![Leicester City Council logo]

WARDS AFFECTED
All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Strategic Management Board   **1 April 2014**
Audit & Risk Committee   **15 April 2014**

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Annual review of the Council's Assurance Framework, Local Code of Corporate Governance and the Audit & Risk Committee's Terms of Reference

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Report of the Director of Finance and the City Barrister & Head of Standards

1. Purpose of Report

1.1. To present to the Audit & Risk Committee for approval updates to the assurance and corporate governance processes at the City Council and the Committee's own terms of reference.

2. Recommendations

2.1. The Committee is recommended to:

    a) Confirm that no changes to the **Assurance Framework** are needed and agree that it shall form the basis on which the Council will compile its Annual Governance Statement for 2014-15 (Appendix 1)

    b) Confirm that no changes to the **Local Code of Corporate Governance** are needed (Appendix 2)

    c) Approve the proposed amendments to the Committee's **terms of reference** (Appendix 3).

3. Summary

3.1. In the interests of good governance and compliance with law and regulation, the Council has in place an Assurance Framework, a Local Code of Corporate Governance and a formally constituted Audit & Risk Committee. This Committee has prescribed terms of reference that form part of the Council's constitution and are designed to enable the Committee to discharge its functions both as 'those charged with governance' generally and as 'the Board' under the Public Sector Internal Audit Standards.

3.2. There are clear linkages between these components in making up the Council's overall system of corporate governance. In order that they remain relevant and fit for purpose, each of these documents is subject to annual review. A detailed review and significant update was undertaken in 2013 with the aim of codifying the Council's corporate governance machinery. This established how the Council frames its governance arrangements (i.e. the standards and thresholds set, and the mechanisms we utilise for ensuring they are sound). Reporting on actual compliance (i.e. what we have achieved as an organisation in this regard) will be reported in due course through the Annual Governance Statement.

3.3. This report seeks the Committee's confirmation that the assurance framework and its components require no change except for proposed minor updates and amendments to the Committee's own terms of reference.

4. Report

4.1. Assurance Framework

4.1.1. The overall structure of the Council's system of corporate governance is summarised in the Assurance Framework. This was last reviewed by the Audit & Risk Committee at its meeting on 9 April 2013 and is set out in **Appendix 1**.

4.1.2. The assurance framework takes as its starting point the Council's principal strategic and organisational objectives, including the City Mayor's Delivery Plan. Key strategies and plans translate these objectives into deliverable actions. High-level risks that threaten the achievement of objectives are identified in the strategic and operational risk registers. It is management's responsibility to establish and maintain effective systems of governance and internal control to ensure that the Council's service objectives are delivered and risks to those objectives are managed to an acceptable level.

4.1.3. In order that the Council's business is delivered in a way that promotes public trust and confidence, there must be sufficient assurance that sound internal control arrangements are in place and operating effectively. The assurance framework therefore brings together various internal and external sources of assurance; audit is fundamental to this.

4.1.4. The Council is also required[1] to carry out at least once in each year a review of the effectiveness of its system of internal control.

4.1.5. The outcomes of all these sources of review and assurance are brought together in summary in the statutory Annual Governance Statement[2] which, following approval by the Audit & Risk Committee, is ultimately signed by the City Mayor and published alongside the Council's financial statements.

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[1] Regulation 4(2) of the Accounts & Audit (England) Regulations 2011 (SI 2011 No 817)
[2] Regulation 4(3) of the Accounts & Audit (England) Regulations 2011 (SI 2011 No 817)

4.1.6. The intention of the assurance framework is therefore to set out a structured and coordinated process, drawing together the outcomes of the various assurance, governance and control mechanisms so as to ensure that the Annual Governance Statement is comprehensive in its coverage and reliable in its content.

4.1.7. It is good practice to review the assurance framework as part of the preparation of each year's Annual Governance Statement, hence this report.

4.1.8. After the significant overhaul of the process in 2013, which has worked well, no change is proposed to the existing assurance framework.

4.2. Local Code of Corporate Governance

4.2.1. A central component of the Council's system of governance is its Local Code of Corporate Governance. This has been in place for a number of years and reflects the main components set out in the CIPFA[3]/SOLACE[4] *Framework Corporate Governance in Local Government: A Keystone for Community Governance*. The Code is a public statement of the arrangements the Council has in place to ensure it conducts its business in a way that upholds the highest standards. It is intended to demonstrate the Council's adherence to the seven principles of public life, defined by the Committee on Standards in Public Life as selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

4.2.2. The Local Code of Corporate Governance is therefore an important part of the Council's public accountability. As such, it must remain fit for purpose and each year the Council conducts a review of compliance with the Code. The results of this review feed into the annual review of the effectiveness of the Council's system of internal control, mentioned above at paragraph 4.1.4, thereby also contributing to the Annual Governance Statement.

4.2.3. The Local Code of Corporate Governance was last approved by the Audit & Risk Committee at its meeting on 8 May 2013. Its content has been reviewed and no changes are considered necessary.

4.2.4. The annual review of compliance with the Code for 2013-14 will be reported to the Audit & Risk Committee in the next municipal year.

4.2.5. The Local Code of Corporate Governance is given at **Appendix 2** and the Committee is asked to approve its continued applicability.

4.3. Audit & Risk Committee Terms of Reference

4.3.1. As a formally constituted Committee of the Council, the Audit & Risk Committee is governed by formal terms of reference. These are subject to annual review; the current version was approved by the Committee at its meeting on 8 May 2013.

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[3] Chartered Institute of Public Finance & Accountancy
[4] Society of Local Authority Chief Executives

4.3.2. The only material change is the addition of direct provision for a Vice-Chair of the Committee. Otherwise the changes proposed are minor, being updates or revisions in terminology only.

4.3.3. The updated Terms of Reference are given at **Appendix 3** and the Committee is asked to approve them.

5.   FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1.   Financial Implications
Adequate and effective systems of corporate governance and assurance and an effective Audit & Risk Committee are all central components in the processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. Such arrangements will support the processes of audit and internal control that will help the Council as it faces financially challenging times.

5.2.   Legal Implications
Regulation 4 of the Accounts and Audit (England) Regulations 2011 obliges the Council to ensure that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The Council must conduct a review at least once in a year of the effectiveness of its system of internal control and following the review, must approve an annual governance statement.

5.3.   Climate Change Implications
This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets.

6.   Other Implications

Other Implications	Yes/No	Paragraph or references within the report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	Yes	This report is concerned with effective systems of governance and control, which are an important safeguard against the risks of theft, fraud and corruption.
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	

Other Implications	Yes/No	Paragraph or references within the report
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the Council's governance and assurance processes, a main purpose of which is to give assurance to Directors, the Council and this Committee that risks are being managed appropriately by the business.

7. Background Papers – Local Government Act 1972

7.1. The Council's Assurance Framework

7.2. The Council's Local Code of Corporate Governance

7.3. The terms of reference of the Audit & Risk Committee

8. Consultations

8.1. Miranda Cannon, Director – Delivery, Communications & Political Governance
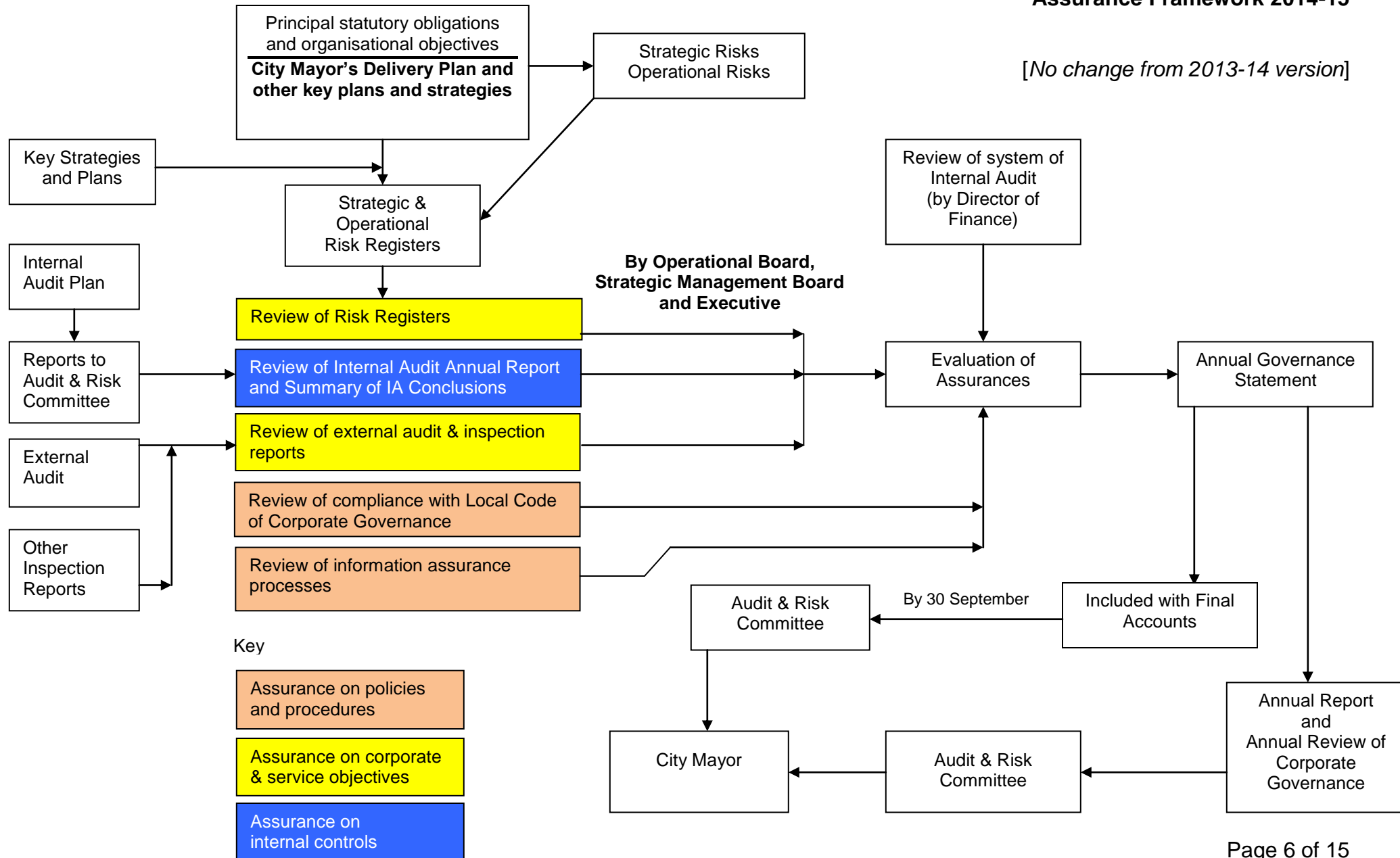
9. Report Authors

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[*No change from 2013-14 version*]

Principal statutory obligations and organisational objectives
City Mayor's Delivery Plan and other key plans and strategies

Strategic Risks
Operational Risks

Key Strategies and Plans

Strategic & Operational Risk Registers

Review of system of Internal Audit (by Director of Finance)

Internal Audit Plan

By Operational Board, Strategic Management Board and Executive

Review of Risk Registers

Reports to Audit & Risk Committee

Review of Internal Audit Annual Report and Summary of IA Conclusions

Evaluation of Assurances

Annual Governance Statement

External Audit

Review of external audit & inspection reports

Review of compliance with Local Code of Corporate Governance

Other Inspection Reports

Review of information assurance processes

By 30 September

Included with Final Accounts

Audit & Risk Committee

Key

Assurance on policies and procedures

Assurance on corporate & service objectives

Assurance on internal controls

City Mayor

Audit & Risk Committee

Annual Report and Annual Review of Corporate Governance

Below is the City Council's current *Local Code of Corporate Governance* as published on the Council's website at http://www.leicester.gov.uk/your-council-services/council-and-democracy/key-documents/corporate-governance-code/

Local Code of Corporate Governance

The City Council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE *Framework Corporate Governance in Local Government: A Keystone for Community Governance*.

The Code: Community Focus

In carrying out its duties and responsibilities, the Council will:

- Work for and with the local community.

- Exercise leadership, where appropriate, in the local community.

- Undertake an ambassadorial role to promote the wellbeing of the city through maintaining effective arrangements for:

    - accountability to stakeholders for its performance and the effectiveness in delivering its services and the sustainable use of resources

    - demonstrating integrity in its dealings to build effective relationships and partnerships with other public agencies and the private and voluntary sectors

    - demonstrating openness in all its dealings

    - demonstrating inclusivity through effective communication and engagement with the local community and other relevant stakeholders

    - development of a clear vision and corporate strategy in response to corporate needs and objectives.

Service Delivery Arrangements

The Council will monitor the implementation of its agreed policies and decisions and aim to achieve continuous improvement in the procurement and delivery of services by maintaining arrangements which:

- Demonstrate accountability for service delivery at a local level.

- Ensure effectiveness through measurement of performance.

- Demonstrate integrity in its dealings with service users and partnerships to ensure the right provision of services locally within the resources and powers available.

- Demonstrate openness and inclusivity through its consultation with key stakeholders, including service users.
- Are flexible and can be kept up to date, and adapted to accommodate change and meet legitimate user needs and aspirations.

Structures and Processes

The Council will put into place effective political and managerial structures and processes to govern its decision-making and the exercise of its authority, through:

- Defining roles and responsibilities of members and officers to ensure accountability, clarity and ordering of its business.
- Ensuring there is proper scrutiny, validation and review of all aspects of performance and effectiveness.
- Demonstrating integrity by securing a fair balance of power and authority.
- Documenting its structures and procedures and ensuring they are communicated and understood to demonstrate openness and inclusivity.
- Ensuring these structures and processes are kept up to date and adapted to meet change.

Risk Management and Internal Control

The Council will establish and maintain a systematic strategy, framework and processes for managing risk, which:

- Include public statements on its risk management strategy, framework and processes to demonstrate accountability.
- Demonstrate integrity by being based on robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks.
- Establish mechanisms to monitor and review effectiveness against agreed standards and targets and the operation of controls in practice.
- Display openness and inclusivity through the involvement of those associated with the planning and delivering of services, including partners.
- Include mechanisms to ensure the risk management and control process is monitored for compliance, including processes for independent assurance, and that changes are accommodated.

Standards of Conduct

The Council will:

- Exercise leadership by conducting itself as a role model for others to follow.

- Define standards of personal behaviour to be expected of members and staff and those involved in service delivery.

- Put in place arrangements that ensure:

    - accountability, through establishing systems for investigating breaches and disciplinary matters, and taking action where appropriate (including arrangements for redress)

    - effectiveness, through monitoring compliance

    - integrity, by ensuring that objectivity and impartiality are maintained in all relationships

    - openness and inclusivity, through the documentation of standards, and their regular review.

The Council will deliver these outcomes through:

- Annually defining a series of local procedures and practices which together create the assurance framework for good corporate governance as described in the CIPFA[5]/SOLACE[6] *Framework Corporate Governance in Local Government: A Keystone for Community Governance*.

- Nominating a lead officer for each, who will be responsible for assessing effectiveness in practice.

- Nominating a member of the Strategic Management Board as the Council's 'Corporate Governance Champion', responsible for pulling together assessments from lead officers and reporting to the Board on the overall picture, making recommendations for action as appropriate. (In practice, the City Barrister & Head of Standards, as the Council's designated Monitoring Officer, is the 'Corporate Governance Champion'.)

- Annual discussion, deliberation and updates at the Strategic Management Board and the Audit & Risk Committee.

- Conducting an annual review of its systems of corporate governance and internal control, assessing the extent to which this Local Code has been adhered to and the actions required where adherence has not been achieved.

- Publishing an Annual Governance Statement giving the outcomes of this review.

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[5] Chartered Institute of Public Finance & Accountancy
[6] Society of Local Authority Chief Executives

The key policies and procedures that will compose the core of this process are listed below:

- **Constitutional arrangements**
  - The Council's Constitution including the members' Code of Conduct and Political Conventions (the latter are part of the Constitution)
  - Standards procedures for investigation of potential breaches of the Code of Conduct
  - Procedural guidance for members

- **Effective arrangements for performance management and communications**
  - The City Mayor's Delivery Plan
  - Key strategic plans e.g. Economic Action Plan, Children's and Young People's Plan
  - Performance Management Framework
  - Procurement Strategy and guidance
  - Project Portfolio Management process
  - Project and programme management standards
  - Consultation guidance
  - Comments and complaints procedure
  - Customer service standards

- **Effective administration of financial affairs**
  - Finance Procedure Rules and associated guidance
  - Contract Procedure Rules and associated guidance

- **Effective systems of risk management and internal control**
  - Risk Management Policy and Strategy
  - Business Continuity Management Strategy
  - Emergency plans
  - Internal Audit Charter
  - Anti-Fraud, Bribery and Corruption Policy and Strategy
  - Information Security Policy
  - Health and Safety Policy
  - EMAS (Eco-Management & Audit Scheme)

- **Effective Human Resources policies**
  - Whistle-Blowing (Disclosure policy)
  - Code of Conduct (Officers)
  - Disciplinary policy

Ends

Proposed revision of Audit & Risk Committee Terms of Reference

Proposed changes are highlighted by <u>underlining</u>:

1. Constitution

The Council has established a Committee of the Council to be known as the Audit & Risk Committee to report to the Council. This supports the Council's corporate governance responsibilities in relation to internal control, risk management and governance.

2. Membership

The Audit & Risk Committee shall consist solely of non-Executive Councillors. The Chair <u>and Vice-Chair</u> of the Committee shall be appointed by the Council from amongst the non-Executive Councillors.

<u>Provided the meeting is quorate, in the absence of the Chair the Vice-Chair will assume the position and authority of the Chair.</u>

The membership of the Committee should reflect the political representation of the Council as a whole.

A quorum of at least three Committee members will be required at all meetings.

3. Attendance at Meetings

The Director of Finance, <u>the City Barrister & Head of Standards,</u> the Head of Internal Audit <u>& Risk Management</u> and the Internal Audit Manager shall normally be invited to attend meetings. Other officers will be required to attend if called for by the Committee or when relevant items appear on the agenda. All Councillors are entitled to attend public meetings, should they choose to do so. All such attendees shall have the right to speak, at the discretion of the Chair, but not vote at meetings.

4. Frequency of Meetings

Meetings shall be held not less than three times a year. Additionally, special meetings may be convened if an issue arises that, in the opinion of the Chair, cannot wait until the next scheduled meeting.

5. Duties

The duties of the Committee shall be as set out in the annexed schedule to these Terms of Reference.

6. Authority

The Committee approves, on behalf of the Council, the Council's accounts and its internal control, risk management and governance frameworks and any aligned policies and arrangements.

The Committee is authorised by the Council to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee will advise the Chief Operating Officer as the Head of Paid Service if it has exercised this authority to seek information (other than routine information) from any employee, setting out the information required and the circumstances underlying the request.

The Committee is authorised by the Council, if considered necessary, to secure the attendance of third parties with relevant experience and expertise provided that the Committee shall notify the Chief Operating Officer as the Head of Paid Service before any fees for such attendance are agreed.

7. Communications

The Secretary of the Committee will circulate the agenda and papers for meetings five clear days before the meeting.

The Committee will consider and agree the approved minutes of the Committee at its next meeting.

The Committee's Terms of Reference will be made available on the Council's website. They will be reviewed and, where necessary, updated at least annually.

An annual report of the Committee's activity will be submitted to the Council each year.

Duties of the Audit & Risk Committee

1. Audit Framework

1.1 Internal Audit

- On behalf of the Council, to approve the Head of Internal Audit's annual report and opinion, considering the level of assurance given over the Council's corporate governance arrangements and decide on appropriate actions.

- To consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis.

- To receive summaries of Internal Audit reports and the main issues arising.

- To review and challenge management's responsiveness to the internal audit findings and recommendations, seeking assurance that appropriate action has been taken where necessary and agreed recommendations have been implemented within a reasonable timescale.

- To monitor and assess the role and effectiveness of the Internal Audit function.

In fulfilling these functions, the Audit & Risk Committee fulfils the role of 'the board' for the purposes of the *Public Sector Internal Audit Standards*.

1.2 External Audit

- On behalf of the Council, to review with the external auditor and inspection agencies the findings of their work including any major issues which are unresolved; key accounting and audit judgments; and the levels of errors identified during the audit. The Committee should obtain explanations from management and from external auditors, where necessary, as to why errors might remain unadjusted.

- To consider the scope and depth of external audit work and to assess whether it gives value for money.

- To liaise with the Audit Commission (or such other body that assumes this responsibility) over the appointment of the Council's external auditor and conduct such other related functions as required by the local public audit regime.

- To facilitate effective relationships between external and internal audit, inspection agencies and other relevant bodies and ensure the value of these audit relationships is actively promoted.

- To approve any instances of non-audit work by the external auditors in accordance with the *Policy for Engagement of External Auditors for Non-Audit Work* and report any such instances to the Council.

2. **Risk Management Framework**

- On behalf of the Council, to consider and challenge the effectiveness of the Council's Risk Management Strategy and Framework, including the Risk Management and Insurance Services function.

- To consider and approve, on behalf of the Council, the Council's Risk Management Strategy and its key risk management policies including the Council's statement of overall risk appetite.

- To approve, on an annual basis, the Risk Management and Insurance Services function's terms of reference and its annual plan.

- To review (and take any actions as a consequence of) reports from the Head of Internal Audit & Risk Management in respect of the status of key current and emerging risks and internal controls relating to those risks (the Operational and Strategic Risk Registers).

3. **Internal Control and Governance Framework**

- To review the adequacy of the Council's internal control framework through review of its system of internal control and system of internal audit and overseeing the production and approval of the Council's Annual Governance Statement prepared in accordance with the Local Code of Corporate Governance.

- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts. (The Committee is to do this before approving the Council's published financial statements. The Committee should take note of any adjustments set out in the external auditor's report and agree any such adjustments where management has declined to do so or set out the reasons for not doing so.)

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, finance procedure rules and codes of conduct and behaviour.

- To review and approve, on an annual basis, the Council's anti-fraud, bribery and corruption and its disclosure (whistle-blowing) policies and procedures.

- Annually, to assess all significant risk issues considering:

  o Changes since the last annual assessment and the Council's response;

  o The scope and quality of management's ongoing monitoring of risks and the system of internal control;

  o The incidence of significant control failings in relation to all significant risks and their impact.

- To review regular reports from Internal Audit and Risk Management on risk and internal controls, considering:
    - The effectiveness of systems of internal control across the Council
    - Reports on major control issues and their impact on the Council's risk profile.
- To consider and decide on appropriate actions relating to the Council's compliance with its own and other published or regulatory policies, standards and controls, including:
    - Policies relating to information governance and assurance
    - Health & Safety at Work
    - Civil Contingencies Act
    - Policies relating to disclosures and complaints
    - Others as appropriate.

4. Financial Reporting Framework

- To review and approve the Council's published financial statements, the external auditor's annual opinion and other reports to Members and to monitor management action in response to issues raised.
- To review and approve the annual statement of accounts and the annual Letter of Representation on behalf of the Council, giving particular attention to critical accounting policies and practices, decisions requiring a significant element of judgement, how any unusual transactions should be disclosed and the clarity of the disclosures.
- To bring to the attention of the Council any concerns arising from the financial statements or from the audit.

5. Other Matters

- To consider, approve or make recommendations in respect of any other matters referred to it by the City Mayor, Chief Operating Officer (as the Head of Paid Service) or a Director or any Council body.
- To consider any relevant matters reserved for Member-level decision as detailed in Rules of Procedure.
- To present an annual report to the Council on the Committee's conduct, business and effectiveness.

Ends