



Draft Annual Governance Statement (AGS) 2016/17

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.

Regulations 6 (1)(a) and (b) of the Accounts and Audit Regulations 2015 requires each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS in accordance with the Framework fulfils the statutory requirement of the Accounts and Audit Regulations. The AGS encompasses the governance system that applied in both the Authority and any significant group entities during the financial year being reported.

2. WHAT IS CORPORATE 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.

Delivering Good Governance in Local Government: Framework, published by CIPFA in association with Solace in 2007, sets the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remained 'fit for purpose' and published a revised edition in spring 2016. The revised Framework must be applied to annual governance statements prepared for the financial year 2016/17 onwards.

The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Council's management arrangements are set up to meet the principles of good governance 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 developments required. 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.




The revised Framework requires local authorities to review arrangements against their Local Code of Corporate Governance. The Council's Local Code of Governance has been revised so that it is consistent with the seven core principles of the Framework. The Local Code will be developed during 2017-18. The principles contained in the Framework have been applied to the preparation of the AGS for the financial year 2016/17.

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 governance framework including the system of internal control. 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 conformance (or otherwise) with the seven core principles of the new Framework.





The self-assessments contained a set of conformance 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 	Conformance against the majority of the areas of the benchmark is good, although there may be minor developments required but 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; Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department
2	Some development/areas for improvement 	There are some developments required 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; Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others; Proposal/Plans are in place to address perceived shortfalls
3	Key development and many areas for improvement 	Conformance against many/all areas of the benchmark is poor 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 conformance against the Framework will allow the Corporate Management Team, Members and the public at large to obtain necessary assurance that the Council operates within an adequate governance framework, thus complying with the seven 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 action, the tables below only include the key areas where development is necessary.

The senior management group charged with responsibility for producing the 2016/17 AGS has determined that progress on the development areas identified against each Principle below should be the responsibility of service managers during 2017/18.

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE <i>Delivering Good Governance in Local Government : Framework (2016)</i>		
Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further
<p><u>Principle A:</u></p> <p>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>		<p>The level of conformance is generally good, and the following key areas are noted:</p> <ul style="list-style-type: none"> • Revision of values and behaviours • A statement of business ethics is to be developed for the Council's supply chain. The Council's contract management approach is still evolving and impacts upon the Council's ability to track the supply chain. However, an annual contract management questionnaire will be developed to check conformance with and promotion of ethical values and fraud awareness.
<p><u>Principle B:</u></p> <p>Ensuring openness and comprehensive stakeholder engagement</p>		<p>The level of conformance is reasonable however further development is required in:</p> <ul style="list-style-type: none"> • Clearer and up to date map of feedback consulting and engagement channels and improve Community Engagement mechanisms with regard to local issues and service priorities • Complete draft, consult and engage on and embed new Outcomes Framework and related plans for 2017-2021. • Progressing the Leicester and Leicestershire Combined Authority as a further platform for enhanced partnership working.
<p><u>Principle C:</u></p> <p>Defining outcomes in terms of sustainable economic, social, and environmental benefit</p>		<p>The level of conformance is good – see Principle B for details of areas where further development is required</p>

<p><u>Principle D.</u></p> <p>Determining the interventions necessary to optimise the achievement of the intended outcomes</p>		<p>Further development is noted in the following areas:</p> <ul style="list-style-type: none"> • Contract management and shared agency risks are identified and dealt with appropriately. • Refresh of departmental key performance metrics and dashboards linked to new outcomes framework. • Implementation of recommendations from Ofsted Inspection • Continue to roll out self-service performance dashboards for managers through business intelligence and identification of service quality issues more explicitly in performance reporting.
<p><u>Principle E.</u></p> <p>Developing the entity's capacity including the capability of its leadership and the individuals within it</p>		<p>The level of conformance is good.</p>
<p><u>Principle F.</u></p> <p>Managing risks and performance through robust internal control and strong public financial management</p>		<p>The level of conformance is generally good, and the following key areas are noted:</p> <ul style="list-style-type: none"> • Continuing to improve contract management and monitoring/reporting of key contracts and quality. • Greater validation processes within key databases. More digital support for front line managers in managing data and provision of data quality reports to identify weaker areas.
<p><u>Principle G.</u></p> <p>Implementing good practices in transparency reporting and audit to deliver effective accountability</p>		<p>The level of conformance is good.</p>

5. REVIEW OF EFFECTIVENESS

The Framework provides examples of documents, systems and processes that an authority should have in place. Using this guidance, the County Council can provide assurance that it has effective governance arrangements – see section 4. The Council has recently developed a Local Code of Corporate Governance and this provides examples of good governance in practice.

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 (the PSIAS). The PSIAS were updated in April 2016 and revisions were reflected in an updated Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at the Council, which was approved by Corporate Governance Committee in November 2016. 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 light touch 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. The HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS. The Service will be subject to an independent external assessment in the latter part of 2017-18.

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 2016/17 are: -

Governance – There has been transparent reporting of the HTLAH situation in the AGS. Nothing else of 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 shown good engagement around risk and agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial and ICT Control – Whilst recognising there have been some control failings during the year, reasonable assurance can be given that the Council’s core financial and I&T controls remain strong.

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 2016-17 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 and that no significant issues had been discovered.

Risk Management

The Corporate Governance Committee has a responsibility 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 2017. Regular reports are provided to the Corporate Governance Committee

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 2016/17 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.

<u>May 2016</u>	<u>September 2016</u>	<u>November 2016</u>	<u>February 2017</u>
Annual Treasury Management Report 2015/16	External Audit of the 2015/16 Statement of Accounts and the Annual Governance Statement	Annual Audit Letter 2015/2016	External Audit Plan 2016/17
Quarterly Treasury Management Report	Ombudsman Annual Review 2015-16 and Corporate Complaint Handling	Revisions to the Public Sector Internal Audit Standards and Internal Audit Charter	Treasury Management Strategy Statement and Annual Investment Strategy 2017/18
Draft Annual Governance Statement 2015/16	Annual Report on the Operation of Members' Code of Conduct 2015-16	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	KPMG – Technical Update	Internal Audit Service Quarterly Progress Report
Internal Audit Annual Report 2015/16	Internal Audit Service Quarterly Progress Report	Proposed Changes to the Standard Financial Instructions	Annual Report on Grants and Returns 2015/16
Internal Audit Service Audit Plan 2016-17	Proposed Changes to the Contract Procedure Rules	Quarterly Risk Management Update	Delegation by Leicester City Council of its Internal Audit Function
		Internal Audit Service Quarterly Progress Report	Revised Members' Planning Code Of Good Practice
		Court Surveillance and 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 reached are as follows:

- **Council's Medium Term Financial Strategy (2016-20)**
 - 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 Authority has robust plans in place to address the financial challenge.
 - Given the uncertainties and risks that lie ahead for the sector as a whole, and the individual pressures and challenges the Authority faces in the short to medium term, the level of reserves are appropriate for the size of the organisation.
- **Opinion on the 2015-16 Annual Statement of Accounts**
 - 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.

- Annual Audit Strategy and Plan (for the 2016-17 Accounts)
 - Initial meetings and risk assessment have been undertaken by KPMG in February- March 2017 and with provision of relevant information by the Internal Audit Service which will assist KPMG to determine the planned audit approach for further testing during June to August 2017 before reporting the Audit Opinion in September 2017.

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 Assurance Services undertakes the role of Head of Internal Audit Service (HoIAS) and 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. SIGNIFICANT GOVERNANCE ISSUES

This Annual Governance Statement identifies that the Council has effective arrangements in place, but that we recognise the need to continuously review, adapt and develop our governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (see section 4), it is important to recognise that there was one significant issue set out in the table below.

Ref	Issue /Area for Improvement (2016/17)	Lead Officer and Date
1	<p><u>Help to Live at Home</u></p> <p>In November 2016, following a late withdrawal by a contracted provider of adult home care services, the Council was subject to criticism over its preparations, plans and arrangements for delivering the Help to Live at Home Programme, a joint procurement with the NHS. This impacted the Council's reputation for a short period of time and led to the Council's Cabinet Member for Adult Social Care apologising to service users whose care had been affected.</p> <p>Whilst the great majority of service users have received the care required the Council recognises there had been quality failings for some service users. Urgent action was taken by the service to ensure service continuity and the safety and wellbeing of service users. A pre-planned lessons learned exercise has been undertaken in conjunction with NHS partners. Outcomes of this are due to be reported to the Health partners' boards and the Council's Adults and Communities Overview and Scrutiny in the early summer.</p>	<p>Director of Adults & Communities</p> <p>September 2017</p>

7. ACTION TAKEN ON GOVERNANCE ISSUES REPORTED IN THE 2015/16 AGS

Progress that has been made in dealing with the governance issue that was identified in the 2015/16 AGS is detailed below:

Ref	Issue /Area for Improvement (AGS) 2015/16	Progress during 2016/17
1	<p><u>Deprivation of Liberty Standards</u></p> <p>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.</p>	<p>Action has been taken to:</p> <ul style="list-style-type: none"> • significantly increase budgets for 2016/17 • recruit and train an increased workforce to meet the increased demand • in year to reduce the current waiting list <p>The waiting list has reduced as a result of extra capacity in 2016/17 to a manageable number. However the risk that legal requirements would not be met has reduced, but still remains.</p>

8. FUTURE CHALLENGES

Significant challenges faced by the County Council such as continuing funding reductions, delays to the localisation of business rates, progressing the transformation programme and driving further Health and Social Care integration (under the Leicester, Leicestershire and Rutland Sustainability and Transformation Plan) 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:

- Monitoring the impacts of Brexit on the local economy, and increased level of uncertainty around local government finances following the general election and new government agenda.
- The Independent Inquiry into Child Sexual Abuse (Jay Inquiry). The public hearing of the Janner Investigation is now likely to be held in 2018, and will focus as originally intended, on lessons to be learned where institutional failings are identified, including those of the County Council.
- Following the outcome of the recent Ofsted inspection of children's social care services in Leicestershire, an Action Plan has been developed to address the recommendations in the Ofsted Report and includes proposals for the future development and improvement of services to children and families.
- Addressing emerging spending pressures on the children's social care placement budget, which funds the care of vulnerable children.

9. CERTIFICATION

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Committee and that the arrangements continue to be regarded as fit for purpose.

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 developments 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