Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 26 MAY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the roles of the Corporate Governance Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them. This is to enable the Committee to review or challenge progress, as necessary, as well as highlight risks that may need to be given further consideration. This report covers:

   - The Corporate Risk Register (CRR)
   - Emerging risk – Cessation of HR administration and payroll services to schools and academies
   - Risk management actions reported in the Annual Auditors Report
   - Counter fraud update

Corporate Risk Register (CRR)

2. Within the County Council's Constitution, Article 9.03 'Role and Function of the Corporate Governance Committee' states that the Committee shall have responsibility for the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Code of Corporate Governance with an emphasis on ensuring that an adequate risk management framework and associated control environment is in place.

3. The Council maintains Departmental Risk Registers and a Corporate Risk Register (CRR). These registers contain the most significant risks which the Council is managing, and which are 'owned' by Directors and Assistant Directors.

4. The CRR is designed to capture strategic risk that applies either corporately or to specific departments, which by its nature usually has a longer time span. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added to the CRR as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded, the risk scores will be reassessed, and this will result in

some risks being removed from the CRR and managed within the relevant departmental risk register.

5. Updates to the current risks on the CRR (last presented to the Committee on 27 January 2023), are shown in Appendix A. For this Committee (and for future late Spring committees) additional information has been provided on current and further controls/actions, providing more detailed information for Members on how the risks are being mitigated, and also what their target risk score is. Risks which have been removed in the last two years, and a brief reminder of the risk scoring process are at the end of the appendix. As requested by the Committee at its meeting in January 2023, a further update on Risk 4.2 (concessionary travel appeal by Arriva) has also been provided.

6. Movements since the CRR was last presented are detailed below: -

Risk(s) added

None

Risk(s) Removed

A – All

If the Council does not on an ongoing basis plan for, prepare and respond to current and future consequences of the COVID 19 pandemic, then the Council and its communities could suffer long lasting economic, environmental, societal, technological challenges and missed opportunities.

The World Health Organisation has downscaled its COVID risk and any impacts on the County Council will be managed at departmental level.

Risk(s) Amended

7.4 – Adults & Communities

Change from - Social Care Reform, implementation of charging reform and assurance process

Change to – If LCC's Charging Policy is challenged on the principles of the Norfolk Ruling then there could be judicial review leading to significant financial impact and reputational damage.

In addition, the likelihood score has been reduced

Emerging Risk

Cessation of HR administration and payroll services to schools and academies

7. The Employee Service Centre (ESC) has been offering HR administration and payroll services to schools and academies since it was formed in 2012, with the bulk of the customer base made up of maintained schools, Multi Academy

Trusts (MATs) and individual academies. The sector became significantly more complex since 2010, with the academisation agenda. The several types of customers came with different requirements, which at times was difficult to manage.

8. The introduction of Oracle Fusion (new HR/Payroll system) allowed schools and academies (referred to as education customers) greater access to the payroll system and significantly changed the way that customers interact with ESC. The rollout of Fusion was complicated and there were issues, the main reasons being:
    - Education customers did not like the change which was introduced against a backdrop of the pandemic resulting in extra pressures on the ESC and customers alike.
    - Training for both ESC employees and customers was made more difficult due to 'homeworking'- therefore knowledge of the system was slow to develop.
    - The functionality of the system did not fully support the complex requirements of education customers.

9. Starting last summer, a number of MATs began to tender for their payroll services and this impacted ESC with a significant loss of business, such that four of its top ten customers moved to a different provider and significant risks surrounded the remaining Trusts. At the meeting of the East Midlands Shared Services Joint Committee on 23 January, options were presented to the Sponsors and the Joint Committee, which resolved to cease HR and Payroll trading with maintained schools and academies as of 31 August 2023.

10. A number of risk mitigations have been developed and installed
    - A cross functional project team has been established and a Change Manager allocated
    - School representation/engagement
    - A specific risk register and action logs have begun
    - Ensuring schools are supported in managing the administration requirements (including HMRC requirements) with appropriate advice and guidance
    - The Council's Scheme for Financing Schools has been updated and appropriate processes, policies and controls are in place
    - Interfaces are being developed to ensure information is consistent on both schools and LCC systems
    - Liaison with the bank being undertaken centrally to minimise impact on individual schools

11. A Senior Auditor has been allocated to the Project Team to provide advice over controls at the Council's maintained schools before replacement arrangements start. There are around 80 maintained schools which will need to contract with an external provider of payroll services. The majority of schools have signed up with one provider, though some are still to sign a contract and a small number are undecided. The provider has said it can migrate about half of the schools in September and the other half they want to migrate earlier in August. This poses a challenge for both LCC and schools being ready even earlier with processes and controls in place during the summer holidays, when most

schools are officially closed. The Internal Audit Service will continue to provide audits at schools with an emphasis on testing payroll arrangements.

Risk management actions reported in the Annual Auditors Report

12. At its meeting on 16 March 2023, the Committee received the Auditors Annual Report (AAR) presented by the Council's external auditors Grant Thornton. The AAR is a detailed review of the value for money (VfM) arrangements at the Council. The AAR is a relatively new report, required by the National Audit Office.

13. One section of the AAR reports on governance arrangements including those for risk management. Whilst the report findings were very positive and no significant weaknesses were reported, risk management improvement recommendations were made as follows (along with responses and actions to date): -

  a. The Council must ensure there is an independent and objective review carried out by somebody not involved with the day to day process (of managing risk).
    i. Agreed. There will be an overall review of the application of the framework either by an auditor (not involved in the day-to-day process) or an external body.
  b. Include environmental impact within the risk impact measurement criteria
    i. Agreed and criteria have been worked up to be added to the risk management toolkit
  c. Re-commence the risk management group meetings
    i. Agreed – a meeting was held on 14 February 2023
  d. Include target risk scores on the corporate risk register
    i. Agreed and mostly in place for this Committee (see Appendix A) Target risk score - This is the desired score to be achieved after additional mitigation procedures/controls have taken place.
  e. Document the controls in place to mitigate risks
    i. Agreed and mostly in place for this Committee (see Appendix A)
  f. Roll out use of the Pentana system across all departments
    i. Partly agreed: The Council will consider looking at a corporate wide solution based on a valid business case

Counter fraud update

National Fraud Initiative 2022/23

14. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud in a number of areas, including pensions, payroll, creditors, bribery/conflict of interest, etc. Since it was set up in 1996, the NFI has identified thousands of attempts to defraud taxpayers, with attempts to steal money from pension funds, procurement activity, council tax claims and even the abuse of disabled parking badges. The latest figures from the Cabinet Office show that the previous NFI

exercise (NFI 2020/21) resulted in the detection of overpayments, fraud and error totalling £443m, taking the total figure identified since 1996 across the UK up to £2.4 billion.

15. The Council has received back from the Cabinet Office details of NFI matches from the 2022/23 exercise. These are currently being investigated by relevant sections. Matches do not necessarily suggest fraud or error but are risk-based potential anomalies worthy of further investigation. Matches can generally be summarised into four categories: -

- Deceased Persons Matches, e.g. pensioners, concessionary travel passes, blue badges
- Payroll Matches, e.g. people with two employments
- Creditor Matches, e.g. potential duplicate payments
- Anti-Corruption Matches, e.g. connections between employees and businesses which the Council trades with

16. A full report on the NFI exercise will be provided to the next meeting of the Committee. The National Fraud Initiative extends to both ESPO and the Leicestershire Pension Fund. Separate reports will be issued to relevant governance streams summarising the work undertaken and outcomes.

Data Analytics Supplementary to NFI

17. In addition to the formal NFI exercise, the Internal Audit & Assurance Service uses data analytical tools aimed at identifying fraud or error. This includes analytical work in areas such as: -

- Matching adult social care records to deceased persons records, e.g. clients in residential care or in receipt of a personal budget
- Duplicates e.g. vendors, bank accounts, payments
- Creditors with missing bank account numbers
- Invalid bank account numbers by format
- Invalid VAT numbers by format
- Validation of supplier VAT numbers
- Procurement card (pCard) spend analysis
- Employees paid additional wages due to overtime/honoraria/market premia

Reporting Fraud Under the Local Government Transparency Code 2015

18. Under the Local Government Transparency Code 2015, the County Council is required to publish to its website, annually, summary details of fraud investigations including the total number of frauds investigated and the total amount spent by the authority on the investigation of fraud. Details for 2022/23 have been published and can be viewed via the link below: -

https://www.leicestershire.gov.uk/about-the-council/council-spending/payments-and-accounts/cost-of-fraud-investigations

Declaring Potential Conflicts of Interest

19. The Council's policy on registering potential conflicts of interest requires that employees must identify and disclose any actual or potential personal, financial, business, or other interest or close personal relationship which might reasonably be perceived as a conflict of interest. This includes secondary employments. During International Fraud Awareness Week in November, the Internal Audit Service undertook a proactive awareness raising initiative to give further information to employees on typical circumstances where making a declaration would be appropriate. This included an interactive quiz which discussed Declarations of Interest (this session was later made available to all), some targeted work on declarations which involved interviewing a number of lower graded employees to get a feel for their understanding of the policy, there was also a Managers' Digest piece encouraging managers to remind staff.

20. NFI output also includes details of employees with connections to creditors paid by the Council, by matching on factors such as bank accounts and addresses. It further matches to the Companies House register of company directors to identify potential undeclared conflicts and feasibly even procurement irregularities, e.g. collusion in a procurement process. The importance, therefore, of both employees understanding when and how to make declarations, and the secondary role of line managers understanding how declarations made should be considered and in effect approved (or otherwise), cannot be overemphasised. The aforementioned NFI report (paragraph 11) will contain recommendations to the Director of Law and Governance to strengthen guidance to staff and management, develop a decision flowchart and provide hypothetical examples.

Recommendations

It is recommended that the Committee:

a) Approves the current status of the strategic risks facing the County Council;

b) Makes recommendations on any areas which might benefit from further examination;

c) Notes the updates regarding: -
    i.   Emerging risk - Cessation of HR administration and payroll services to schools and academies;
    ii.   Risk management actions reported in the Annual Auditors Report;
    iii.   Counter fraud.

Resources Implications

None.

Equality Implications

None.

Human Rights Implications

None.

Circulation under the Local Issues Alert Procedure

None.

Background Papers

Report of the Director of Corporate Resources – 'Risk Management Update' – Corporate Governance Committee, 5 November 2021, 28 January 2022, 13 May 2022, 30 September 2022, 21 November 2022, 26 January 2023 and 16 March 2023.
http://politics.leics.gov.uk/ieListMeetings.aspx?CommitteeId=434

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Appendices

Appendix A - Corporate Risk Register Update (May 2023)

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