor reviewed the key supporting arrangements for the code and the context of compliance with it. He has concluded that many of the expected controls are in place, but that further work needs to be carried out in 2005/06 to ensure the quality of controls already in place to combat high impact risks. He has made a series of recommendations which will be the subject of an action plan.

The Chief Executive reviewed the Council's Constitution and recommended a number of changes which were agreed by the Council's Constitution Committee on 19 October 2004.

Overview and Scrutiny Committees support the work of the Executive and the Council as a whole, by producing reports and recommendations, which advise the Executive and the Council on its policies, budget and service delivery. Decisions of the Executive are also monitored by these committees, who have the facility to 'call in' a decision made by the Executive that has not yet been implemented in order to assess whether the decision is appropriate.

The effectiveness of the Council's internal controls is examined in detail through the work of the Internal Audit section of the Resources Department. The section's four-year work plan is based on a needs and risk assessment process that focuses resources on higher risk areas and meets the professional standards required by CIPFA. Audit findings are reported to the relevant Chief Officer and Service Manager, together with recommendations for improvement and action plan. Checks are undertaken by Internal Audit to ensure agreed recommendations have been implemented.

Based on evidence from planned audits and any special investigations, the Chief Internal Auditor reports each year to the Director of Resources and to members of the Council on any major weaknesses that have been identified in the internal controls examined and highlights where important improvements are considered necessary. The Director of Resources reviews this information along with other relevant information such as budget monitoring reports and assurance statements in compiling this statement. The work of Internal Audit and the wider financial aspects of corporate governance and performance management are examined each year by the Council's external auditors.

Formal assurance is provided by departmental Chief Officers that the policies and procedures are being applied in the initiation, development and delivery of service plans. Where gaps have been identified, action plans have been drafted and responsibility for implementation assigned.

Risk management is undertaken as part of the normal service planning and project management process. The Corporate Risk Management Group, through the Director of Resources, will report significant issues identified during this process to cabinet on an annual basis. Regular performance monitoring reports are also brought to the Cabinet showing progress against the Best Value Performance Plan, the Local Public Service Agreement and the Medium Term Corporate Strategy.

Further assurance is provided by regular reports produced by independent review bodies including the Audit Commission, Commission for Social Care Inspection, Ofsted etc.

As part of the Audit Commission's Comprehensive Performance Assessment, the Council received an excellent rating overall. In particular the Council's policies and procedures, recognised within the use of resources category, received the top rating of four. Our performance management processes, corporate cohesion, drive and community leadership were specifically recognised as strong, making the Council well placed to further improve the way it works and the services it provides to local people.

6. SIGNIFICANT INTERNAL CONTROL ISSUES

The reviews of the effectiveness of the system of internal control undertaken by both Internal and External Audit have advised that the Council's overall financial management and corporate governance arrangements are sound and that arrangements for the collection and reporting of performance information is satisfactory.

In producing this statement the following current internal control issues have been identified and action is being taken to resolve them:

- **Procurement and e-procurement**
Further work is required to develop a consistent corporate approach to procurement and to take advantage of potential efficiency savings. An interdepartmental procurement liaison group has been established together with a corporate procurement unit in order to develop and implement the Authority's corporate procurement strategy, monitor procurement performance and support procurement staff within departments. The corporate procurement strategy has been updated to incorporate the results of the initial procurement assessment and to include measurable performance targets. Cabinet has endorsed the procurement improvement plan, which is in the process of being implemented. A three-year e-procurement programme is also being developed and instigated.
- **Risk Management**
Further work is required to fully embed risk management into the culture of the organisation. Risk assessments are to be extended to cover operational risks beyond those identified during the service planning process. These would include major risks that are considered to be already well controlled. Progress against action plans will be monitored as part of the performance management process.
- **LSC Grant Claims**
Some Leicestershire County Council Community Colleges receive funding from the Learning and Skills Council (LSC) to fund further education courses. These colleges are required to claim the monies from the LSC and these claims are subject to certification by our external auditors. Although in previous years only a few issues had been identified as part of this work the review of the 2003/4 claims identified a number of control weaknesses within the Community Colleges. The Authority is

responding to the issues raised by the auditors and taking steps to improve the systems and evidence available to support the claims.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the Executive and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

John Sinnott
Chief Executive

David Parsons
Leader of the Council and
Chairman of the Constitution Committee