

Leicester
City Council

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FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

22 March 2017

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

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 the financial year 2016-17 (Appendix 1)
 - b) Accept the changes to the **Local Code of Corporate Governance** (Appendix 2)
 - c) Confirm that no material changes to the Committee's **terms of reference** are needed (Appendix 3)
 - d) Approve the above three documents.

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). The three annual reviews since 2014 identified little need to amend the process and this report follows a further refresh for 2017-18.
- 3.3. 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.
- 3.4. This report seeks the Committee's confirmation that the assurance framework and its components reflect the changes required to align to the new guidance's and necessary minor updates in terminology.

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 23 March 2016 and is set out in **Appendix 1** with no changes made this year.
- 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 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 which, following approval by the Audit & Risk Committee, is ultimately signed by the City Mayor and published alongside the Council's financial statements.
- 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. The process was significantly overhauled in 2013 and has worked well since.

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 and SOLACE guidance *Delivering Good Governance in Local Government: Framework*. The Local 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 23 March 2016. Its content has been reviewed and substantial changes have been made to ensure this aligns to the new CIPFA Delivering Good Governance in Local Government Framework 2016.
- 4.2.4. The updated Local Code of Corporate Governance is given at **Appendix 2**. As this has been totally rewritten, there is no guidance as to what has changed. Effectively the whole document is new.

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 23 March 2016.
- 4.3.2. The only changes are minor updates to reflect the change in the delivery of the Internal Audit function; the removal of the Insurance function from the Risk Management team; and the departure of the Head of Internal Audit and Risk Management. These are shown in the appendix as being underlined.
- 4.3.3. The updated Terms of Reference are given at **Appendix 3**.

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.

Colin Sharpe, Head of Finance, x37 4081

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.

Kamal Adatia, City Barrister & Head of Standards, x37 1401

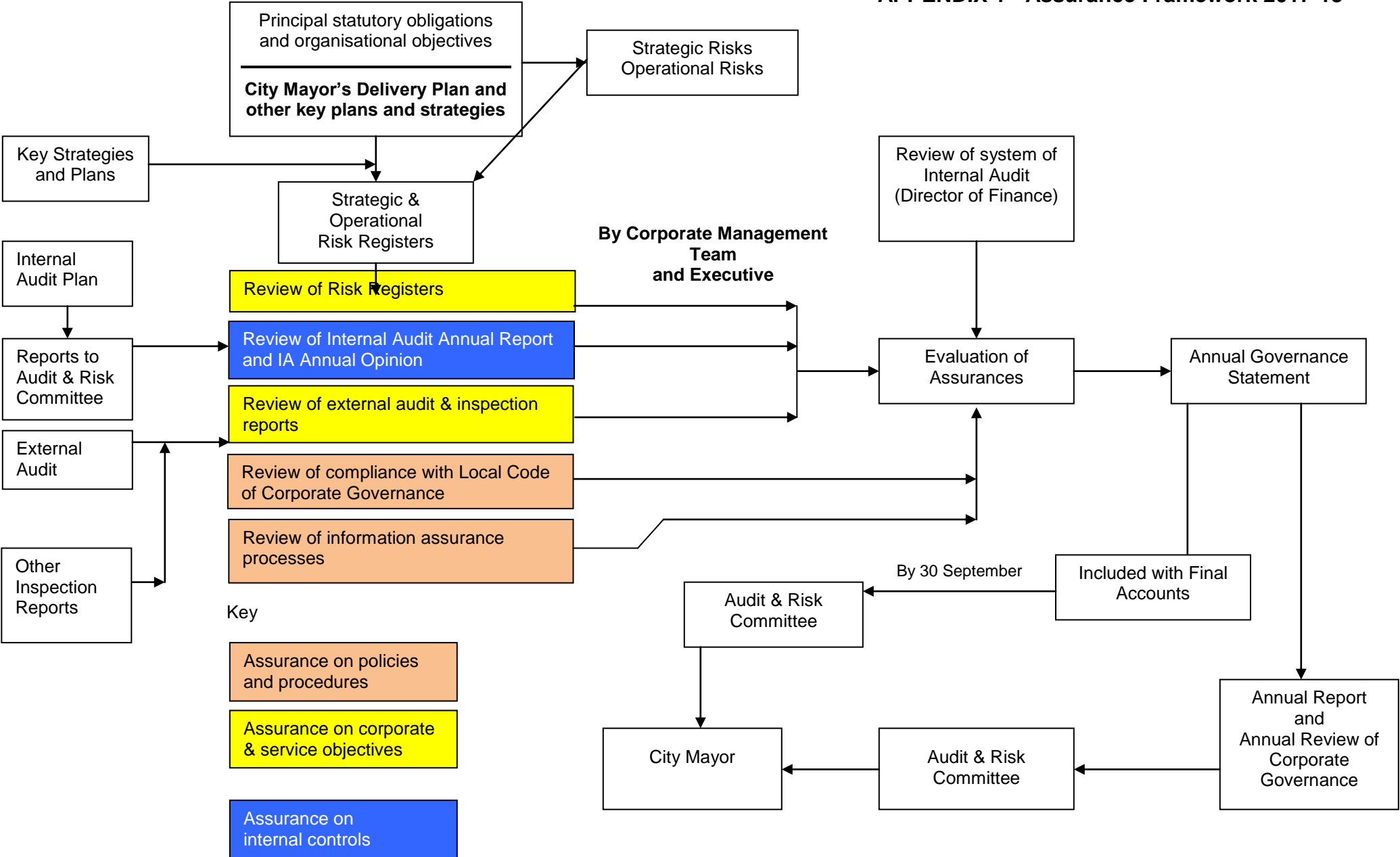
6. Other Implications

Other Implications	Yes/No	Paragraph or references within the report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	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	
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the 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. Report Author

Tony Edeson, Head of Internal Audit & Risk Management, Financial Services, x37
 1621 tony.edeson@leicester.gov.uk

APPENDIX 1 - Assurance Framework 2017-18



APPENDIX 2 - Local Code of Corporate Governance 2017/18

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

INTRODUCTION

Corporate governance is a term used to describe the way that organisations direct and control what they do. For local authorities, it includes the systems, policies and processes as well as the cultures and values that underpin a Council's arrangements for effective:

- Leadership
- Management
- Performance
- Delivery of positive customer outcomes
- Community engagement
- Stewardship of public money

GOOD CORPORATE GOVERNANCE

Leicester City Council is committed to the principles of good corporate governance identified in the CIPFA/SOLACE guidance "*Delivering Good Governance in Local Government*" and confirms its on-going intentions through the adoption, monitoring and development of its own Local Code of Corporate Governance. The Council recognises that achieving high standards of corporate governance will encourage stakeholders to have confidence in us and will allow the Council to undertake its role with its community.

This document sets out Leicester City Council's *Local Code of Corporate Governance* and the processes for monitoring its effectiveness. The Code provides the framework for the Council to achieve its aims and objectives.

A Lead officer will be given responsibility for:

- Overseeing the implementation and monitoring the operation of the Code;
- Reviewing the operation of the Code in practice on an annual basis;
- Reporting annually to the Executive and full Council on compliance with the Code and any changes that may be needed to ensure its effectiveness in practice;
- Reporting any significant revisions to the Code to stakeholders.

The code for 2017/18 is based on the following seven core principles:

Core Principle A: Behaving with integrity, demonstrating commitment to ethical values and respecting the rule of law

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Core Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

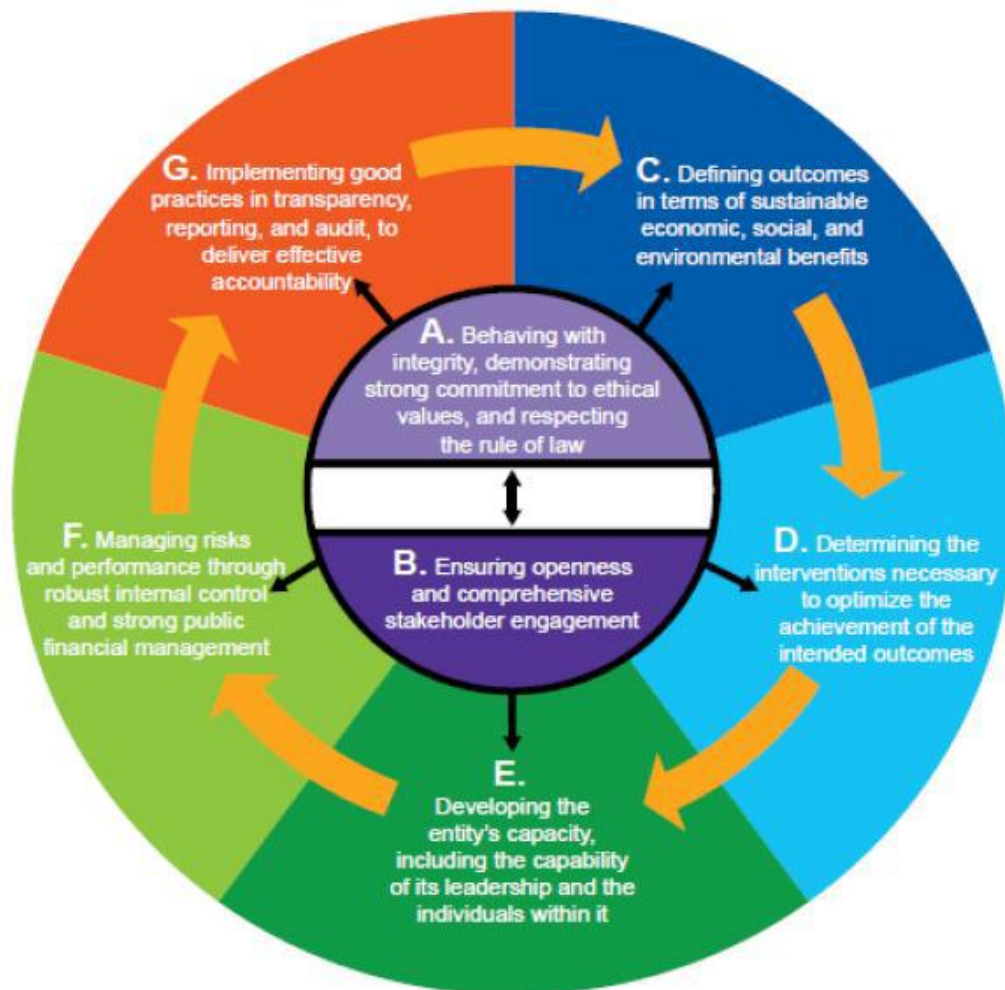
Core Principle D: Determining the interventions necessary to optimise the achievement of outcomes

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Core Principle G: Implementing good practices in transparency, reporting and audit, to deliver effective accountability

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



The following details how the Council meets these core principals and the systems, policies and procedures it has in place to support this.

<u>Principles</u>	<u>Sub Principles</u>	<u>Demonstrated By</u>
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</p>	<p>Behaving with integrity.</p>	<p>The Council’s leadership sets a tone for the organisation by creating a climate of openness, support and respect.</p> <p>Appropriate policies and processes are developed to embed the principals.</p>
	<p>Demonstrating strong commitment to ethical values.</p>	<p>Shared values, including leadership values are in place for both the Council and its staff. The values reflect public expectations and are communicated to Members, staff, the community and partners.</p>
	<p>Respecting the rule of law.</p>	<p>Defined and published standards which detail the expected conduct of Members and officers across the Council functions. Dealing with breaches of legal and regulatory provisions effectively.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Openness</p>	<p>An embedded culture of transparency, openness and honesty.</p>
	<p>Engaging comprehensively with institutional stakeholders.</p>	<p>Consideration is given to the institutional stakeholders to whom the Council is accountable to and assessment made on the effectiveness of the relationships and any changes required.</p>
	<p>Engaging with individual citizens and service users effectively.</p>	<p>Ensuring that clear channels of communication are in place with all sections of the</p>

		community and other stakeholders. Effective monitoring arrangements are in place to ensure that they operate effectively.
In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:		
C. Defining outcomes in terms of sustainable economic, social and environmental benefits.	Defining outcomes.	Focusing on the purpose of the Council and on outcomes for the community, consulting on the outcomes and publishing them annually as part of the City Mayor's action plan.
	Sustainable economic, social and environmental benefits.	Regular review of the Council's vision and its implications for the Council's governance arrangements and economic, social and environmental benefits.
D. Determine the interventions necessary to optimize the achievement of the intended outcomes.	Determining interventions	Published annual report which communicates the Council's activities, achievements, financial position and performance. Interventions required are identified through these reports.
	Planning interventions	Performance, audit, risk and finance information is used to identify areas of concern and plan required interventions.
	Optimising achievement of intended outcomes	SMART community outcomes underpinned by business plans and outcome focused business activity.
E. Developing the entity's capacity including the capability of its leadership and the	Developing the entity's capacity	Clear vision, strategy. And direction underpinned by capable leadership and focused talent management.

individuals within it.	Developing the capability of the entity's leadership and other individuals.	Recruitment and retention of high performing staff and providers.
F. Managing risks and performance through robust internal control and strong public financial management.	Managing risk.	Embedded risk management processes which are linked to community plan outcomes and corporate priorities.
	Managing performance.	Performance targets set in line with national benchmarks and outturns are regularly monitored and reported to stakeholders.
	Robust internal control.	Preventive controls in place include segregation of duties, approval/authorization processes, security of assets, reconciliations and audits.
	Managing data.	Robust Information Governance standards and training to all staff.
	Strong public financial management.	Monthly budget and savings tracker reports, audited annual statement of accounts, accountable budget owners.
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability.	Implementing good practice in transparency.	Transparency, participation, accountability and integrity are interconnected concepts which are demonstrated through the Council's Governance framework.
	Implementing good practices in reporting.	Detailed consultation process for published reports ensuring Members and management own the results reported.
	Assurance and effective accountability.	Ensuring that recommendations for corrective actions made by external and internal audit are acted upon.

APPENDIX 3 - Audit & Risk Committee Terms of Reference

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 and Vice-Chair of the Committee shall be appointed by the Council from amongst the non-Executive Councillors.

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

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, the City Barrister & Head of Standards, the Manager Risk Management, the Head of Finance (CDN and Resources) and the County Council's Head of Assurance Services 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 four 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 Public Sector Audit Appointments Ltd (as successor body to the Audit Commission for this purpose) 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 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 function's terms of reference and its annual plan.
- To review (and take any actions as a consequence of) reports from the Manager, 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:
 - Changes since the last annual assessment and the Council's response;
 - The scope and quality of management's ongoing monitoring of risks and the system of internal control;
 - 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.