**Leicester
City Council**

Cabinet   **21ˢᵗ June 2010**

**Review of the System of Internal Control and
Annual Governance Statement 2009-10**

1. Purpose of Report

1.1. To present the results of a review of the Council's System of Internal Control.

1.2. To present an Annual Governance Statement, which summarises the findings of the above review, for the endorsement of the Cabinet. (See Appendix 1)

1.3. The Audit Committee, approved the Annual Governance Statement at its meeting on 20ᵗʰ May 2010.

2. Conclusions

The City Council has an effective system of internal control, which is generally working soundly.

3. Recommendations

The Cabinet is recommended to:

3.1. Receive this report and agree the conclusion that the Council has an effective system of internal control

3.2. Endorse the Annual Governance Statement 2009-10 (Appendix 1) for inclusion within the Council's published Annual Finance Statements.

4. Report

4.1. Best practice requires the Council to have arrangements in place to ensure its system of internal control is working soundly. These arrangements are known as the assurance framework; this traces the Council's principal objectives, as set out in its Corporate Plan, and links these to

   o   Risks to the achievement of the plan

o   Controls in place to manage these risks

o   Assurances available to the Council that the controls put in place to manage those risks actually work

o   Actions addressing the situation where it is thought that they do not work.

4.2. The Assurance Framework was described to, and approved by, the Audit Committee at its meeting on 3rd February 2010 and a summary diagram is attached at Appendix 2. In essence, reliance is placed on the following sources of assurance:

o   Risk Registers

o   Local Code of Corporate Governance

o   External Auditor's Annual Audit and Inspection Letter, inspection Reports and Annual Governance Report.

o   Other reports issued by the External Auditor

o   Other Inspection Reports

o   Summary of Internal Audit Conclusions

5. Sources of Assurance 2009-10

5.1. Risk Registers

5.1.1. A risk register is used to maintain information on all the identified risks pertaining to a particular activity (project, programme or service delivery).

5.1.2. The register will show all identified risks to the achievement of the Council's objectives as detailed in its vision. It will be completed in accordance with standard assessment methodology clearly showing the impact on objectives if the risk occurred and how likely this occurrence would be.

5.1.3. The register will also show the mitigating controls in place to lessen that impact and/or likelihood, along with any further controls recommended by management –with a named officer responsible for ensuring those controls are implemented and reviewed.

5.1.4. At its meeting on 5th January 2009, the Cabinet agreed the Corporate Risk Register and a process for reporting on progress in addressing the identified risks. This process ceased with the dissolution in mid-2009 of the Corporate Directors Board as part of the Organisational Development and Improvement programme.

5.1.5. The Council's Risk Management Strategy has been revised and was approved by Cabinet at its meeting on 30th November 2009. The Audit Committee endorsed the Strategy at its meeting on 3rd February 2010.

5.1.6. Central to the Strategy is the development of Strategic and Operational Risk Registers to replace the Corporate Risk Register. The new registers reflect the changes in organisational structure implemented as part of the Organisational Development and Improvement programme. These will be presented to the Strategic and Operational Boards in May and August 2010 respectively and, once agreed, will be presented to the Audit Committee for approval.

5.1.7. Work will then continue to further embed the approved Risk Management Strategy into the culture and the operations of the Council to ensure that awareness of risk and its management becomes integral to the way the Council manages and delivers its services, including partnership working.

5.1.8. Notwithstanding the temporary gap in the process of maintaining risk registers it is believed that the system is working reasonably well to allow some level of assurance to be provided to Members. Risk awareness is becoming embedded within the Council's management processes and is a key feature of all decision making.

5.1.9. Risk management of change projects is stronger than it has ever been with the development of a new programme assurance function and gateway approach for all major projects.

5.1.10. Finally, at its meeting on 31st March 2010, the Audit Committee resolved to recommend to the Council that its terms of reference be changed to strengthen its responsibility for overseeing the Council's risk management arrangements. In furtherance of this, it resolved to seek a change of name to Audit and Risk Committee[1].

5.2. Corporate Governance Framework

5.2.1. The Council's Local Code of Corporate Governance was adopted in 2007. It is a means of providing assurance on the core processes and procedures adopted and implemented by the council to support the delivery of its objectives and has, thus far, worked well. It has been commended both by the Council's External Auditor as an example of best practice, and by Internal Audit for its effectiveness in providing assurance on the efficacy of the Council's key policies and procedures.

5.2.2. The framework focuses on core policies and procedures that support the delivery of the Council's objectives (e.g. the Consultation Strategy, the Performance Management Framework and Members' Code of

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[1] Minute 65, Audit Committee 31st March 2010

Conduct), matters related to the Authority's purpose and vision and its community leadership role.

5.2.3. The Framework includes a self-analysis of compliance with the six core principles of good governance as identified in the CIPFA/SOLACE framework, that is to say:

o Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.

o Members and Officers working together to achieve a common purpose with clearly defined functions and roles

o Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

o Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.

o Developing the capacity and capability of members and officers to be effective.

o Engaging with local people and other stakeholders to ensure robust public accountability.

5.2.4. The results of this self-analysis are reflected in the Council's Annual Governance Statement.

5.2.5. The key conclusions from the review of assurances for 2009-10 were:

o In relation to most procedures and policies there is full or significant assurance.

o The only areas where less than that level has been reported are Information Governance and Communications.

5.2.6. The review also shows that the Council's work programme supports its adherence to the six core principles of good governance.

5.2.7. Overall, the picture described by the annual review is again positive and assurance can be derived from this that the key polices and procedures identified are broadly effective in managing the risks that threaten achievement of the Council's objectives.

5.3. Internal Audit

5.3.1. Each year, Internal Audit carry out a planned programme of reviews of processes as agreed by the Audit Committee on behalf of the Council.

5.3.2. Items for review in the annual plan are identified through a risk scoring process that takes into account various risk factors such as the value and volume of transactions, the susceptibility of the activity to fraud and the possible consequences were it to fail. Each audit review takes as its starting point the objectives of the process or activity. From this the specific risks that can prevent achievement of those objectives and the controls in place to manage those risks are identified. Internal Audit then review the controls to assess their effectiveness. Internal Audit then reviews the controls to assess their existence and effectiveness in managing the risks identified. Recommendations to address weaknesses or strengthen controls are made where necessary. Through this process it is possible to give an opinion on the effectiveness of the Council's system of internal control based on the work carried out by Internal Audit.

5.3.3. A summary of Internal Audit's findings and conclusions is produced on an annual basis. The results of audit work specifically identify whether and where control weaknesses are found. The summary for 2009-10 will be reported to the Audit Committee on 21st June 2010.

5.3.4. There are limitations to this process since it is not possible for Internal Audit to review all of the Council's systems processes and transactions every year. Internal Audit resources are therefore primarily directed towards those areas of activity that pose the greatest assessed risks to the achievement of objectives.

5.3.5. Regular reports are presented to the Audit Committee on the results of internal audits and of the monitoring of the implementation of recommendations made by both internal and external audit. These reports include an assessment of the levels of assurance that can be gained from Internal Audit work.

5.3.6. Each report issued by Internal Audit states the level of assurance that can be derived from the work done. Table 1 below describes how levels of assurance are assessed.

5.3.7. Lower levels of assurance do not necessarily imply poor processes; they suggest control weaknesses, which need to be rectified. Such a conclusion may, for instance, be reached after a major technological change.

TABLE 1

Level of Assurance	Audit Conclusion	Typical Audit Recommendations

Level of Assurance	Audit Conclusion	Typical Audit Recommendations
Full	Controls in place reduce the risks to an acceptable level.	No recommendations or few low significance recommendations.
Significant	Controls sufficiently reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are usually minor issues that need to be addressed by management.	Some medium, mostly low significance recommendations.
Partial	Only some of the risks are adequately managed; for others, there are significant issues that need to be addressed by management.	Many recommendations, few high, many medium significance.
Little or No	The level of risk remains high and immediate remedial action is required by management.	Many high significance recommendations, addressing most or all of the risks.

5.3.8. A summary of the findings of Internal Audit work for 2009-10 is shown in Table2 below:

TABLE 2

Level of Assurance		Number of Reports				%			
		2006 -7	2007 -8	2008 -9	2009 -10	2006 -7	2007 -8	2008 -9	2009 -10
Full	FMSiS-external Assessments	0	12	22	24				
	Other Audit Work	7	5	10	4				
		7	**17**	**32**	**28**	*5%*	*13%*	*21%*	*18%*
Significant	FMSiS- self Assessments	11	25	25	33				
	Other Audit Work	46	32	30	38				
		57	**57**	**55**	**71**	*42%*	*43%*	*36%*	*46%*
Partial		**65**	**42**	**56**	**44**	*48%*	*32%*	*37%*	*29%*
Little or None	FMSiS External and Self Assessments	5	9	3	8				
	Other Audit Work	2	7	5	3				
		7	**16**	**8**	**11**	*5%*	*12%*	*5%*	*7%*
Total audits for which assurance can be given		136	132	151	155				
N/A		*1*	*7*	*17*	*25*				
	Total Reports issued	137	139	168	179				

5.3.9. This is the fourth year for which the findings of Internal Audit work have been categorised in this way. These figures are a statistical snapshot and need to be viewed with that in mind.

5.3.10. The overall picture painted by the figures in Table 2 shows an increase in the percentage of reviews with at least significant assurance (64% cf 57%). There has also been a slight increase in the percentage of reviews for which little or no assurance can be given (7% cf 5%) and a decrease in the number of non-FMSiS audits for which it has been possible to provide full assurance. (see Table 3 below)

Table 3- Levels of Assurance from Internal Audit Reviews
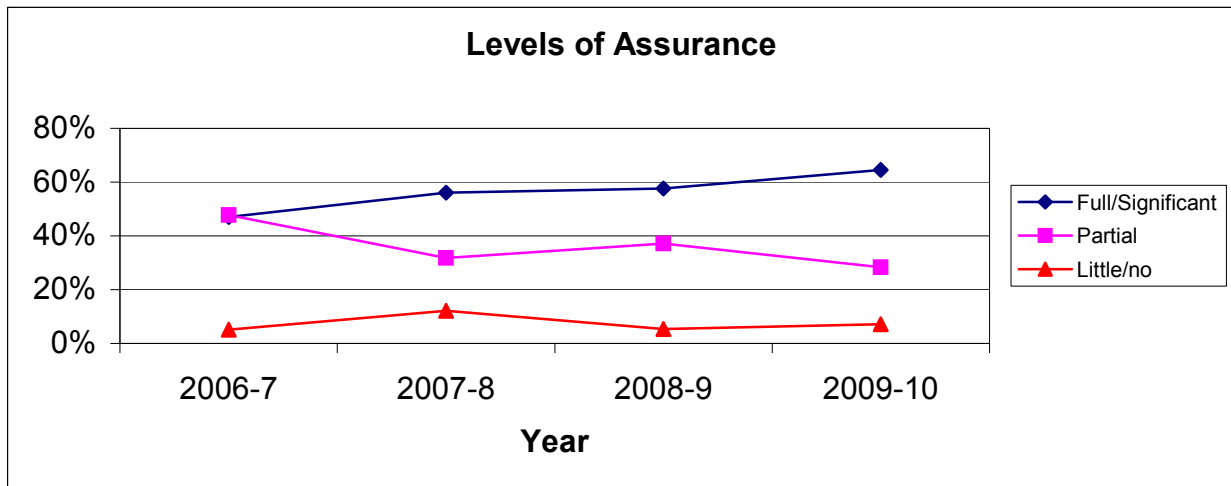
5.3.11. It should be noted that not all audits are of the same size or materiality. Giving little or no assurance in relation to the petty cash imprest account at (say) a library, is not of the same materiality as little or no assurance in relation to a major IT application (such as the Housing Benefits System). As such, these figures give no more than an indication of a trend. Nonetheless, there has been an improvement in the overall position indicating that the internal control environment has improved over the past year and is on an improving trend line.

5.3.12. Whilst this improving trend is welcome, the identified reduction in the number of non-FMSiS audits for which it was possible to give full assurance is worthy of a note of caution.

5.3.13. Processes have been introduced by the Strategic Management Board to improve corporate responsiveness to audit findings, including regular reporting of overall findings to the Board. The feedback from the Board has been positive; they find the process helpful and focussed. In turn, this helps the Council to learn from audit findings and thereby improve its overall effectiveness and performance.

5.3.14. Key findings from the annual Summary of Internal Audit Conclusions for 2009-10 are:

o   Most systems and services function effectively and meet their service objectives.

o   The Council's corporate governance processes generally work well or are improving.   The new arrangements for project assurance have become well established and represent a major improvement in this important area.

o   There was some evidence of improvement in processes and awareness of requirements. There was continued improvement at the Neighbourhood Housing Offices, with evidence of closer monitoring by service management. This in turn will allow Internal Audit to change the focus of its audit work in relation to regularity audits, from a quasi-management focus to one of increasing emphasis on management controls. Another important area of improvement was schools, which (with some exceptions) showed an increasing acceptance and understanding of the Financial Management Standard and greater compliance with it.

o   Much effort has been directed to addressing past weaknesses in procurement and contract management.   There is a clear senior management focus on this crucial aspect of expenditure and service delivery.

o   The approach to IT security continues to improve.   Last year, we reported that the consolidation of IT support into one corporate service was increasing the capacity to identify and deal with IT-related risks and threats; this has continued though there remains a way to go given the number of legacy systems.

o   The Council has once again maintained its accreditation for EMAS. Awareness of environmental good practice continues to improve.

o   Recommendations were made to address weaknesses found and management generally adopted such recommendations positively.

5.3.15. Internal Audit cannot give full assurance, because of the number and materiality of weaknesses identified (although no internal audit could ever give such assurance with 100% confidence.)

5.3.16. The main areas of weakness found in more than one piece of work included:

o   Lack of or inconsistent compliance with required procedures. Examples included use of imprest accounts for personal expenses and insufficient recording of transactions. Again, this was particularly the case in outlying Council establishments including some schools. It is disappointing to note that in some cases, matters identified in the previous year's audit work were still evident. Whilst audit work in respect of De Montfort Hall is not yet concluded, it is clear that weaknesses were apparent there as well.

o Weaknesses in security and access to IT systems and data held on them in a number of cases. However the risk of misuse or malicious attack is reduced by the need for a perpetrator to have sufficient "inside" knowledge of the Council's systems and their associated security arrangements.

o Inadequate independent checks, reconciliations and segregation leading to insufficient assurance on accuracy and some errors in processing in some areas.

o Inadequacy of controls over security and access to premises and cash. Having said this, however, the discrepancies identified by Internal Audit were only for small amounts.

5.3.17. Possible reasons for these weaknesses include:

o Insufficient attention by service management to effective control and monitoring and the 'compliance culture'. It is sometimes hard to avoid a feeling that managers find it easier to rely on Internal Audit to intervene in cases of breach of procedure rather than take direct responsibility themselves. There remains a continuing need for support and training for managers in the correct corporate procedures as well as promulgation of the need and requirement for high standards of compliance.

o The continuing heavy workloads of managers, who are under pressure to deliver against service objectives and targets and may find it difficult to make time for day-to-day financial housekeeping.

5.3.18. It is noted that these matters were reported upon in the summary of Internal Audit conclusions for 2008-9. This has been raised with strategic directors and they have indicated their determination to reinforce with service managers the need to strengthen the Council's management controls and monitoring arrangements.

5.3.19. Nonetheless, though audit work has found weaknesses in control, this is not the same as saying that those weaknesses have been exploited or that the managers concerned are not committed to providing their services properly. It is only fair to reiterate that management responded constructively to audit recommendations made. Detailed follow-up of previous Internal Audit work generally indicates a strengthening of controls to address weaknesses previously found, though there were a number of exceptions to this.

5.3.20. Two other points should be borne in mind:

- The weaknesses identified do not mean that all the City Council's systems are fundamentally flawed.

- This report and its conclusions are a summary of Internal Audit's findings, not a complete assessment of the whole of the City Council.

5.3.21. The Audit Committee has enhanced its effectiveness by improving the Council's performance in respect of these general weaknesses, particularly through the promotion of good practice and holding officers to account.

5.3.22. The Committee has called a number of officers to attend its meetings and as a result has stimulated a greater degree of willingness to respond promptly and effectively to Internal Audit's recommendations and as part of the Annual Review of the System of Internal Audit[2] the Committee has been assessed as being effective[3].

5.3.23. Overall, therefore, Internal Audit can conclude that the Council has an adequate system of internal control.

5.4. External Audit and Inspection Reports

5.4.1. Further assurance can be derived the work of the Audit Commission and other external inspection regimes[4].

External Audit Annual Audit Letter

5.4.2. The Audit Commission produce an annual summary of their work, which incorporates key messages from the work of other inspection regimes. They publish this in their Annual Audit and Inspection Letter, which is addressed to the Council. This letter was reported to the Audit Committee at its meeting on 3rd February 2010[5].

5.4.3. Key findings directly relevant to the review of the System of Internal Control are:

- The quality of the Council's accounts remains good and an unqualified opinion on the 2008-9 financial statements has been issued.

- Arrangements for ensuring value for money in the use of resources are considered adequate and a need to demonstrate that these processes are actually helping to deliver better services to local people was identified.

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[2] As required by the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.
[3] Minute 63, Audit Committee, 31st March 2010
[4] Examples included Ofsted and Commission for Social Care and Inspection.
[5] Minute 43, Audit Committee, 3rd February 2010.

o The Council is managing its financial position well. It has adapted its financial plans appropriately in the light of the economic downturn. The impacts of the recession will continue to present a challenge to the Council in the coming financial years.

o One area of material weakness in Internal Control was identified. This related to a lack of evidence of formal management authorisation of starters and leavers on the payroll and no periodic confirmation of the payroll master-file by managers or budget holders. Furthermore, officers were unable to identify the relevant line-managers for a sample of starters and leavers selected for testing.

o The need for adequate resources to be made available to deal with the implementation of International Financial Reporting Standards was noted.

Annual Governance Report

5.4.4. The External Auditor has a responsibility to review and report on, to the extent required by the relevant legislation and the requirements of the (Audit) Code:

o The Authority's financial statements; and

o Whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

5.4.5. The key messages from this report for 2008-9 come from the assessment of the Council's Use of Resources in relation to the key lines of enquiry

Use of resources theme	Scored judgment (1 to 4; with 4 being the highest)
Managing finances	2
Governing the business	2
Managing resources	3

5.4.6. The conclusion reached was that the Council's overall arrangements are sound; meeting expected standards in two themes and performing well in the third. The Council's financial planning and monitoring arrangements are also performing well.

Corporate Assessment

5.4.7. A revised Corporate Assessment report was published in December 2009. This was the first assessment under the new Comprehensive Area Assessment Process.

5.4.8. The assessment identified

- o No areas of exceptional performance or innovation that others can learn from

- o Two areas of significant concern where action was required, namely

    - Crime levels

    - Increasing life expectancy and improving health inequalities.

Other External Audit Reports

5.4.9. The Audit Commission issued seven reports to the Council during the year as follows:

- o Certification of Claims and Returns 2008-9
- o Curve
- o Disciplinary Procedures
- o Ethical Governance
- o Building Schools for the Future (2)
- o Health Inequalities
- o Internal Audit

5.4.10. The key findings arising from these reports were

Certification of Claims and Returns

5.4.11. The Housing Benefit Subsidy Claim has been qualified and as a result the DWP has withheld some subsidy. Whilst claims by most local authorities are qualified, there is a need to reduce the levels of error or face an enhanced risk of further subsidy reduction in future years.

Curve

5.4.12. The project was affected by

- o Inadequate identification and management of risks, for example arising from the unusual design, and the lack of consideration of some operational needs before construction started and the changing operational needs during the construction phase;

- o Construction starting before detailed design work was complete; and

- o Weak project management arrangements at the start of the project prior to the adoption of Prince 2.

Disciplinary Procedures

5.4.13. The report identified a lack of ready explanations from managers on

- o how key decisions had been taken;

- o why they were taken; and

- o who took them.

- o A perception amongst some officers interviewed that the arrangements were inconsistent with similar cases resulting in a different outcome depending on the department and seniority of the staff member involved.

- o A lack of understanding and clarity on the relationship between Internal Audit investigation of fraud allegations and disciplinary investigations (responsibility of the presenting officer)

- o Delays in the Council's intended review of disciplinary procedures.

Ethical Governance

5.4.14. The report identified significant progress in improving the Ethical Governance Framework for the Council with a strengthening of the role of the Standards Committee.

Building Schools for the Future (2)

5.4.15. The Council successfully achieved financial close for phase 1 in December 2007, at which time a construction and opening timetable was established for the phase 1 schools. All these schools opened in 2009 within the prescribed budget and in line with this timetable, albeit that this was much later than originally expected owing to the extended procurement period.

5.4.16. Improvements in the Council's project management arrangements from February 2007 to financial close were identified. However, the Council faced further challenges as a result of project management resources reducing after financial close and the delay in approving and implementing the proposed client side structure.

5.4.17. In the key early stages the project faced low corporate prioritisation and support, and an absence of strong leadership and the lack of a robust underlying strategic vision for education and BSF.

5.4.18. Initial project management arrangements were inadequate, including a failure to develop effective communication and cooperation between the Project Team and the education finance function, and insufficient monitoring of a Project Team dominated by external advisors.

5.4.19. There was a failure to follow formal internal and European Union (EU) procurement procedures for the engagement of two key BSF advisors and an inability to locate a signed contract for the engagement of the main BSF advisor was noted. However, the Council has since developed a corporate improvement plan in response to the Audit Commission's 2007 Public Interest Report in respect of housing contracts, which should help to address these issues.

5.4.20. Formal reporting of progress, emerging risks and updates on the affordability position to Cabinet between July 2006 and May 2007 was noted.

5.4.21. The Council has recognised the need to refocus BSF and regain momentum and is rebuilding its BSF resources as part of a wider strategic function within CYPS called 'Transforming the Learning Environment' (TLE). This involves the development of a clear strategic vision for Education, within which BSF has a major role to play. The proposed BSF client side structure and resources are more commensurate with the level of resources required to manage such a major project, and stronger corporate links are already in place.

Health Inequalities

5.4.22. Whilst both the PCT and the Local Authority (LA) show strong commitment to the health inequalities agenda as evidenced by the appointment of a joint Director of Public Health and the existence of appropriate strategies and partnerships, further work is needed to ensure strategies are fully integrated and managed as a whole against the overall objective of reducing health inequalities.

5.4.23. The partnership has some strong relationships, which underpin partnership arrangements, and are continuing to develop with some good examples of joint working.

5.4.24. There are, however, areas where relationships have not been translated into planned outcomes and progress has been limited, to an extent, by capacity issues, but this should now have been largely addressed.

5.4.25. There are strong relationships and some examples of effective joint working. There is a need to ensure arrangements function effectively in all key areas.

5.4.26. Available data and intelligence supports organisational and shared strategic and operational decision-making to address health inequalities. There is however a lack of consistency between the LA and PCT in the use and interpretation of data, which limits the ability to robustly performance-manage activities, and needs to be addressed.

5.4.27. Investment in the public health team has been made, and more is planned. This should enable greater progress to be made in areas

where actual performance is below targets. Also, the appointment of the joint Director of Public Health should ensure a greater degree of ownership in the LA of health issues. There is, however, a need to review more general workforce arrangements to ensure the skills and competencies needed to address health inequalities are available.

5.4.28. Whilst PCT workforce arrangements are adequate to address the skills and competencies needed to address health inequalities further work is needed by the LA to ensure workforce performance management arrangements fully reflect the health inequalities agenda.

Internal Audit

5.4.29. This review assessed the degree of compliance by Internal Audit with the eleven Standards in the CIPFA[6] Code of Practice for Internal Audit in Local Government in the United Kingdom. It is a significant component in the overall annual review of the system of internal audit as it gives a fully independent opinion.

5.4.30. It found full or substantial compliance with nine of the standards, and while two with partial compliance was identified. No standards were assessed as failed.

5.4.31. The main areas requiring attention are linked to the delivery of the internal audit plan and include:

o The impact that budget overruns on individual reviews have on delivery of the overall plan; the basis used to measure the percentage of the audit plan achieved; and

o The clarity of contingency reserve (an allowance of unallocated audit days to provide for additional commissioned work or other unplanned eventualities).

5.4.32. Regular reports to the Audit Committee have tracked progress in addressing the findings of all these Audit Commission reports.

5.5. Inspection Reports

5.5.1. Reports were received by the Council from the following external inspection sources:

o Care Quality Commission Inspection of Adult Social Care- Annual Performance Assessment 2008-9

o Inspection of contact, referral and assessment arrangements within Leicester City Council children's services

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[6] Chartered Institute of Public Finance and Accountancy

5.5.2. The main findings of these reports were as follows:

<u>Adult Social Care</u>

o Leicester City Council has a well-evidenced commitment to improving and transforming adult social care across the city.

o The council is well aware of the challenges that it faces, and has plans in place, with partner agencies where appropriate, to address them. These include addressing health inequalities, increasing the range of supported housing options for people with complex needs, reducing the time people are having to wait for major adaptations and ensuring that all appropriate concerns are identified and investigated via Adult Safeguarding procedures.

o The council has a range of well-evidenced strengths. These include some excellent work on the development of personalised services involving people from all communities in the development and delivery of new services, work on employment opportunities for people with a learning disability and the provision of services that meet the needs of very diverse communities.

o The council was assessed overall as providing "good" outcomes for people using adult social care in 2007/2008. Progress has been made across all outcome areas in 2008/2009, with two outcomes, "making a positive contribution" and "freedom from discrimination and harassment" improving to "excellent". No outcome areas were judged as performing less well than their 2007/2008 position.

o The 2008/2009 overall assessment is that the council is "performing well".

o The Council has identified its priorities for 2009/2010. In many instances these are confirmed by the 2008/2009 annual performance assessment and are included in the report.

5.5.3. In summary the ratings given to the services were as follows:

Delivering Outcomes:		The council is performing:
	Assessment Overall	**Well**
Outcome 1:	Improved health and emotional well–being	**Adequately**
Outcome 2:	Improved quality of life	**Adequately**
Outcome 3:	Making a positive contribution	**Excellently**
Outcome 4:	Increased choice and control	**Well**
Outcome 5:	Freedom from discrimination and harassment	**Excellently**
Outcome 6:	Economic well-being	**Well**

Delivering Outcomes:		The council is performing:
Outcome 7:	Maintaining personal dignity and respect	**Well**

Contact Referral and Assessment within Children's Services

5.5.4. The inspection identified no areas for priority action but some areas for development.

5.5.5. Strengths identified were

o Child centered work, with an effective focus on the protection of children, is evident. Direct work with children is often good, leading to their wishes and feelings being identified and taken seriously within assessments.

o The diverse and individual needs of children and their families are identified and contribute demonstrably to assessments of risk and need.

o Child protection enquiries are thorough and include a sustained focus on the child, particularly where their parent or carer also need support or are vulnerable.

o Workers reported very good support, guidance and direction given by their team managers. Reflective professional practice and continuous staff development are evident throughout the service.

o Staff have good access to a wide range of training from internal and external providers. The training undertaken is relevant and focuses well on improving service delivery.

o Operational and senior managers focus effectively on performance management and quality assurance. The recently enhanced audit programme aims to ensure that the service focuses on risks and needs of children and young people.

o Support services, notably legal services and the emergency duty team, are timely and provide clear and robust support in delivering safeguarding objectives.

o Child protection enquiries in relation to disabled children are sensitive to their additional vulnerabilities.

5.5.6. Developmental areas identified were

o Initial responses by social care staff are inconsistent in identifying the needs of children who do not meet the threshold for child protection enquiries. Thresholds are not clearly or consistently articulated

between referrals within the common assessment framework and those requiring an initial social care assessment.

o Workforce capacity is sufficient overall to meet the demand for service but the proportion of qualified social workers is too low. The duty team currently has no qualified social workers, although the team manager provides active oversight and appropriate prioritising and allocating of child protection work to qualified social workers in other teams.

o The arrangements for transferring cases between teams are not sufficiently efficient to support continuity in services experienced by children and young people.

o Record keeping overall was insufficiently focused and analytical although some excellent examples of timely case recording of purposeful practice were seen by inspectors.

o While supervision records demonstrate timely case management, guidance and direction, recording of the individual, professional development of staff is poor.

5.6. These sources of assurance together provide the Council with a comprehensive overview of its control environment and the ingredients on which to conclude its review of its System of Internal Control, which in turn forms a key component of its Annual Governance Statement.

6. **Follow up of Areas of Concern identified in Annual Governance Statement for 2008-9**

6.1. The Annual Governance Statement for 2008-9 identified the following issues and reported against each as follows:

Area of concern	Comment included in AGS for 2008-9	Action planned as reported in AGS 2008-9	Latest Situation (as at 31/03/10)
The documentation, promulgation and adherence to of Corporate policies, procedures and requirements is variable.	This was identified as a weakness in the Statement on Internal Control for 2006-7 and 2007-8 There is evidence of some improvements (especially in relation to Neighbourhood Housing Offices) but examples of variable compliance are still being uncovered, despite action taken to improve awareness through focussed training.	The programme of procurement training for certifying officers has been substantially completed and arrangements to deliver tailored versions of the basic course (e.g. for grant aided project officers and those involved with partnerships) are in hand. The Corporate Induction programme has been revised and now comprises mandatory elements for Health and Safety, Equalities and ICT. Further revision following current organisational changes.	The need to address this will be a major drive in 2010-11 and has the support of the Strategic Management Board. This will involve regular and focused reporting to Strategic Directors using the new organisational structure to its full effect. The Council-wide review of finance and development of new financial systems will seek to standardise processes and a role has been created in the new finance structure to lead

Area of concern	Comment included in AGS for 2008-9	Action planned as reported in AGS 2008-9	Latest Situation (as at 31/03/10)
		The use of Moodle software as a tool to use the intranet more effectively as a training medium has been agreed. This will provide a mechanism to improve the range and effectiveness of training in areas such as Fraud Awareness and knowledge of Procedure Rules. Course creator training is currently being sourced through IT Training.	Council wide compliance. The focus of Internal Audit planned work relating to irregularity audits, is to change for 2010-11 with greater focus being placed on assessing management arrangements rather than Internal Audit acting in a quasi-management role. The extent to which this is possible will be influenced by the ability and willingness of management generally to take on the responsibilities involved.
	The work programme of the Audit Committee includes identifying control issues, and establishing firm expectations. Whilst there has been some improvement (notably at Neighbourhood Housing Offices) the incidence of failures to adhere to Corporate Policies and Procedures still recur and most frequently in locations away from the centre.	Internal Audit incorporate this issue as part of planned and commissioned audit work to promote the spread and use of best practice at all locations. Recommendations made by Internal Audit are regularly followed up and their implementation monitored by the Audit Committee.	Internal Audit incorporate this issue as part of planned and commissioned audit work to promote the spread and use of best practice at all locations. Recommendations made by Internal Audit are regularly followed up and their implementation monitored by the Audit Committee. There is a need, however, for service management to ensure consistent application of recommended controls across services and to maintain high levels of compliance thereafter. There is evidence that this has not always been the case and strategic directors have resolved to promulgate more effective monitoring.
Arrangements for the management of Transport for Home to School and Day Care provision are poor with a lack of engagement between the relevant departments.	The appointed contractor went into receivership during 2008-9 but the consequences were well managed through the use of the Business Continuity Plan. However the inherent issues over service commissioning and	A Passenger Transport Working Group has been convened to progress this. Passenger transport is being transferred to Adults & Housing, one of the principal clients, for more direct control of the service	As a result of the Internal Audit reports Improvements have been made in terms of useful management information and service provision, however, more still needs to be done including involving Adults and

Area of concern	Comment included in AGS for 2008-9	Action planned as reported in AGS 2008-9	Latest Situation (as at 31/03/10)
	provision of management information remain, and need addressing.	and responding positively to issues including concerns over recharging.	Children to look at the commissioning specification and the nature of service being sought.

Transfer of the service to Adults may no longer be appropriate. Although the fundamental weaknesses identified in the Internal Audit reports will be resolved through implementation of the transition plan, there has been work ongoing for some time to start addressing the problems highlighted - some management and financial information is now circulated monthly, and a better working relationship has developed between clients and the Service which has meant more joined up discussions about service quality and cost issues. |
| Effective maintenance of inventories is patchy. | Internal Audit has reviewed the maintenance and veracity of inventories at various Council establishments as part of its audit programmes during 2008-9. | Future Internal Audit reviews will maintain this check as part of the programme of review. | The findings from this indicate that the position remains largely unchanged, although the Financial Management in Schools Standard has prompted some improvement in schools.

Internal Audit will continue to include review of inventories as part of its programmes of work during 2010-11. The recent fire damage to NWC showed the importance of complete inventories to the successful delivery of services in the event of business continuity issues. |
| Management and letting of Contracts | The Audit Commission have reviewed the position and concluded that whilst there has been progress in implementing their | Although the reports issued by Internal Audit and the Audit Commission show significant progress, neither commits itself to accepting | The Audit Commission is currently reviewing the position as part of their follow up report signposted last year. A |

Area of concern	Comment included in AGS for 2008-9	Action planned as reported in AGS 2008-9	Latest Situation (as at 31/03/10)
	strategic recommendations, it has been slower than they had expected (although there were mitigating circumstances). Internal Audit conducted a review of progress made in implementing the detailed operational recommendations and concluded that significant and positive steps to implement the recommendations made in the Audit Commission's Detailed Report had been made. Corporate processes and the arrangements in the Adults & Housing Department (the focus of the original review) had been strengthened and there is now a heightened awareness of procurement and contract management requirements across the Council generally and in Adults & Housing Department specifically.	that the issues have been fully addressed at this time. As such, the Audit Commission will be conducting further follow up work during 2009-10.	report on their findings is expected later in 2010-11. Part automation of the Procurement Process through RMS has now been launched and together with the accreditation programme for Procuring Officers should pave the way to ensuring that the letting of contracts is improved. Concerns remain, however, in relation to the management of contracts and the Internal Audit Contract Audit Plan for 2010-11 includes a number of contracts and procurement related audits to help provide assurance in relation to this area.
Information Governance	The review against the Local Code of Governance shows that assurance can be given in all areas covered by the central function but not at member level.	Audits are planned and an improvement plan being implemented. The Board has authorised a review to strengthen corporate arrangements	The latest assessment against the Local Code indicates an improved position albeit the level of assurance is amber. Performance in responding to FOIA requests is improving but only 77% of responses for the year as a whole are within legislative timescales. Also subject access requests under the DPA are not being dealt with within legal timescales. Accreditation for PCI and GCSx has been achieved and greater emphasis is being placed on adherence to information security standards across the Council. Further Internal Audit

Area of concern	Comment included in AGS for 2008-9	Action planned as reported in AGS 2008-9	Latest Situation (as at 31/03/10)
			work in this broad area is planned for 2010-11; one important component of this will be the mandatory accreditation work on ContactPoint (National Children's Database).

7. Review of the System of Internal Control

7.1. The results of the work described in this report enable the Council to complete and report on its review of its system of internal control for inclusion in the Statement of Accounts and Annual Governance Statement.

7.2. Attached at Appendix 1 is the Annual Governance Statement 2009-10, which was approved by the Audit Committee at its meeting on 20th May 2010, and will be published within the Council's published accounts for the year ended 31 March 2010.

8. Review of the System of Internal Audit

8.1. A review of the effectiveness of the System of Internal Audit has been completed and approved by the Audit Committee.[7]

8.2. This review has concluded that the Council has an effective system of internal audit, on which the Council can place reliance.

9. Financial Implications

There are no direct financial implications arising from this report. However a robust system of internal control is an important factor in keeping losses through inefficiency, waste and fraud to a minimum.

10. Legal Implications

The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, require the Council to carry out a review of its system of internal control, to consider the results of that review and to publish a statement on the results as part of its published financial statements. This has to be completed by 30 June annually.

11. Climate Change Implications

None.

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[7] Minute 63, Audit Committee, 31st March 2010

12. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting Information
Equal Opportunities	N	
Policy	N	
Sustainable and Environmental	N	
Crime and Disorder	N	
Human Rights Act	N	
Elderly/People on Low Income	N	

13. Background papers – Local Government Act 1972

Files held by Internal Audit

14. Consultations

Strategic Management Board
Operational Board

15. Report Author

Laurie Goldberg, Head of Audit and Governance, Financial Services, Ext 297402

Mark Noble
Chief Finance Officer

Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)

APPENDIX 1
Annual Governance Statement 2009-10

1.SCOPE OF RESPONSIBILITY

Leicester City 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. It 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, Leicester City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Leicester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government.*
A copy of the code is on our website at http://www.leicester.gov.uk/your-council--services/council-and-democracy/key-documents or can be obtained from Customer Services.

This statement explains how Leicester City Council meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the City Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the City Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Leicester City 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 Governance Framework has been in place at Leicester City Council for the year ended 31 March 2010, and up to the date of approval of the accounts.

3.   THE GOVERNANCE FRAMEWORK

The Council has adopted a framework that includes arrangements for

➢ Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users

- o The Council's and its partners' vision has been defined through the development of its Sustainable Community Strategy (One Leicester). This identifies the vision for the next twenty-five years and has been produced in collaboration with the Leicester Partnership.

- o The corporate plan defines the Council's contribution to this strategy.

- o Significant organisational and management changes have been introduced and are now well established. They directly align strategic management responsibilities with identified corporate objectives and priorities.

➢ Reviewing the Council's vision and its implications for the Council's governance arrangements

- o The Sustainable Community Strategy includes arrangements for continuing review of the vision and its associated governance arrangements.

➢ Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources

- o The Council has a performance management framework which links key corporate objectives with clear outcome measures that are subject to regular review by the Cabinet.

- o A review of Support Services is in progress and will address the need to align delivery of these functions to the new organisational structure thereby better supporting the achievement of the Council's objectives.

- o A new Resource Management System has been introduced and this is providing the opportunity to re-engineer support processes such as procurement and budget monitoring and thereby ensure the best use of resources.

- o Regular public satisfaction surveys are employed to test and measure user satisfaction.

➢ Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

o Respective roles and responsibilities are defined within the Council's Constitution, together with delegation arrangements and protocols for effective communication.

➤ Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

o The Council's Standards Committee has a remit to oversee adherence to relevant codes of conduct for members and officers, and its Audit and Risk Committee has overall responsibility for reviewing the effectiveness of governance arrangements including those related to adherence to standards of conduct.

➤ Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes and manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

o The Constitution is subject to regular review to ensure that it continues to meet the needs of the Council in relation to schemes of delegation, procedures and decision-making.

o A review as a result of the organisational changes referred to above has been completed.

o Finance and Contract Procedure Rules have been reviewed and updated.

➤ Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government.

o The Council's Chief Finance Officer (CFO) is a member of the Strategic Management Board and plays a key role in helping it to develop and implement strategy to resource and deliver the authority's strategic objectives sustainably and in the public interest.

o The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and there is alignment with the Council's overall financial strategy.

o The CFO leads the promotion and delivery by the Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

o The CFO leads and directs the finance function, which is resourced to be fit for purpose.

- o The CFO is professionally qualified and suitably experienced.

➢ Undertaking the core functions of an audit committee, as identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities"

- o The Council's Audit Committee has terms of reference that comply with CIPFA's guide. The latest review of the Effectiveness of the System of Internal Audit (approved by the Audit Committee on 31st March 2010), required under the Accounts and Audit Regulations, shows that this committee is effective and is contributing toward improving the internal control environment of the Council.

- o The Audit Committee, at its meeting on 31st March 2010, agreed to ask the Council to rename it as the Audit & Risk Committee in order to emphasise the growing importance of good risk management to the effective delivery of the Council's objectives.

➢ Ensuring compliance with relevant laws and regulations, internal policies and procedures, and ensuring that expenditure is lawful

- o The system of internal control is based on a coherent accounting and budgeting framework including contract, finance and procurement procedure rules.

- o All key decisions are supported by financial and legal comments.

- o Internal Audit supports the Audit Committee by reviewing elements of the Council's system of internal control and reporting regularly thereon, thus helping the Council to satisfy itself that compliance with regulation and best practice is happening.

➢ Whistle-blowing and receiving and investigating complaints from the public

- o The Council has a Whistle Blowing Policy and during 2009-10 reconfirmed its support for an Anti-Fraud and Corruption Policy that makes a clear commitment to maintaining a zero tolerance of fraud and financial irregularity. That Anti-Fraud and Corruption Policy is reviewed annually to ensure that it continues to conform to best practice.

- o The Council's "One Council, One Contact" programme seeks to ensure that the interface between the Council and its clients is as effective as it should be. This is backed up by an established complaints procedure.

➢ Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

- o The Council has completed a radical review of its structure and service delivery infrastructure. The programme of change

included attention to the associated needs both of members and officers.

➢ Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- o This is being done through the Council's commitment to the Sustainable Community Strategy, which itself was developed with the benefit of open consultation with stakeholders and our strategic partners.

- o People's Panels have been established to facilitate engagement with stakeholders and the community in support of policy development and delivery.

➢ Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report " *Governing Partnerships"* and reflecting these in overall governance arrangements

- o The Council's major partnership is the Leicester Partnership. This body is charged with overseeing the arrangements for spending the Area-Based Grant and for delivering the outcomes set out in the Local Area Agreements. In turn this is set out within a comprehensive financial framework, to which the Partnership is committed.

- o The constitution of the Leicester Partnership has been reviewed as part of the Council's Organisational Development and Improvement Programme and the changes agreed by each partner.

- o Protocols for the financial management of the Leicester Partnership have been agreed.

4. REVIEW OF EFFECTIVENESS

The Council is committed to the maintenance of a system of Internal Control which:

- Demonstrates openness, accountability and integrity

- Monitors and reviews compliance with established policies, procedures, laws and regulations and effectiveness against agreed standards and targets

- Monitors and reviews the effectiveness of the operation of controls that have been put in place

- Identifies, profiles, controls and monitors all significant strategic and operational risks

- Ensures that the risk management and control process is monitored for compliance.

The framework through which the Council satisfies itself as to the effectiveness of its system of internal control takes, as its starting point, the Council's principal statutory and organisational objectives as set out in its Corporate Plan. From this are identified the key risks to the achievement of its (the Council's) objectives set out therein which in turn are recorded within risk registers.

The Audit Committee approved this Assurance Framework on 3rd February 2010.

The risks identified are subject to regular review and monitoring and appropriate controls identified to manage them.

The results of that review together with

1. An independent review of the effectiveness of internal control carried out by the Council's Internal Audit section

2. A review of the Effectiveness of the System of Internal Audit

3. The External Auditor's Annual Audit Letter and Annual Governance Report which includes findings from the work of other inspection regimes

provide the core information for the preparation of the Annual Governance Statement.

Leicester City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Governance's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

An annual corporate governance review has been completed for 2009-10 and a report setting out the findings was considered by the Audit Committee on 20th May 2010 and the Cabinet on (21st June 2010). A copy of the report can be obtained from http://cabinet.council.leicester.gov.uk/mgConvert2PDF.aspx?ID=20344. Our well-established corporate governance code complies with CIPFA/SOLACE's guidance entitled *"Delivering Good Governance in Local Government"* and includes a self-assessment of compliance with the six core principles of good governance.

5. SIGNIFICANT GOVERNANCE ISSUES

The control framework described above facilitates the identification of any areas of the Council's activities where there are significant weaknesses in the

financial controls, governance arrangements or the management of risk. Overall, it can be concluded that controls are operationally sound.

The areas where weaknesses have been identified are listed below, together with a brief summary of the action being taken or planned to make the necessary improvements.

Area of concern	Comment	Action planned
Documentation and promulgation of and adherence to Corporate policies, procedures and requirements is variable.	This was identified as a weakness in the Statement on Internal Control for 2006-7, 2007-8 and 2008-9 There is evidence of some improvements (especially in relation to Neighbourhood Housing Offices) but examples of variable compliance are still being uncovered, despite action taken to improve awareness through training.	The need to address this will be a major drive in 2010-11 and has the support of the Strategic Management Board. This will involve regular and focused reporting to Strategic Directors using the new organisational structure to its full effect. The Council-wide review of finance and development of new financial systems will seek to standardise processes and a role has been created in the new finance structure to lead Council wide compliance. The focus of Internal Audit planned work relating to regularity audits, is to change for 2010-11 with greater focus being placed on assessing management arrangements rather than Internal Audit acting in a quasi-management role. The extent to which this is possible will be influenced by the ability and willingness of management generally to take on the responsibilities involved. Recommendations made by Internal Audit are regularly followed up and their implementation monitored by the Audit Committee.
Management and letting of Contracts	Audit work completed during 2009-10 indicates significant progress in addressing issues related to procurement of contracts whilst there is some evidence that the management of existing contracts still requires attention. Automation of the Procurement Process has commenced and will enforce a certain level of consistency. An accreditation programme for Procuring Officers should also pave the way to ensuring that the letting of	Internal Audit work in 2010-11 will include specific focus on contracts including verifying that previous improvements in the letting of contracts are being maintained.

Area of concern	Comment	Action planned
	contracts is improved. Some concerns remain, however, in relation to the management of contracts and the Internal Audit Contract Audit Plan for 2010-11 includes a number of contracts and procurement related audits to help provide assurance in relation to this area.	
A recent audit of payroll arrangements found o A lack of evidence of formal management authorisation of starters and leavers on the payroll o No periodic confirmation of the payroll master-file by managers or budget holders. o Officers were unable to identify the relevant line-managers for a sample of starters and leavers selected for testing.	The External Auditor identified these issues in his Annual Audit and Inspection Letter for 2009-10.	Improved controls over the management of payroll master files coupled with the introduction of RMS and MyView now ensure that procedures are in place for managers to authorise and continuously monitor payroll information relating to their cost centres. In light of the above it is considered that this matter has been adequately addressed.

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

Date

Signed: _____ (Chief Executive)   _____

Signed: _____ (Leader)   _____

Signed _____ (Chief Finance Officer)   _____

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Principal statutory obligations and Organisational Objectives

One Leicester (Sustainable Communities Strategy)

Corporate Risks Departmental Risks

Key Strategies and Plans

Corporate & Departmental Risk Registers

Review of System of Internal Audit

By Cabinet and , SMB and Cabinet

Internal Audit Plan

Reports to Audit Cttee

External Audit & Inspection Plan

Other Inspection Reports

Review of Risk Registers

Internal Audit Annual Report

External Audit & Inspection Reports

Review of compliance with Local Code of Corporate Governance

Evaluation of Assurances

Annual Governance Statement

Included in Final Accounts

By 30 June

Audit Committee

Assurance on Corporate & Service objectives

Assurance on Policies and Procedures

Cabinet and Council

Audit Committee

Annual Report/Annual Review of Corporate Governance

Assurance on Internal Controls