Audit & Standards Committee

23 June 2016

Agenda

The Audit and Standards Committee will meet in **Committee Room 2, Shire Hall, Warwick** on **23 June 2016** at **10.00 a.m.**

1.   General

(1)   Apologies

(2)   Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with.
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

(3)   Minutes of the Audit and Standards Committee meeting held on 10th March 2016 and Matters Arising

2.   Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

Warwickshire
County Council

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972'.

EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS).

3.   **Consideration of the Exempt Minutes of the Audit and Standards Committee meeting held on 10th March 2016**

4.   **Internal Audit Progress Report**

REPORTS TO BE CONSIDERED IN PUBLIC

5.   **Internal Audit Annual Report 2015/16**

6.   **Annual Governance Statement 2015/16**

7.   **Internal Audit Strategy 2016/17**

8.   **External Auditors Report – Audit & Standards Committee Update**

9.   **County Council Reserves**

10.   **Work Programme and Future Meeting Dates**

   To note the work programme and future meeting dates to be held in Shire Hall at 10:00 a.m. as follows:

   - Thursday 8th September 2016
   - Thursday 17th November 2016
   - Wednesday 1st February 2017

11.   **Any Other Business**

Membership of the Audit and Standards Committee

Councillors: John Beaumont, Bill Gifford, John Horner, Chris Saint, Bob Stevens and June Tandy.

Independent Members: John Bridgeman CBE (Chair) and Bob Meacham OBE

For queries regarding this agenda, please contact:

The public reports referred to are available on the Warwickshire Web
www.warwickshire.gov.uk/cmis
00 Agenda A&S 23.06.16

Warwickshire County Council

Ben Patel-Sadler, Democratic Services Officer
Tel: 01926 736 118, e-mail: benpatelsadler@warwickshire.gov.uk

Jim Graham
Chief Executive
Warwickshire County Council
June 2016

Minutes of the meeting of the Audit and Standards Committee held on 10th March 2016

Present

Members:

Councillor John Beaumont
Councillor Bill Gifford
Councillor John Horner
Councillor Bob Stevens
Councillor June Tandy

Independent Members:

John Bridgeman CBE (Chair)
Bob Meacham OBE

Officers:

John Betts, Head of Finance
Sarah Duxbury, Head of Law and Governance
Janet Neale, Infrastructure Delivery Manager
Ben Patel-Sadler, Democratic Services Officer
Virginia Rennie, Strategic Finance Manager
Garry Rollason, Chief Risk and Assurance Manager
Mark Ryder, Head of Economic Growth
Mike Wood, Service Manager, Service Development and
Assurance (Adults)

External Representatives:

Grant Patterson, Grant Thornton – Auditors
Helen Lillington, Grant Thornton – Auditors

Members of the public:

None

Observers:

None

1.   **General**

      (1)   Apologies

      Apologies for absence were received from Councillor Chris
      Saint.

      **(2)   Members' Disclosures of Pecuniary and Non-Pecuniary
      Interests**

      None

      **(3)   Minutes of the meeting of the Audit and Standards
      Committee held on 7th January 2016**

      At the 7th January 2016 meeting, members had requested a
      report which would provide them with an update on the Council's
      reserves. John Betts, Head of Finance informed the Committee
      that a report would be presented at the June 2016 meeting.

      It was agreed that the minutes be signed by the Chair as a true
      and accurate record of the meeting.

2.   **Reports Containing Confidential of Exempt Information**

      Councillor Horner proposed (seconded by Councillor Stevens) and it
      was resolved that members of the public be excluded from the meeting
      for the items mentioned below on the grounds that their presence
      would involve the disclosure of exempt information as defined in
      paragraph 3 of Schedule 12A of Part 1 of the Local Government Act
      1972.

      **EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE
      PAPERS)**

3.   **Consideration of the Exempt Minutes of the Audit and Standards
      Committee meeting held on 7th January 2016**

4.   **Internal Audit Progress Report**

REPORTS TO BE CONSIDERED IN PUBLIC

5.   **External Auditors Report – Audit & Standards Committee Update**

Grant Patterson, Grant Thornton – Auditors introduced the report and informed the Committee that there had been a change in the External Auditors approach to the Value for Money (VfM) statement this year. Members noted that the Council had opted to procure the CFO insights online analysis tool which would help to analyse the level of council income and spend by category – it would also help officers to compare performance with other authorities.

Grant Patterson informed the Committee that it was the function of the External Auditors to identify any significant risks that may be faced by the authority. Two examples of this included the current financial position of the authority and the impact of adult social care requirements. The External Auditors would look at how the current arrangements in relation to adult social care were functioning. Members noted that the External Auditors would look at what services the Council could and should be providing according to their available resources. Grant Patterson informed members that the External Auditors would be looking at the financial stability and the overall robustness of the organisation in the near future. Members noted that the External Auditors focussed on proactive asset management – they undertook an analysis of what assets the Council currently had and how they were being utilised to serve the public.

The Audit and Standards Committee noted the External Auditors Report.

6.   **External Auditors Report – 2015/16 Warwickshire County Council Audit Plan**

Grant Patterson, Grant Thornton – Auditors introduced the report and informed members that the 2015/16 Audit Plan had been presented in a similar format to previous years – the report highlighted the main challenges facing the authority, namely devolution and current and future financial pressures.

Members noted that at the end of the 2017-18 authority year there would be a new requirement for the overall audit opinion to be given in July. In anticipation of this forthcoming change, members noted that a trial run was being undertaken. John Betts, Head of Finance informed the Committee that officers were now having to work extremely quickly, working in different ways to adapt to the new legislative requirements. Grant Patterson informed the Committee that the External Auditors were also having to tweak the way in which they worked due to the forthcoming legislative changes – this would include a slight change in the way in which the accounts were reported.

Some significant risks identified by the External Auditors included the management over-ride of controls, the valuation of Council assets and the valuation of the authority's pension assets and liabilities. Members noted that at this interim period, the External Auditors were satisfied with the Council's overall position.

Members noted that the Council's internal audit function must be subject to a formal, independent assessment every five years – the next review would likely take place in 2017. In addition to an external assessment an annual self-assessment was also completed.

The Audit and Standards Committee noted the 2015/16 Warwickshire County Council Audit Plan.

7. **External Auditors Report – 2015/16 Warwickshire County Council Pension Fund Audit Plan**

Helen Lillington, Grant Thornton – Auditors introduced the report and informed members that a plan had been agreed in relation to the pooling of investments. Members noted that by the end of July 2016 it would have been one year since the local pension boards had been in place.

The Pension Fund Audit Plan had identified some risks, including the management over-ride of controls, hard to value investments and how assets were moved between fund managers.

Members noted that the External Auditors would be looking at the career average methodology of calculating pension entitlement during the testing process. The Committee noted that each member of the pension scheme received an annual statement which helped to ensure that people knew their current pension position.

Members noted that there were around 30,000 members of the Warwickshire pension scheme – when undertaking statistical and non-statistical analysis, the External Auditors would consider a sample of between 20 and 60 members of the scheme. Members noted that no issues had been identified during the audit process.

The Audit and Standards Committee agreed to note the 2015/16 Warwickshire County Council Pension Fund Audit Plan.

8. **External Auditors Report – Annual Audit Fee for the County Council and the Warwickshire Pension Fund 2015/16**

Grant Patterson, Grant Thornton – Auditors introduced the report and informed members that he was now the engagement lead for the Council.

Members noted that the report set out the annual audit fee for the County Council and the Warwickshire Pension Fund.

The Audit and Standards Committee agreed to note the Annual Fee Letter from the External Auditors for 2015/16.

9. Warwickshire County Council – Changes to Accounting Policies

Virginia Rennie, Strategic Finance Manager introduced the report and informed the Committee that a revised accounting policy for the fair valuation of assets had to be used as the basis for the preparation of the 2015/16 Warwickshire County Council Statement of Accounts. Members noted that the proposed policy complied with the 2015/16 CIPFA Code of Practice on Local Authority Accounting. Fundamentally, this meant that the change in policy defined fair value as the highest value irrespective of use and would affect the valuation and disclosure notes for surplus properties, investment properties and financial instruments.

In relation to transport infrastructure, Virginia Rennie informed the Committee that the intention of the CIPFA Code of Practice on Transport Infrastructure Assets was for each local authority to produce a single set of financial statements for transport infrastructure assets. Members noted it was estimated that the carrying value of the Council's non-current assets would increase from £1.3 billion in 2015/16 to £8.4 billion in 2016/17 as a result of implementing the Code. Members expressed a view that this method of accounting would not truly reflect the amount of money available to the Council. However, it was a positive step in terms of consistency as the Highways Agency adopted a similar approach in valuing roads.

The Audit and Standards Committee;

a.) Agreed that the accounting policy for the fair valuation of assets outlined in paragraph 2.4 should be used as the basis for the preparation of the 2015/16 Warwickshire County Council Statement of Accounts and;

b.) Agreed that the accounting policy for transport infrastructure assets outlined in paragraph 3.2 should be used as the basis of the preparation of the 2016/17 Warwickshire County Statement of Accounts and the additional disclosure notes required in 2015/16 and;

c.) Noted the amendments to the presentation of the statement of accounts in paragraphs 2.5 and 3.3 that will result from the change in accounting policy.

10. S106 Processes and Funds

Mark Ryder, Head of Economic Growth introduced the report and informed the Committee that around £205 million of S106 funding had been agreed but not yet spent.

Members noted that S106 money was collected from developers to support the provision of a range of infrastructure. The Committee noted that the role of the Infrastructure Delivery Manager (appointed in February 2015) was to coordinate and manage the S106 process throughout the planning and negotiating phase including input prior to agreements being signed.

Janet Neale, Infrastructure Delivery Manager informed the Committee that some aspects of S106 agreements were based on formulas and projected income - projected income was often calculated on an estimated basis. Members noted that some S106 money would not be received for several years – for example, if a housing development had secured planning permission but had not yet been completed (or hit trigger points). Members noted that housing developers may now have to allocate free land for new schools to be built on to accommodate pupils who would be residing on new housing developments.

Janet Neale informed the Committee that officers met with their District and Borough colleagues on a regular basis to ensure that all data held on S106 agreements was correct at a local level – links with Warwick District were particularly well advanced. Members noted that negotiations between the County and the Districts and Boroughs were ongoing to ensure a coordinated implementation of the Community Infrastructure Levy (CIL) across the county.

Members queried why small amounts of the S106 money had been spent on projects when much more had been received. Janet Neale informed the Committee that S106 income was often received in a number of instalments based on the trigger points in the agreement. Projects would then be progressed once funding was received. In some cases the Council would forward fund a project in advance of receiving S106 contributions.

Members requested further information on the allocation of S106 money on a district/borough basis.

The Audit and Standards Committee agreed to note the report on S106 processes and funds.

11. **Adult Social Care – Update on Case File Audits**

Mike Wood, Service Manager, Service Development and Assurance (Adults) introduced the report and informed the Committee that all recommendations made following the Hayter Serious Case Review had now been implemented.

Members noted that the new 'Survey Monkey' audit tool was being used to identify areas for improvement in relation to Case File Audits. Mike Wood informed members that the majority of audits completed were indicating that people in Adult Social Care environments were safe and receiving appropriate levels of care.

Members noted that although from the data it appeared that one in ten customers was not receiving appropriate care, this was unlikely to be

an accurate representation, with the issue tending to be around the quality of recording.

Mike Wood informed the Committee that he would undertake work in relation to this area to ensure that appropriate care was being given.

Mike Wood assured the Committee that any safeguarding concerns identified by professionals were raised immediately. Members requested to be provided with the exact number of caseworkers currently assigned to the Adult Social Care Service.

Although 136 Case File Audits had been completed, Members requested an exact figure on the number of cases currently on the system.

Mike Wood informed the Committee that in the summer of 2016, the revised MOSAIC system would be used to inform a fully revised Adult's Audit Tool. At the same time, a single Case File Audit process with Children's Social Care would be agreed.

It was agreed that an update report would be provided at the September 2016 Committee meeting.

The Audit and Standards Committee agreed to note the report.

12.   Work Programme and Future Meeting Dates

The Audit and Standards Committee noted the Work Programme and future meeting dates.

13.   Any Other Business

None

The Committee rose at 12.15 pm

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Chair

Audit & Standards Committee

23 June 2016

Internal Audit Annual Report
2015 / 2016

Recommendation

That the Committee considers the results of internal audit work completed during 2015/2016.

1   Key Issues

1.1   This report summarises the results of internal audit work carried out in the year ended 31 March 2016 and provides an overall opinion on the Authority's control environment.

2.0   Options and Proposal

2.1   Not applicable

3.0   Timescales associated with the decision and next steps

3.1   Following consideration by the Committee the report will be placed on the Authority's web-site.

Background papers

None

	Name	Contact Information
Report Author	Garry Rollason	01926 412679
Head of Service	Sarah Duxbury	01926 412090
Strategic Director	David Carter	01926 412564
Portfolio Holder	Cllr Kam Kaur	01926 632679

The report was circulated to the following members prior to publication:

Local Member(s): Not applicable
Other members: Not applicable

Warwickshire
County Council

Internal Audit Annual Report 2015/16

"Providing assurance on the management of risks"

Warwickshire County Council

Working for Warwickshire

Internal Audit Annual Report 2015/16

"Providing assurance on the management of risks"

This document summarises the results of internal audit work during 2015/16 and as required by the Accounts and Audit (England) Regulations 2011 gives an overall opinion of the Authority's control environment.

Opinion

Based upon the results of work undertaken during the year my opinion is that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed.

Context

This report outlines the work undertaken by the internal audit between 1 April 2015 and 31 March 2016.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of audit to provide assurance to the organisation (managers, heads of services and the audit and standards committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. The service helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Authority's control environment which feeds into the Annual Governance Statement.

Internal audit work during 2015/16

The underlying principle to the 2015/16 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.
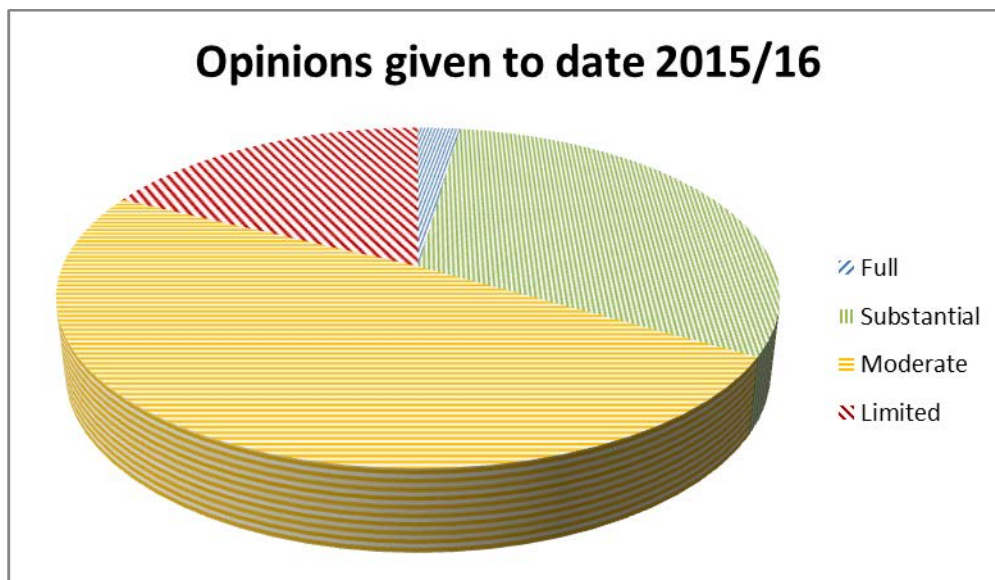
The methodology adopted in preparing the 2015/16 audit plan, and the plan itself, were approved by the Audit and Standards Committee on 4 June 2015.

Since the original plan was approved a number of additional audits have proved necessary and some planned audits were no longer required. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is that although the work undertaken during the year was different to that anticipated 12 months ago, I am pleased to report that in terms of total number of days the target of completing 90% of the plan was achieved.
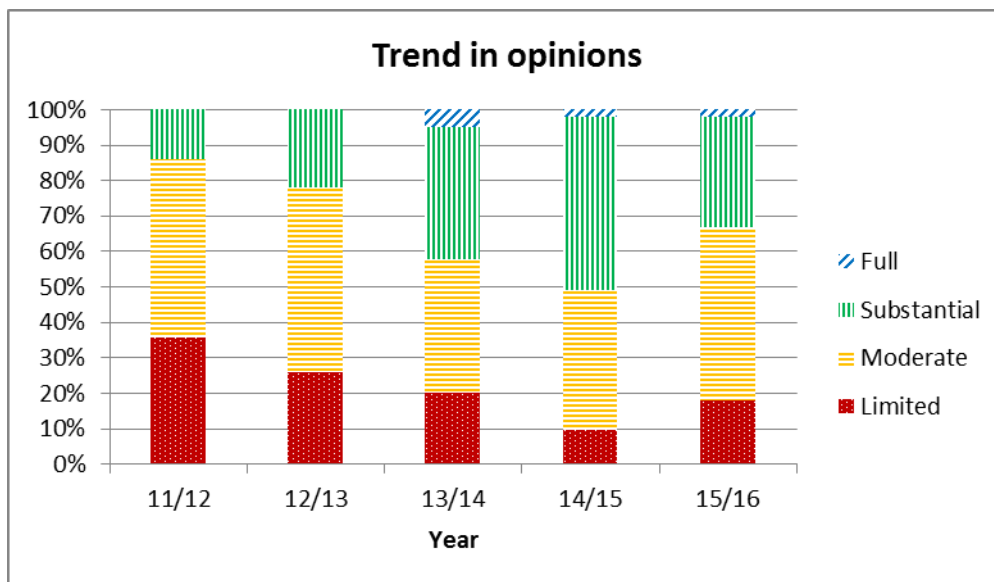
Summary of assurance work

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls. The Audit and Standards Committee has received regular reports during the year summarising audits undertaken.

As shown in the following chart the results of this year's audits are positive with the majority having a moderate or substantial opinion. However, there were 7 audits where controls provided only Limited assurance that significant risks were being addressed. Most of these relate to specific areas rather than represent an across the board breakdown in controls but there are some topics which have a wider impact. The key issues arising from these audits have been reported to the Audit & Standards Committee.

Opinions given to date 2015/16

A full list of the assurance work completed during the year is given in Appendix A.
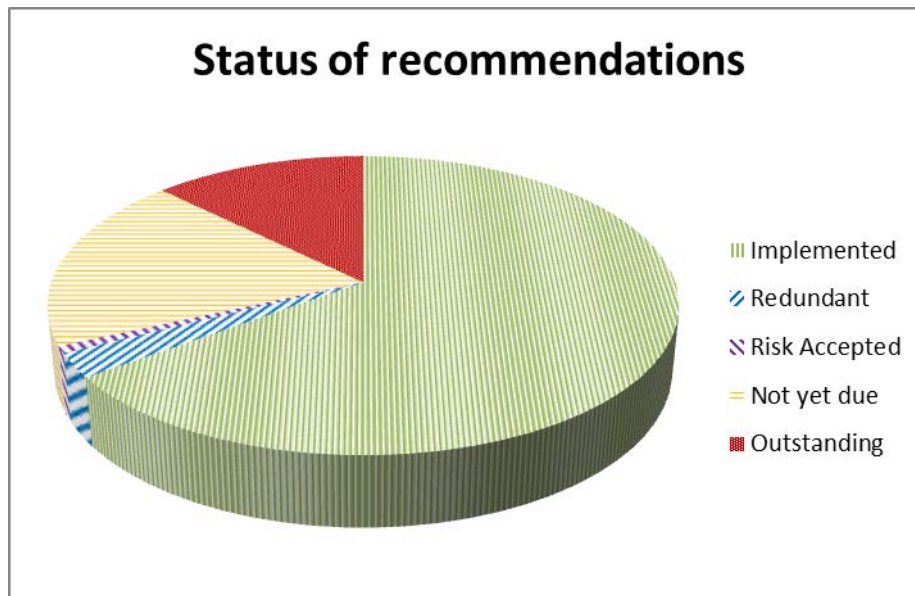
The outcome of this year's audits shows an increase in the proportion of audits given the lower levels of opinion as shown in the following chart.

Of course the audit plan includes different topics each year so caution is needed when interpreting this chart. A number of "limited" opinions are to be expected each year especially as the audit planning processes and our limited resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The increasing pressures facing the Authority may also be a factor. This report has been considered by Corporate Board who will be monitoring the action plans for the limited opinion audits to ensure that the issues highlighted are addressed.

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental.

During the year over 260 recommendations were made to address weaknesses in control which would otherwise not have been identified. As shown in the following chart significant progress has been made in implementing the recommendations made during the year. Progress on fundamental recommendations is particularly encouraging with only 1 outstanding at year end and that is actively being worked on.

Status of recommendations

Legend:
- Implemented
- Redundant
- Risk Accepted
- Not yet due
- Outstanding

Summary of non-assurance work

Special investigations

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a small number of special investigations were needed during the year and the significant issues arising were reported to the Audit and Standards Committee during the year.

> Suspected frauds can be reported to our dedicated
> fraud hotline 01926 412052 or by email to
> tellusaboutfraud@warwickshire.gov.uk

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service continued to provide consultancy input into a number of topics. The main contribution was on the replacement for the Authority's social care client record system which included work on the functional specification and process maps for key elements of the system. Advice was also provided on a range of financial processes.

Certification

Audit has traditionally carried out a small amount of work in relation to the certification of accounts for miscellaneous County Council related funds and is required to certify a small number of grants. These were all cleared satisfactorily.

Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

When the standards were first introduced a number of actions were identified to improve compliance. These actions have all been completed and a self-assessment against the standards, which has been shared with officers, was completed during 2014/15 which shows we fully comply with the standards. Processes have not changed significantly since that was done but the self-assessment is currently being refreshed to reflect the creation of the shared service with Worcestershire. As required by the standards compliance will need to be confirmed by an external assessment in due course.

Internal audit processes are reviewed annually by external assessors as part of our ISO 9001 accreditation. This inspection provides independent assurance that processes outlined in the audit manual (which is based on PSIAS) are being followed. The last accreditation visit proved to be very successful with no non-conformances identified. Internal audit therefore continues to be registered under this exacting standard.

In accordance with best practice there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process.

Following most audits a "post audit questionnaire" is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, etc. A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys.

The post audit questionnaire responses returned continue to be good with the average score from all surveys returned during 2015/16 being 4.6 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- The review has enabled the school to focus on areas of high priority.
- The audit was timely and focused on a key area for improvement.
- The Auditors approach was very positive and helpful. The audit is now helping drive improvement in this area.
- The audit has shaped the continuous improvement journey already underway
- The Auditor was able to explain everything to us clearly and reassure us about how far we'd come – and provide helpful pointers for continued improvement.
- The Auditor worked with me, picking up on concerns that I already had and exploring these thoroughly, as well as completing his own investigations into other matters.
- The audit report gives me a clear base line for moving forward with the team to address the issues that need to be improved.
- Professional manner and depth.

- The audit provided constructive and thoughtful challenge, whilst still being flexible and taking service knowledge and context into account.
- The Auditor is approachable about issues that we are unclear about and understands the time pressures so he is focused and efficient in his task.
- A very structured audit.
- The Auditor was approachable and extremely thorough in the audit process.

It is clearly important for any audit service to keep abreast of best professional practice. The internal audit service is fortunate in having strong links with colleagues both within the midlands and nationally. The Service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. The secretary of the Cipfa audit panel regularly briefs heads of audit on new developments in the profession. At a regional level there are networking opportunities for auditors specialising in adult social care, fraud and police. As well as good opportunities for continuing professional development and sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

The Authority can be confident that a best practice quality internal audit service continues to be provided.

Opinion

It is the responsibility of the County Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of internal audit is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, I have taken into account:

- all audits completed during the year;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- anticipated outcome from audits currently in draft;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Authority's systems; and
- matters arising from previous reports to members.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. However, it is clearly important that issues identified during the year are addressed.

Based upon the results of work undertaken during the year my opinion is that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed.

Appendix A: Summary of audits completed during the year.[1]

	Audit	Opinion on level of assurance provided by controls
	Resources	
1	Bank Reconciliation	Substantial
2	ICT Service Desk operation and management	Substantial
3	Capital Expenditure	Substantial
4	Vetting	Limited
5	Contract Management	Substantial
6	Public Service Network – IT Audit	Substantial
7	IT Physical Security	Moderate
8	Document management system (EDRMS)	Moderate
9	Marketing and Communications	Substantial
10	Customer Service Centre	Moderate
11	HRMS Database Management	Limited
12	HRMS responsibilities	Moderate
13	Agresso User Administration and Access Controls	Substantial
14	Registration Service	Moderate
15	Libraries	Moderate
16	Procurement Cards	Substantial
	Communities	
17	SEN and Inclusion	Moderate
18	Financial Management	Substantial
19	Public Health Contract Management	Substantial
20	Section 106 Agreements	Limited
21	Kingsway Community Primary School	Substantial
22	Business Centres	Moderate
23	HR Management	Moderate
24	Business Support Grants	Moderate
25	Salford Priors Primary School	Limited
26	Southam College	Moderate
27	Civil Parking Enforcement	Moderate
28	County Music Service	Moderate
29	Themed School Audit SEN(D)	Moderate
	People	
30	Outdoor Education – Marle Hall	Moderate
31	Supported Housing Protocol	Moderate
32	Business and Commissioning Intelligence	Full
33	Mental Health	Substantial
34	Learning Disabilities	Moderate
35	Home Care Payments System	Moderate
36	SEND Social Care	Limited
37	Foster care payments	Limited
38	Adult Case Recording	Moderate

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[1] Note that some of these audits started in 2014/15

	Audit	Opinion on level of assurance provided by controls
39	Children's Case Recording	Moderate
40	Reablement	Substantial
41	Better Care Fund	Limited
	Fire & Rescue	
42	Water Supply	Substantial
43	Transport	Limited
44	Financial Support Arrangements (Phase 1)	Moderate
45	Training	Moderate

G Rollason
Chief Risk and Assurance Manager

Audit & Standards Committee

23 June 2016

Annual Governance Statement 2015/2016

Recommendation(s)

That the Committee endorse the:

1.   results of the review of internal control;

2.   draft annual governance statement for the County Council.

1.0   Key Issues

1.1   The Accounts and Audit Regulations 2015 require the authority to conduct a review, at least once in a year, of the effectiveness of its system of internal control and to prepare an Annual Governance Statement (AGS).

1.2   The draft AGS is reported to this meeting of the Committee as it is good practice for a draft annual governance statement to be considered by members as soon as possible after the end of the financial year and also so that an agreed draft can be made available to the external auditors for their review.

1.3   The annual governance statement recognises, records and publishes an authority's governance arrangements under the framework defined in CIPFA/SOLACE's publication 'Delivering Good Governance in Local Government: Framework'.

1.4   This framework sets out six core principles of governance that underpin the AGS and upon which the AGS should report:

- focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of members and officers to be effective; and

- engaging with local people and other stakeholders to ensure robust public accountability.

1.5 A key element of governance is the control environment, which CIPFA defines as comprising 'the systems of governance, risk management and internal control'. Key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives;
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the organisation and the reporting of financial management; and
- the performance management of the organisation and the reporting of performance management'.

2.0   The Assurance Gathering Process

2.1   **Appendix 1** illustrates the recommended steps[1] for the process of reviewing the authority's governance arrangements and gathering assurance about the effectiveness of the system in order to produce the annual governance statement. This approach was adopted for the review which was carried out by a Panel consisting of:

- Sarah Duxbury, Head of Law & Governance
- Phil Evans, Head of Community Services
- Rob Moyney, Deputy Chief Fire Officer;
- Tricia Morrison, Head of Performance
- Marie Seaton, Interim Head of Professional Practice and Governance
- Lynn Joyce, Corporate Assurance Manager

2.2   In carrying out their review, the Panel scrutinised the strategic risk register prepared by senior managers and approved by Corporate Board and considered the following:

- the approach of the Authority to establishing its principal statutory obligations and organisational objectives;

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[1] The Annual governance statement; Meeting the requirements of the Accounts and Audit Regulations 2003, *Incorporating Accounts and Audit (Amendment) (England) Regulations 2006* – Rough Guide for Practitioners; CIPFA Finance Advisory Network

- the approach of the authority to identifying principal risks to the achievement of those obligations and objectives;
- the key control frameworks that the authority has in place to manage its principal risks; and;
- any potential gaps in the governance and control frameworks.

2.3   In addition Heads of Service have completed assurance statements confirming that they have complied with the risk management framework throughout the year for the identification and management of risks within their Services. Consideration was also given to the results of reviews carried out by external agencies during the year.

2.4   The Internal Audit Annual Report for the year ended 31 March 2016 has to be considered at the same time as this statement. The Annual Report is also included on the agenda for this meeting.

3.0   Findings of the Review

3.1   As part of the annual governance statement process for 2015/16, the Panel considered the strategic risk register agreed by Corporate Board and were mindful of the following factors in determining what constitutes a significant issue:

- The issue has severely prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of business
- The issue has led to a material impact on the accounts
- The Audit and Standards Committee has advised that it should be considered significant for this purpose
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment
- The issue, or impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
- The issue has resulted in formal action being taken by the Chief Financial Officer or the Monitoring Officer.

3.2   CIPFA guidance also states that 'a 'good' governance statement should be 'an open and honest self-assessment of the organisation's performance across all of its activities [and] it is inevitable that, where the process of review has been rigorous and robust, issues will be identified that the organisation will need to address.'

3.3   As a result of its work the panel has recommended a number of changes to the risk register which are reflected in the proposed AGS. Although the risks outlined are major challenges for the Authority the panel do not judge any of

them to be significant governance issues. The Council has not experienced any significant governance failures during the last year.

3.4   A draft annual governance statement reflecting the panel's findings is attached in Appendix 2. The Committee is invited to scrutinise the draft annual governance statement.

4.0   Timescales associated with the decision and next steps

4.1   Following consideration of the draft AGS by the Committee it will be presented to the external auditors for review. After completion of the audit of the accounts, the final AGS (incorporating any comments by external auditors) will be reported to the September meeting of this Committee. This will allow the committee to take into account the results of the external audit and the content of the Authority's accounts which will also be on the agenda for the Committee's September meeting. Following scrutiny by this Committee the draft AGS will be reported to Cabinet and then to Council for approval.
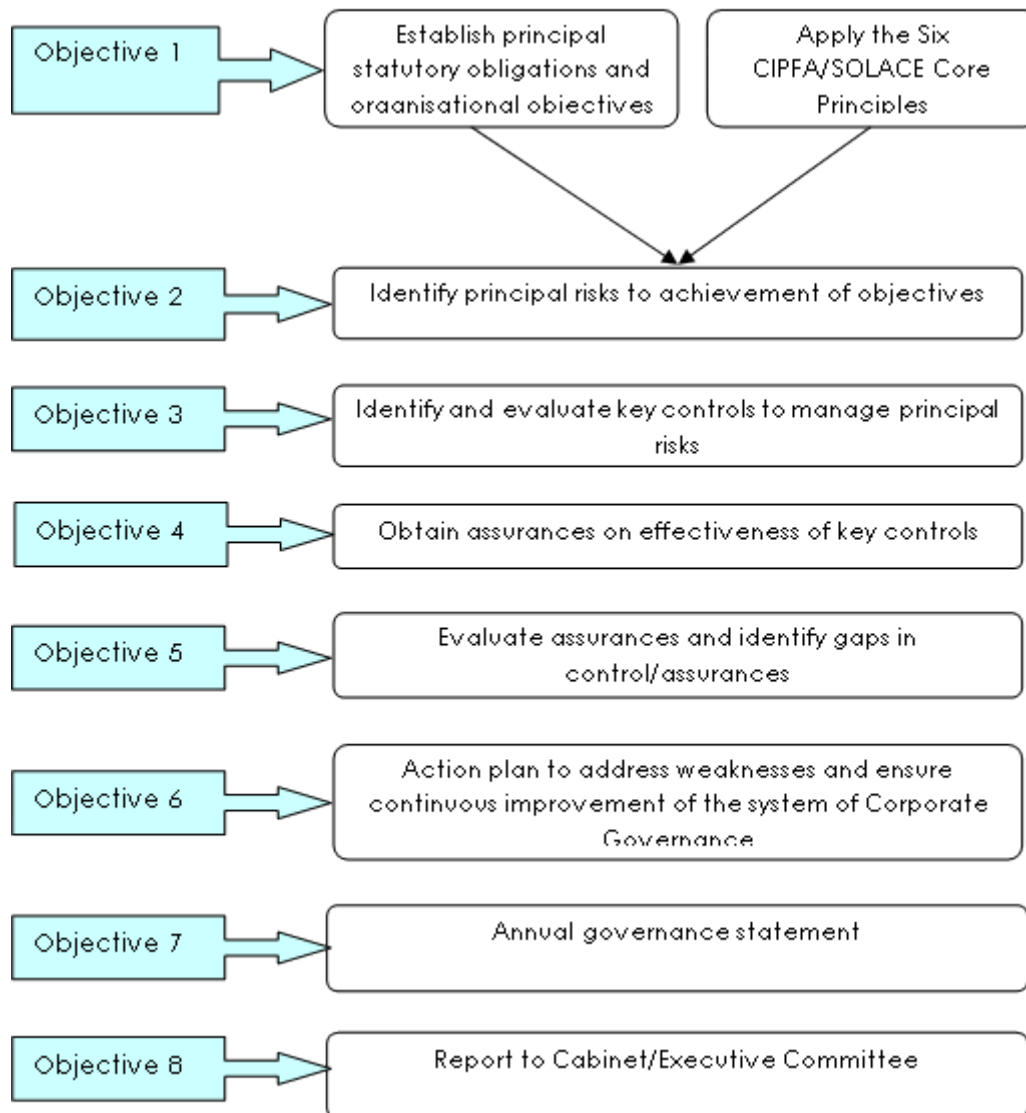
Background papers

None

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Head of Service	Sarah Duxbury	01926 412090
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Portfolio Holder	Cllr Kam Kaur	01926 632679

The report was circulated to the following members prior to publication:

Local Member(s): Not applicable
Other members: None

Appendix 1: Review of Annual governance statement and the Assurance Gathering Process

Objective 1	Establish principal statutory obligations and organisational objectives	Apply the Six CIPFA/SOLACE Core Principles

Objective 2	Identify principal risks to achievement of objectives

Objective 3	Identify and evaluate key controls to manage principal risks

Objective 4	Obtain assurances on effectiveness of key controls

Objective 5	Evaluate assurances and identify gaps in control/assurances

Objective 6	Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance

Objective 7	Annual governance statement

Objective 8	Report to Cabinet/Executive Committee

Draft Annual Governance Statement

Year ended 31 March 2016

Annual Governance Statement 2015/2016

Contents

Annual Governance Statement 2015/2016

1. What are we responsible for?

We are responsible for carrying out our business in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively, and accounting for it properly. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, inclusive, open and accountable manner. These arrangements consist of all the systems, processes, culture and values which direct and control the way in which we work and through which we account to, engage with and lead our communities.

We have 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*. You can obtain a copy of the Code from Democratic Services. Further information is on our website: http://www.warwickshire.gov.uk/corporategovernance

This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015.

2. The aim of the governance framework

The governance framework is basically the systems and processes, and the culture and values, by which we are controlled and how we account to, engage with and lead the community. The framework allows us to monitor how we are achieving our strategic aims and ambitions, and to consider whether they have helped us deliver appropriate services that demonstrate value for money.

The system of internal control is an important part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failing to achieve our policies, aims and objectives, so it can only offer reasonable assurance and not absolute assurance of effectiveness. The system of internal control is based on continuing processes designed to:

- identify and prioritise the risks that could prevent us from achieving our policies, aims and objectives;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

The framework underpins our Code and set out the commitments we have made about the way that we work. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the annual report and statement of accounts.

3   The Governance framework

Core Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens, service users and communities

Our core purpose is to 'develop and sustain a society that looks after its most vulnerable members, delivers appropriate, quality services at the right time, and seeks opportunities for economic growth and innovation'. This provides the overarching framework for the One Organisational Plan which sets out our values and the desired outcomes we want to achieve for the people of Warwickshire over the four year period 2014-18. The One Organisational Plan was approved by Council on 25th February 2014 and the business outcomes that support the delivery of the core purpose were agreed by Cabinet in March 2014. http://www.warwickshire.gov.uk/businessplan

During its original development the One Organisational Plan was informed by an extensive programme of consultation which was reported to Cabinet in December 2013. This included 'Let's talk' roadshows across the county and the use of MORI 'You Choose' budget simulation software to help gather the views of the local community to help shape the medium term financial plan for 2014-18. Let's talk Roadshows were again held during November 2015 to engage with residents on council services and to feedback how their views have influenced the way the council does things and how it is spending taxpayers' money. The One Organisation Plan has been communicated to citizens through a range of media including dedicated pages on our website and social media. http://oop.warwickshire.gov.uk/

The Warwickshire Observatory provides a comprehensive assessment of a range of indicators and trends in local conditions experienced by the residents and communities of Warwickshire. The key messages identified in the analysis aid the decision making and priority setting processes; providing the context for our business planning and the evidence base for our policy development. Further information on work undertaken and reports published by the Observatory can be found on their website: http://www.warwickshireobservatory.org/

Reviewing the authority's vision and its implications for the authority's governance arrangements

We have a Code of Corporate Governance in place which identifies our commitment to corporate governance and supports our Vision and Aims and Ambitions. The Code underlines the critical role governance has in the delivery of objectives, stating that 'good governance is essential for the Authority to improve the quality of its services and has a significant impact on the public's level of trust in the services that the Authority delivers'. The Code was revised in 2007/08 to reflect new CIPFA/SOLACE guidance and most recently updated again in 2012. The CIPFA / SOLACE guidance will be updated during 2016 and we are committed to reviewing our local code in line with ongoing guidance. Further information on The Code can be found on our website: http://www.warwickshire.gov.uk/corporategovernance

Translating the vision into objectives for the authority and its partnerships

Our core purpose provides the overarching framework for the One Organisational Plan which sets out our values and the desired outcomes we want to achieve for the people of Warwickshire over the four year period. The One Organisational Plan fully integrates the corporate and financial planning processes and pulls together the key elements of a number of different existing corporate plans and documents to provide the focus for the delivery of our core purpose and key outcomes. http://www.warwickshire.gov.uk/strategicdirection

- The One Organisational Plan outlines our core purpose and the key outcomes we want to achieve for Warwickshire by 2018. http://www.warwickshire.gov.uk/businessplan
- The Medium Term Financial Plan supports the One Organisational Plan by setting out how we intend to use and raise the resources needed to deliver our services and priorities over the medium term. The 2016/17 Budget and a refresh of the Medium Term Financial Plan for the last two years of the plan up to 2018 were approved by the County Council on 4th February 2016. Further approval was provided by the County Council on 23rd February 2016 to incorporate transitional grant funding for 2016/17.

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

The performance monitoring and reporting arrangements for the One Organisational Plan were approved by Cabinet in June 2014 and includes the following mechanisms:

- Progress against the One Organisational Plan and the delivery of the savings is reported formally to Cabinet on a quarterly basis followed by Overview & Scrutiny. This information is also available electronically via the Member Dashboard.
- A management information dashboard is in place which provides real time HR, finance and performance data to Strategic Directors, Heads of Service and third tier managers for their areas of responsibility. This enables managers to interrogate information quickly and efficiently, making key indicators easier to monitor.

- Each Group has arrangements in place for reporting performance to its Group Leadership Team (GLT).
- A high level review of project and programme bodies was undertaken in 2015 to streamline activity and a number of project governance principles were developed and rolled out across the Council.
- Phase 1 of the Project Hub, a new on-line system for monitoring and reporting progress with projects and programmes was launched at the end of March 2016. The Project Hub will increase visibility and transparency of projects and programmes delivered by all Groups across the Council, and will help to focus resources where they are needed most and will have the biggest impact.

We publish information each year which outlines how we spend Council Tax income. This information is available for the current and previous financial years and can be viewed on our website: http://www.warwickshire.gov.uk/counciltaxspending

Core Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles

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 in respect of the authority and partnership arrangements

Elected members are collectively responsible for the governance of the Council. Decision making and scrutiny of member decisions has been separated through the executive arrangements introduced by the Local Government Act 2000. Responsibilities for decision-making, the role of individual members, the Council, Cabinet, and committees are defined in the Constitution

The roles and responsibilities of senior officers, delegation of statutory powers and executive functions, and Protocols on member / officer relations are defined and documented within our Constitution which can be found on our website: http://www.warwickshire.gov.uk/constitution.

Ensuring effective management of change and transformation

The One Organisational Plan sets the high level desired outcomes and is supported by projects and service plans. It provides the necessary framework to deliver change management and transformation and to ensure clear line of sight in the delivery of WCC's Core Purpose and Outcomes at strategic, group and business unit levels. The outcomes framework ensures that Members and Officers have a clear picture of how well the Organisation is progressing against the delivery of the outcomes set out in the One Organisational Plan as well as the key business outcomes that support and underpin it.

The One Organisational Plan is aligned to the medium term financial plan to ensure a joined up approach to delivering the organisational plan outcomes and the agreed 4 year savings plan. These are both monitored and reported to Members on a quarterly basis. They are also reviewed as part of the annual budget setting process to identify future service and budgetary requirements and to respond to further requirements for change.

The Workforce Strategy 2014-18 outlines the current and future needs of our workforce, setting out our aspirations for our workforce and how we will lead,

support and develop the people within our business. The Strategy sets the overarching principles which are embedded in detailed Workforce Plans developed at Group and business unit level. This ensures that Warwickshire has a fit for purpose workforce and staff resources are deployed most effectively in the delivery of the aims and ambitions as set out in the One Organisational Plan.

The Customer and Transformation Board, chaired by the Strategic Director, Resources and includes all Strategic Directors, have oversight of organisational change and transformation activity across the Council. Its responsibilities include:

- delivery of the Customer Services Strategy; to develop 'One Front Door' for the Council and to develop and deliver improved Customer Journeys for the people of Warwickshire;
- ensuring that the Council maintains an organisation wide view on the health of transformation activity and to provide additional insight into progress where appropriate;
- ensuring that key strategies related to One Organisational Plan outcomes (and specifically outcomes related to resources and services) are delivered across all areas of the Council; and
- oversight of and challenging value for money, return on investment and benefits realisation.

Ensuring the authority's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* and, where they do not, explain why and how they deliver the same impact

Arrangements are in place to ensure that we fully comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. They include the following:

- The Head of Finance fulfils the role of Chief Finance Officer. He is actively involved in the financial implications of all material business decisions, leads on promoting good financial management, is professionally qualified and suitably experienced and leads and directs a finance function fit for purpose.
- He is entitled to attend at and offer advice to meetings of the Corporate Board and Cabinet/Corporate Board in relation to any item which he considers raises financial issues.
- Within the Financial Regulations of the Authority he has the responsibility to advise Strategic Directors as necessary on financial arrangements and has access to all documents concerned with finance.

Ensuring the authority's assurance arrangements conform with the governance arrangements of the *CIPFA Statement on the Role of Head of Internal Audit* and, where they do not, explain why and how they deliver the same impact

The Council has delegated responsibility for maintaining an adequate internal audit function to the Strategic Director for Resources. A programme of risk based audits is carried out by the Risk and Assurance Service. A summary of audit work is reported to the Audit and Standards Committee which has responsibility for oversight of probity and audit issues and meets four times a year.

Arrangements are in place to ensure that we fully comply with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit. In particular the Chief Risk and Assurance Manager is designated as the Head of Internal Audit. He has regular formal meetings with the Strategic Director for Resources, Head of Finance and Head of Law and Governance and does not take any part in any audit of risk management or insurance. A self-assessment against the Public Sector Internal Audit Standards (PSIAS) has been completed and compliance will be confirmed by an external assessment in due course. More information can be found on our website: http://www.warwickshire.gov.uk/audit

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Strategic Director for Resources fulfils the responsibilities of the Monitoring Officer. The Strategic Director has arrangements in place to ensure that all reports to member bodies are checked by qualified lawyers within the Authority and to ensure compliance with legislation, corporate policies and procedures. All decision making member bodies are supported by a legal advisor who attends meetings. In addition, the Strategic Director receives regular updates from senior lawyers in the Authority highlighting if there are any:

- potential breaches of law or other council regulations (such as Contract Standing Orders) and legal challenges;
- cases which give rise to questions as to the Council's power to take action;
- proposals to act contrary to corporate policy or legal advice; or
- any new legislative provisions which might affect areas of work carried out by the Authority.

The Strategic Director has responsibility for reviewing and investigating complaints about elected member conduct (including co-opted members).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Chief Executive is designated as the Head of Paid Service and fulfils the responsibilities of the role. The functions of the Chief Executive and group structures that have been put in place are contained within the Constitution which can be found on our website: http://www.warwickshire.gov.uk/constitution

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

The Audit and Standards Committee operates to an agreed terms of reference which defines its core functions, roles and responsibilities. The terms of reference is contained within the Constitution which can be found on our website: http://www.warwickshire.gov.uk/constitution

Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

The constitution outlines roles and responsibilities for Cabinet to approve the formation of partnerships with other public, private, voluntary and community organisations. The Leader of the Council has overall responsibility to act as the lead representative of the council on sub-regional partnerships and to make associated commitments on behalf of the council provided those commitments fall within the budget and policy framework of the council: http://www.warwickshire.gov.uk/constitution

We have a partnership governance toolkit which helps the Council and other agencies involved in partnership working identify the key governance issues that need to be addressed when considering new partnership arrangements or running existing partnerships. The toolkit contains a number of tools designed to help build a partnership framework. This includes partnership objectives, structures, governance arrangements (including conduct, performance, financial and risk management arrangements, customer engagement protocols and exit strategies. We are committed to reviewing the toolkit during 2016/17.

Core Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

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

Our Corporate Governance Framework is supported by a programme of governance training for officers and a range of internal audits. Online governance training for all staff was introduced during 2014.

The expectations for the behaviour of elected and co-opted members are published in the Member's Code of Conduct contained within the Constitution. This was revised and adopted by full Council in July 2012 to take into account changes arising from the Localism Act 2011. Standards of behaviour for staff are defined in the Officers Code of Conduct contained within the Constitution found on our website: http://www.warwickshire.gov.uk/constitution

New members of staff are made aware of codes of conduct as part of their induction. Staff codes of conduct are available through the HR pages on our website: http://www.warwickshire.gov.uk/conduct

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

We have a good record in preventing and identifying fraud but cannot afford to be complacent. We have an Anti-Fraud and Bribery Policy and Strategy outlining our commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds. This was reviewed

during 2012 to incorporate changes in best practice and legislation, including the Bribery Act 2010. These documents were reviewed and approved by the Audit and Standards Committee and Cabinet in December 2012 and published on our website: http://www.warwickshire.gov.uk/antifraud

We participate in the National fraud Initiative and counter-fraud activities take place throughout the year including articles published on the intranet to raise fraud awareness: https://www.warwickshire.gov.uk/nfi

We are working alongside other local authorities in Warwickshire to establish a Counter-Fraud Partnership to deter and detect fraud: http://www.warwickshire.gov.uk/fraud

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

Key roles in relation to ensuring compliance with policies, procedures, laws and regulations are performed by the Strategic Director for Resources, Head of Finance and the Head of Law and Governance.

Financial Regulations were approved by full Council on 26th September 2013 and are supported by a suite of financial rules available to staff on the internal intranet. http://www.warwickshire.gov.uk/financialregulations

A structured approach to contract management is set out in Contract Standing Orders (CSOs). These provide guidance on managing our finances, ensuring compliance with legislation and best value is considered in all purchasing activities. The current set of Contract Standing Orders was approved by full Council in September 2013 and is contained within the Constitution: http://www.warwickshire.gov.uk/constitution

In 2014/15 we commissioned three Peer Challenges, which provided an external, impartial, peer-led perspective on how we operate in a number of areas. Following the completion of the reviews we have collated the recommendations and developed a single Integrated Peer Challenge Action Plan which was presented to Cabinet in July 2015. Quarterly progress updates on the delivery of the plan is reported to Cabinet and to the Resources and Fire & Rescue Overview and Scrutiny Committee to demonstrate progress against the organisation-wide recommendations. http://www.warwickshire.gov.uk/our-performance/overall-performance/peer-review-integrated-action-plan-2015

Whistleblowing, and receiving and investigating complaints from the public

The Whistleblowing Policy outlines procedures for staff members wishing to raise a concern, the response they can expect from the Authority and the officers responsible for maintaining and operating the code (which is essentially all managers). The Strategic Director for Resources has overall responsibility for the maintenance and operation of this policy. A confidential register of concerns raised and the subsequent outcome of investigations is held by the Resources Group. We are committed to reviewing these arrangements during 2016/17. Details of whistleblowing arrangements have been published on our website: http://www.warwickshire.gov.uk/conduct

Complaints from members of the public are addressed according to the 'Corporate Complaints Procedure' ('making sure positive or negative customer feedback is valued and used to improve services') and managed corporately by the Customer Service business unit. Extensive guidance is available to staff through our intranet site, to the public on our website and through written publications: http://www.warwickshire.gov.uk/complaints

Core Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Reviewing the effectiveness of the decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

The Constitution sets out how the Council operates, how decisions are made, who makes decisions, how citizens, businesses and other organisations can participate, and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people. Responsibilities for decision-making, the role of individual members, the Council, Cabinet, Committees and the process for determining the Authority's Key Decisions are defined in the Constitution. Delegations are detailed so that the functions of full Council, Cabinet, Cabinet members, Committees and Officers are specified. http://www.warwickshire.gov.uk/constitution

A review of the Council's governance arrangements has been undertaken by the Leaders Liaison Group which had a particular focus on decision making, overview and scrutiny, and member engagement at local and strategic level. Recommendations arising from the review and proposed amendments to the Constitution were reported to and approved by Council on 24th September 2015. A further update was made to the Constitution in March 2016 to reflect changes to the treasury management role of the Head of Finance as documented in the Treasury Management Strategy for 2016/17. This was approved by Council on 22nd March 2016.

We have a forward plan which provides information about all of the decisions that the Council has scheduled. Formal agendas, reports and minutes for all committee meetings are published on our website. Where a report is considered in private, the reason for that is set out in the description of the decision: https://democratic.warwickshire.gov.uk/cmis5/

The Overview and Scrutiny Committees act as a critical friend and hold Cabinet to account for its decisions. The terms of reference for all O&S Committees are defined in the Constitution. Our governance arrangements will be kept under review in the coming year, with a particular focus on ensuring effective scrutiny. http://www.warwickshire.gov.uk/scrutiny

In compliance with the Freedom of Information Act 2000 we have procedures in place that outline the arrangements for members of the public requesting access to information: http://www.warwickshire.gov.uk/foi

We have adopted the model publication scheme produced by the Information Commissioner's Office (ICO), in accordance with the Freedom of Information Act 2000 and the Local Government Transparency Code 2015. The publication scheme guide is available on our

website: http://www.warwickshire.gov.uk/publicationschemeguide

Information security is a key issue for us. A robust process for investigating data losses is in place and the Authority continues to protect the data of its staff, customers and business activities and ensure that it is stored securely, legally and in accordance with Council policy. We have reviewed our information security guidance as a method of increasing overall awareness, and signposting staff to our array of more detailed advice and guidance in this arena. To improve awareness, and ensure that all members of staff understand their information security responsibilities, we have introduced mandatory training and required staff to formally accept their responsibilities. http://www.warwickshire.gov.uk/informationsecurity

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

Risk management is an integral part of good management and corporate governance and is therefore at the heart of what we do. It is essential to our ability to deliver public services and as a custodian of public funds. Our approach to managing risk is explained in the Risk Management Strategy which has been approved by Cabinet and is available on our website: http://www.warwickshire.gov.uk/riskmanagementstrategy.

Core Principle 5: Developing the capacity and capability of members and officers to be effective

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

The development and training of elected members is managed by the Law & Governance Business Unit. At the beginning of their term of office, each elected member undergoes an induction programme which includes corporate governance training. A member development programme is agreed each year to ensure core development needs of members aligned to their respective roles are met and to take account of new and emerging issues. Democratic Services maintain a database of the training received by and planned for members.

The Workforce Strategy 2014-18 outlines the current and future needs of our workforce, setting out our aspirations for our workforce and how we will lead, support and develop the people within our business. The Strategy sets the overarching principles which are embedded in detailed Workforce Plans developed at Group and business unit level. This ensures that Warwickshire has a fit for purpose workforce and staff resources are deployed most effectively in the delivery of the aims and ambitions as set out in the One Organisational Plan.

We recognise that we have a diverse workforce and have staff networks for disabled staff, staff who identify as lesbian, gay, bisexual and trans (LGBT), religion and belief, members of staff who consider themselves to be from an Ethnic Minority community, and parents. The networks work towards equal opportunities in terms of improving policies, procedures, practices, recruitment, retention career development and support. Further information on staff networks can be viewed at http://www.warwickshire.gov.uk/staffnetworks

The Working for Warwickshire competency framework details the knowledge, skills, and qualities we need from our staff. This was made available to all staff from April 2014. As part of this framework a self-assessment tool has been developed which all managers across the organisation use when reviewing performance and agreeing development needs as part of their appraisals and 1:1 sessions. http://www.warwickshire.gov.uk/w4w

The corporate staff appraisal process applies to staff across the organisation and is used as a tool to identify individual objectives and development needs. The process is cascaded down through all tiers of staffing to ensure the objectives of the Authority run through the appraisals of all staff. http://www.warwickshire.gov.uk/corporateappraisal

Core Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

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

We undertake consultation on a wide range of topics to help us engage with the public to inform decision making and to assess the quality of services we provide. Our Consultation and Engagement Framework provides staff with guidance and tools for planning and conducting consultation activities. As part of our approach to consultation the Ask Warwickshire website is a portal for consultation exercises taking place within Warwickshire. We use a variety of methods to undertake consultation including public meetings, public and staff roadshows, strategic meetings with partners and online consultation surveys. This enables us to engage with a greater number of citizens on a wide range of consultation topics and to provide results of completed consultation activities: http://askwarks.wordpress.com/

During its original development the One Organisational Plan was informed by an extensive programme of consultation which was reported to Cabinet in December 2013. This included 'Let's talk' roadshows across the county and the use of MORI 'You Choose' budget simulation software to help gather the views of the local community to help shape the medium term financial plan for 2014-18. Let's talk Roadshows were again held during November 2015 to engage with residents on council services and to feedback how their views have influenced the way the council does things and how it is spending taxpayers' money.

The One Organisational Plan Delivery Group brings together a number of officers from both support functions and services across the organisation and at each meeting updates are given on current and upcoming consultations by officers involved (Legal, Warwickshire Observatory, Communications and Corporate Project Delivery). This allows further support to be given where appropriate, interdependencies to be identified and lessons to be learnt in a timely manner.

A Public Engagement in Overview and Scrutiny Toolkit has been developed to support Members with engaging and involving the public in scrutiny activity. The Toolkit was approved by the Corporate Services Overview and Scrutiny Committee in October 2013: http://warksdemocracy.wordpress.com/2013/10/28/greater-public-involvement-in-overview-and-scrutiny/

The Council's vision cannot be realised without recognising the diversity which exists in our customer base, our workforce and the wider Warwickshire community. We have adopted the Equality Framework for Local Government as a tool to integrate equality and diversity into everything it does from policy development to service planning and delivery. This ensures that Equality and Diversity is an integral part of consultation and Equality Impact Assessments are used as a tool to identify the potential impact of strategies, policies, services and functions on customers and staff: http://www.warwickshire.gov.uk/staffequalityanddiversity

The Petitions Scheme enables citizens to raise and formally present petitions to members and committees. Petitions can be submitted by post or online: http://www.warwickshire.gov.uk/petitions

We operate a network of thirty Community Forums across the county, each of which meets on a minimum of four occasions per year. These are run in partnership with the District/Borough Councils, Warwickshire Police, and Health Service and provide the opportunity for the public to engage with Councillors and public service providers about their concerns and priorities. Agendas and minutes of community forum meetings are available on our website: http://www.warwickshire.gov.uk/communityforums

We have commissioned Healthwatch Warwickshire to undertake an independent role in the provision of information on local health and social care services to the public and also to enable public engagement with health providers. Healthwatch launched in April 2013 and a Memorandum of Understanding is in place setting out the framework for the working relationship between Warwickshire Health and Wellbeing Board, Healthwatch Warwickshire, Children and Young People Overview & Scrutiny Committee and Adult Social Care and Health Overview & Scrutiny Committee. During 2015 the Memorandum of Understanding was reviewed, updated and signed by Chairs of each body. http://www.healthwatchwarwickshire.co.uk/

During 2015 we launched an Employee Engagement Strategy which outlines how we will improve the engagement of our employees This includes ensuring employees have a voice, managers and leaders are focusing, coaching and stretching their people and there is clear communication about where our authority is going. This is supported by the annual staff survey and pulse surveys which measure progress against actions or views on topical issues. This enables us to target hotspots and measure engagement on a more regular basis. https://www.warwickshire.gov.uk/employeeengagement

Enhancing the accountability for service delivery and effectiveness of other public service providers

We actively contribute to partnerships including the Coventry and Warwickshire Local Enterprise Partnership (CWLEP) and collaborate with partners to promote good governance and delivery of outcomes. We are members of a number of sub-regional partnerships and groups which have member and / or officer representation. Each partnership has its own governance arrangements in place. http://www.warwickshire.gov.uk/partnerships

The Police Reform and Social Responsibility Act 2011 established the arrangements for Police and Crime Commissioners (PCCs) and for Police and Crime Panels. The Police and Crime Panel is a joint committee of the County Council and the five district and borough councils. The Panel's role is to scrutinise the decisions and actions of the PCC but in a way that supports the effective exercise of the functions of the PCC. http://www.warwickshire.gov.uk/policeandcrimepanel

Governance arrangements are in place for scrutinising health services. The Health and Wellbeing Board is an executive function that has statutory responsibility for developing joint health and wellbeing strategies. It brings together colleagues from the county council, district and borough councils, and the NHS to provide leadership and direction for the health and social care economy in the county. Governance arrangements were reviewed during 2015 and were approved by the Board at its meeting in July 2015 http://hwb.warwickshire.gov.uk/

4.   Review of effectiveness

We have responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

The review of effectiveness was co-ordinated by an evaluation panel consisting of representatives from each group, Internal Audit and chaired by the Head of Law and Governance. In carrying out their review, the evaluation panel:

- considered the approach of the Authority to establishing its principal statutory obligations and organisational objectives;
- considered the approach of the Authority to identifying principal risks to the achievement of those obligations and objectives;
- identified the key control frameworks that the Authority has in place to manage its principal risks;
- obtained assurance from managers on the operation of key control frameworks and on the results of relevant external or internal inspection; and
- evaluated the assurances provided and identified gaps.

The evaluation panel scrutinised the strategic risk register prepared by executive managers and approved by Corporate Board. In addition Heads of Service have confirmed that they have complied with the risk management framework throughout the year. Consideration was also given to the results of reviews carried out by external agencies during the year including the external audit of the accounts. The work of the evaluation panel was scrutinised by the Strategic Director of Resources (Monitoring Officer) and the Head of Finance (Section 151 Officer) before being submitted to the Audit and Standards Committee for further scrutiny and reported to Cabinet and Council.

The Authority's governance arrangements have been reviewed throughout 2015/16 in a number of ways including:

- A review of the Council's governance arrangements undertaken by the Leaders Liaison Group. Recommendations arising from the review and proposed amendments to the Constitution were reported to and approved by Council on 24th September 2015;
- scrutiny reviews undertaken by task and finish groups commissioned by Overview and Scrutiny Committees; and
- risk based reviews by Internal Audit.

The results of the Internal Audit work were reported to the Audit and Standards Committee throughout the year and the individual reviews feed into the overall Internal Audit Annual Report. This report concludes that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed. The internal audit findings were duly considered in the preparation of this statement.

5. Governance issues

We have been advised on the implications of the result of the review of effectiveness of the governance framework by Cabinet and the Audit and Standards Committee. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

We have not experienced any significant governance failures during the last year. However the following have been identified as major challenges for the Authority going forward, each carrying significant risks for the County Council. The governance challenges recorded in this statement are reflected in the organisation's Strategic Risk Register and have accompanying actions. The Risk Register highlights the actions taken and successes achieved in addressing the challenges of the past 12 months. A prime purpose of the governance framework is to minimise the occurrence of strategic risks and to ensure that any such risks arising are highlighted so that appropriate mitigating action can be taken. We are satisfied that the challenges identified are addressed by service business plans and that the actions identified in those plans will address the issues highlighted in our review of effectiveness. The table below summarises the risks contained in the Strategic Risk Register.

Governance Challenges for 2016/17 and beyond

Government policies, new legislation and sustained austerity measures present immediate challenges and further significant imposed savings over the medium term.

The outlook for Local Government remains demanding with a number of central government policies combined with the national economic situation presenting significant challenges to us. Statements from the Treasury continue to reiterate that the period of austerity for public services will continue for some years and we need to maintain a watching brief of government statements to identify potential policies which may have a significant impact for local government.

In addition to savings of £92m that we have identified and committed to making for the period 2014-18 changes to how the Government distributes Revenue Support Grant means that further savings of £14.2 million need to be made by the end of 2017/18. The impact of this has been softened by the provision of £3m transitional funding in 2016/17 and 2017/18, but with the Government issuing indicative grant figures through to 2019/20, overall savings of £60m need to be made. These financial pressures mean that the organisation faces a significant challenge to meet its aims and objectives. The savings and transformation plans that are being put in place are challenging and will result in a significant impact on services that we provide to the public. The major focus for us in the coming year is to:

- Refresh the One Organisational Plan for the period 2017–2020 in response to changes to the local government settlement and taking into account the diverse requirements of communities.

Governance Challenges for 2016/17 and beyond

- Ensure that there is effective and appropriate consultation and communication of change to all customers, stakeholders and staff.
- As part of the transformation programme, continue to provide clarity about our priorities based on an analysis of need and budget plans.
- Manage the impact of changes to services that we provide to the public and the effect this may have on partners, other authorities and the voluntary sector.
- Continue to monitor the implementation of savings plans and ensure that budgets are managed in a clear and prudent manner.
- Ensure that good governance, sound project and partnership management and standards of control are in place and adhered to during the transformation process to ensure that risks are managed and we achieve the best outcomes.

Impact of devolution, Public Sector reform agenda, national and local policy direction for Warwickshire on service delivery.

The growing devolution agenda and national policy is influencing our strategic thinking in how we deliver services including blue light services, adult social care, academies and children's services. We have a Customer and Transformation Board, chaired by the Strategic Director, Resources and include all Strategic Directors, which has oversight of organisational change and transformation activity across the Council.

In addition at a wider, regional level the West Midlands Combined Authority (WMCA) will have devolved powers from Central Government over transport, economic development and regeneration. Warwickshire has agreed to join as a non-constituent member which will enable us to participate in future negotiations over devolution deals that WMCA seeks with Central Government.

We will continue to monitor and respond to government proposals arising from the Government White Paper 'Educational Excellence Everywhere' and a report will be presented in due course to Cabinet outlining how a sustainable financial future for support for schools and pupil related services can be delivered.

These developments have the potential for fragmentation of public service delivery and result in a lack of clarity over overall direction, governance and accountability. We will continue to explore and engage in the debate around the implication of national policy direction on local public service delivery and what it may mean for Warwickshire.

Continuing pressure on Adult Social Services and Health

There continue to be a number of pressures that have a fundamental impact on the funding and provision of adult social care services in Warwickshire. Inflation and demographic pressures, combined with the impact of the national living wage, means that demand and costs for providing adult social care continue to rise. In addition market pressures on providers increases the risk that they either leave the market or that services provided fail to meet minimum statutory requirements.

Governance Challenges for 2016/17 and beyond

The Government has introduced the Better Care Fund which aims to encourage Local Government and the NHS to work closely together to help local areas plan and implement seamless health and social care services across England in line with the vision outlined in the NHS Five Year Forward View. This is funded through a local single pooled budget. We are working with partners in the NHS looking at how we combine and use our resources to work more closely together to help people get the support they need in the right place and at the right time. This programme of work is known locally as 'Warwickshire Cares: Better Together'.

During the next year we will continue to shape and commission our services and will have a focus on the following:

- A review of the "customer journey" for child and adult services which will review services from the customer perspective and improve processes with the customer in mind
- introduce a new approach for contract management allowing us to manage the market and spending in high risk areas
- continue to progress our approach to commissioning and improve our approach to managing contractor performance and reducing the risk of market failures
- review the assessment model for Social Care and Support customers to identify how assessments can be most effectively delivered in future
- model in detail the impact of the national living wage on expenditure and understand the impact on budgets

Children and Vulnerable Adults in our community - inability to take action to avoid abuse, injury or death

In light of high profile safeguarding cases at a national level, we cannot be complacent about protecting children and vulnerable adults from harm and providing appropriate services for children in need. Responding to ever increasing levels of referrals against the backdrop of financial austerity will require careful judgements to be made both in terms of managing our exposure to risk and the associated increase in costs.

We have established a Multi-Agency Safeguarding Hub (MASH) in partnership with Warwickshire Police, National Health Service (NHS) and other key partner agencies. This allows us to work more closely with our partners to provide a more co-ordinated and consistent response to safeguarding concerns about children, young people and adults. Services for children have become fully operational and we are working to integrate support for adults by September 2016.

Failure to maintain the security of personal or protected data held by the Council

Information security is a key issue for all public sector organisations in the light of well publicised data losses and cyber security incidents affecting many public bodies. A robust process for investigating incidents is in place and we continue to protect our systems and data of our staff and customers. We ensure that data is stored securely, legally and in accordance with Council policy. We have reviewed our information security guidance as a method of increasing overall awareness, and signposting staff to our array of more detailed advice and guidance in this arena. To improve awareness, and ensure that

Governance Challenges for 2016/17 and beyond

all members of staff understand their information security responsibilities, we have required staff to undertake e-learning and formally accept their responsibilities.

Data loss and network integrity remains an inherent risk for the Authority and we continue to place emphasis on improving awareness and practices in relation to information security and strengthening the security infrastructure of our networks. We will continue to review and develop our cyber security arrangements during the course of the next year.

The ability to secure economic growth in Warwickshire

We are a member of The Coventry and Warwickshire Local Enterprise Partnership (CWLEP) which is a key driver for creating a successful, thriving economy within Coventry and Warwickshire. CWLEP has secured further funding from the Governments Local Growth Fund for a number of projects that we are responsible for which will which provide investment in:

- New transport infrastructure which will improve connections with other cities and towns and tackle congestion on the area's roads.
- Driving innovation in advanced manufacturing and engineering through the provision of new R&D and business support facilities.
- Supporting businesses to flourish through the provision of effective business advice and support.
- Growing local skills and talent through investment in Further Education Colleges.

Over the next year we will contribute to the review of CWLEP's Strategic Economic Plan, implement projects under the Local Growth Fund that we are responsible for delivering and also identify any potential projects where funding can be sought from the European Structural and Investment Fund to ensure that Warwickshire continues to benefit from investment contributing to economic growth.

At a wider, regional level the West Midlands Combined Authority (WMCA) is being established with the challenge to create jobs, enhance skills, develop prosperity and drive economic growth. The Combined Authority currently will have devolved powers from Central Government over transport, economic development and regeneration and will allow individual councils to collate resources to work together. In addition the current WMCA devolution deal proposes a number of areas for further exploration in which we have an interest including the Midlands Engine project to secure wider transport investment and growth.

The Council has agreed to join WMCA as a non-constituent member with a view to negotiating the basis of an acceptable deal on which Warwickshire could become a constituent member. We will continue to contribute to discussions in relation to the Combined Authority and a further report will be presented to Council to determine whether or not the Council wishes to seek constituent membership.

Governance Challenges for 2016/17 and beyond

Inability to keep our communities safe from harm.

There are many challenges on the horizon nationally and locally for the services that we provide that keep our communities safe, particularly in child and adult safeguarding, the Fire and Rescue Service and highways maintenance, and we recognise that we need to become even more flexible if we are to meet our current and emerging challenges over the next four years. We are conscious that we need to achieve this during a period of austerity where we will be operating with a significantly reduced budget.

Child and adult safeguarding including the development of the MASH is addressed earlier in the section.

Warwickshire County Council is a Category One Responder as outlined in the Civil Contingencies Act 2004 and we have a statutory duty to have business continuity plans which ensure that critical services can continue in the event of an emergency or disruption and to fully recover all services as soon as possible. We have business continuity plans in place which have links to the Emergency Plan to allow us to respond to increased demand for services and ensure continuity in the delivery of critical services to the community during a civil emergency.

During the course of the next year we will have a focus on the following areas:

- Complete a review of countywide operational fire cover
- Develop a 2017-20 Integrated Risk Management Plan for the Fire Service
- Continue to review and test our business continuity and emergency plans.

6.   Certification

We propose over the coming year to take steps to address each of the above matters to further enhance our governance arrangements. We are satisfied that the issues we have identified are addressed by the detailed action plans included in each of the service business plans across the Council and the corporate risk register, and that the actions identified will address the need for improvements that were highlighted in our review of effectiveness. These are monitored and reported to members and Corporate Board as part of the corporate performance management framework. We will monitor their implementation and operation as part of our next annual review.

Signed: ……………………………………………   ………………………………………………
            Jim Graham   **Councillor Izzi Seccombe**
            Chief Executive   **Leader of the Council**

Date:

Audit and Standards Committee

23 June 2016

Internal Audit Strategy 2016/17

Recommendation(s)

The Committee:

1.   approves the proposed strategy, and

2.   notes that no changes are required to the Audit Charter.

1.0   Key Issues

1.1   The overall objective of internal audit is to provide an opinion on the overall adequacy and effectiveness of the council's control systems. To do this, audit work during the year needs to be planned to cover the significant risks facing the Council. Professional standards require this strategy/plan to be considered by the Audit & Standards Committee. Following extensive discussions with senior officers, a new plan has been prepared and is attached (**Appendix A)** for endorsement by the Committee.

1.2   As explained at previous meetings an Audit Charter is a requirement of the Public Sector Internal Audit Standards and sets out the purpose, authority and responsibility of internal audit. It has to be formally agreed and approved by the organisation and periodically reviewed. The Charter establishes the internal audit activity's position within the organisation, including the nature of the service's functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities. In accordance with best practice the existing Audit Charter, which was considered by the Audit Committee in June 2015, has been reviewed to ensure it remains appropriate and no changes are proposed at this time.

2.0   Options and Proposal

2.1   Not applicable

3.0   Timescales associated with the decision and next steps

3.1   Not applicable

Background papers

None

	Name	Contact Information
Report Author	Garry Rollason	01926 412680
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The report was circulated to the following members prior to publication:

Local Member(s): Not applicable
Other members: Not applicable

Appendix A

Internal Audit Strategy 2016/17

"Providing assurance on the management of risks"

Warwickshire County Council

Working for Warwickshire

Internal Audit Strategy

"Providing assurance on the management of risks"

This document sets outs the Internal Audit Strategy 2016/2017 for Warwickshire County Council[1]. These services are provided by the Risk and Assurance Service of the Resources Group. This document complements the Audit Charter and the Council's Risk Management Framework.
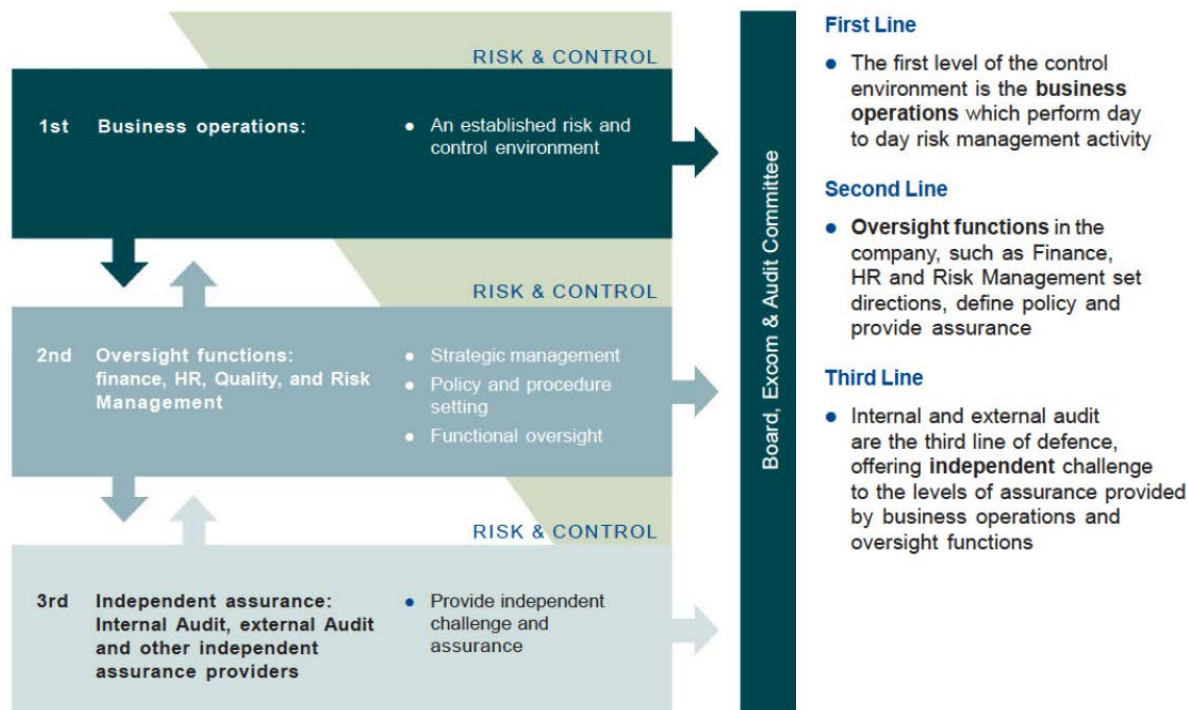

Services

All organisations face risks in every aspect of their work: policy making, decision taking, action and implementation, regulation and spending, and making the most of their opportunities. The different types of risk are varied and commonly include financial risks, IT risks, supply chain failure, physical risks to people, and damage to the organisation's reputation.

The key to the Council's success is to manage these risks effectively. Risk management is the continuous process of planning, organising, leading and overseeing the activities of the Council to effectively manage the potential opportunities and threats that flow from uncertainty. It is an integral part of good management and is therefore at the heart of what all managers do. It is essential to the Council's ability to deliver good quality, cost effective services.

Different parts and levels of an organisation play different roles in managing risk, and the interplay between them determines how effective the organisation as a whole is in dealing with risk. The Institute of Internal Auditors uses a three lines of defence model to explain internal audit's unique role in providing assurance about the controls in place to manage risk:

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[1] Historically assurance services have been known as internal audit services

First Line
- The first level of the control environment is the **business operations** which perform day to day risk management activity

Second Line
- **Oversight functions** in the company, such as Finance, HR and Risk Management set directions, define policy and provide assurance

Third Line
- Internal and external audit are the third line of defence, offering **independent** challenge to the levels of assurance provided by business operations and oversight functions

The management of risks is the responsibility of every manager. Sitting outside the processes of the first two lines of defence, audit's main roles are to ensure that the first two lines of defence are operating effectively and advise how they could be improved. Blurring audits role by undertaking roles that are properly the responsibility of the first or second line of defence should be avoided.

The role of the Internal Audit Service is therefore to support managers by providing the following services:

Assurance

We develop and then deliver a programme of internal audits to provide independent assurance to senior management and members that significant risks are being addressed. To do this, we will evaluate the quality of risk management processes, systems of financial and management control and governance processes and report this directly and independently to the most senior level of management. In accordance with regulatory requirements most individual assurance assignments are undertaken using the risk based systems audit approach and are not usually designed to identify potential frauds.

We give an opinion on how much assurance systems give that significant risks are addressed. We use four categories of opinion: Full, Substantial, Moderate and Limited assurance.

A report, incorporating an agreed action plan, will usually be issued for every audit. The results of audits are also reported to the Council's Audit and Standards Committee. To assist managers in addressing areas for improvement,

recommendations are classified as: Fundamental, Significant and Merits Attention.

Advice

The Council will face major changes in systems and procedures over the coming years and we are able to provide advice on the control implications of these changes. The service will act as a critical friend. Particular emphasis is put on project governance and process design.

Our knowledge of the management of risk enables us to *challenge* current practice, *champion* best practice and be a *catalyst* for improvement, so that the Council as a whole achieves its strategic objectives.

So, for example if a line manager is concerned about a particular area of his responsibility, working with us could help to identify improvements. Or perhaps a major new project is being undertaken - we can help to ensure that project risks are clearly identified and that controls are put in place to manage them.

Challenge

Champion

Catalyst for improvement

It is more constructive for us to advise on design of processes during the currency of a change project rather than identify problems after the event when often it is too late to make a difference - timely advice adds more value than untimely criticism.

Irregularities

As a publicly funded organisation the Council must be able to demonstrate the proper use of public funds. It is the responsibility of every manager to have systems in place to prevent and detect irregularities. However, if an irregularity is identified or suspected managers are required to notify the Service and will need professional support to investigate the matter.

All significant investigations will be undertaken by the Service but more minor matters will be referred back to the service manager to progress with support from the audit team. The decision on which cases will be investigated will be made by the Chief Risk and Assurance Manager.

Counter fraud

Although responsibility for operating sound controls and detecting fraud is the responsibility of management the Service has a key supporting role. In particular, we are responsible for maintaining and publicising the Council's anti-fraud policy and managing the roll out of the Council's fraud e-awareness package. The Service also manages the Council's participation in the National Fraud Initiative.

Context

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 state that a local

authority is responsible for ensuring that its financial and operational management is effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk. The Regulations require accounting systems to include measures to ensure that risk is appropriately managed.

The requirement for an internal audit function is also contained in the Regulations which require the Authority to:

> "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

The Council has delegated its responsibilities for internal audit to the Strategic Director of Resources.

Definition of Internal Auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The key word in the definition is assurance, the role of audit is not to identify or investigate alleged irregularities it is to provide assurance to the organisation (managers, heads of services and the Audit and Standards committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. We help the Council achieve its objectives by providing assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Authority's control environment which feeds into the Annual Governance Statement.

Vision, purpose and values

A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

As a modern effective risk and assurance service we
- Act as a catalyst for improvement at the heart of the organisation
- Influence and promote the ethics, behaviour and standards of the organisation
- Develop a risk aware culture that enables customers to make informed decisions

- Are forward looking
- Continually improve the quality of our services

A key driver of this strategy is the need to meet all our customer's needs. Our customers will continue to be affected by a variety of local and national issues:

- Funding pressures faced by local government;
- Increased growth in partnerships, for example with health and the private sector;
- Ever increasing use of technology to deliver services;
- Flexible working arrangements to make more effective use of accommodation;
- The introduction of new ways for customers and the public to access services; and
- Pressure to reduce the cost of administrative / support functions while improving quality / effectiveness.

These, and other developments, will mean increased pressure on the service to review existing systems and provide advice on new and complex initiatives within reducing resources. To respond to the demands on us we will:
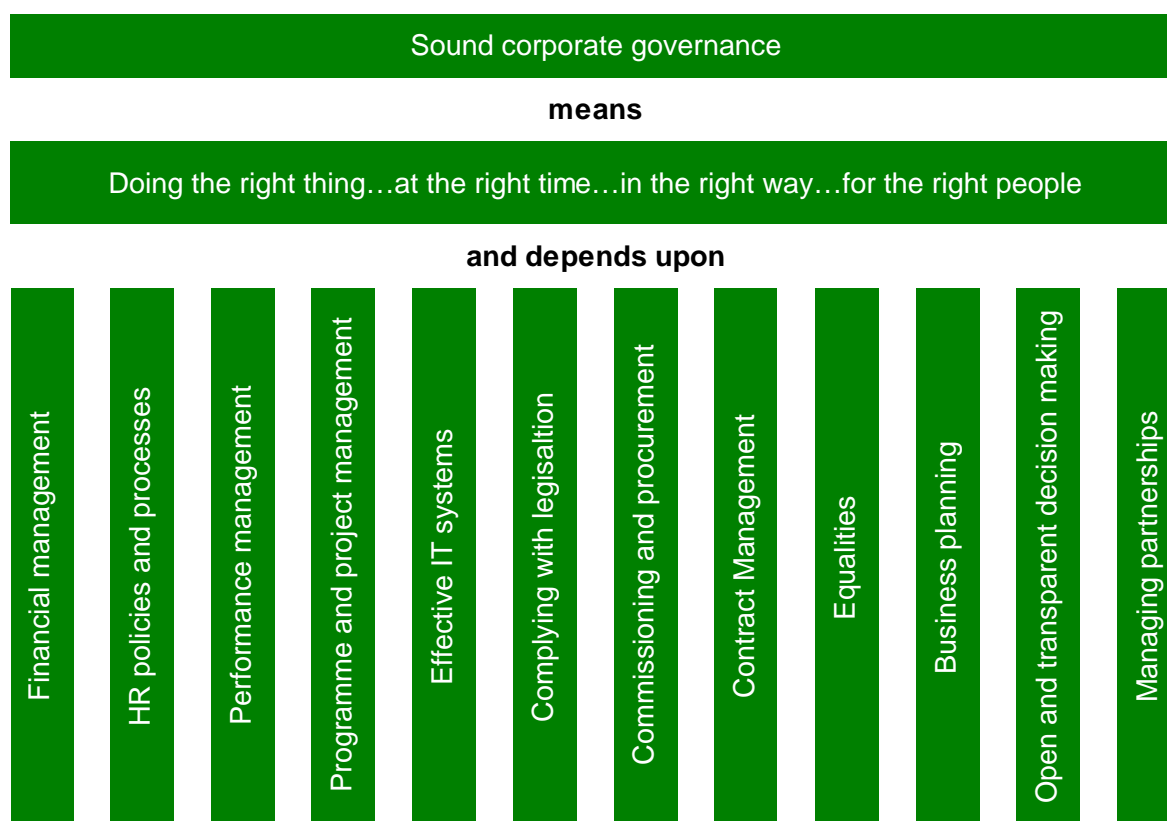
- Continue to develop our staff to ensure we are fully equipped to respond to our customer's demands.
- Continue to invest in modern technology to improve efficiency and effectiveness.
- Add value and make best use of our resources by focussing on key risks facing our customers.
- Increasingly work in partnership with clients to improve controls and performance generally. We must add value and help deliver innovations in service delivery.
- Continue to buy in specialist help – particularly in IT.

By embracing these challenges we will be a vital component of the Council's success.

Our approach for 2016 / 2017

As in previous years the plan covers one year. This is now accepted best professional practice. The focus of our work continues to be primarily on the high risk areas and change programmes and key corporate processes. Audits of this nature are a more effective use of limited resources and are key to providing the appropriate assurance to the Council that its overall governance arrangements remain effective.

Figure 1: Key corporate processes

Sound corporate governance

means

Doing the right thing…at the right time…in the right way…for the right people

and depends upon

Financial management	HR policies and processes	Performance management	Programme and project management	Effective IT systems	Complying with legisaltion	Commissioning and procurement	Contract Management	Equalities	Business planning	Open and transparent decision making	Managing partnerships

The Council is facing unprecedented financial pressures and the Risk and Assurance Service has had to play its part in making savings. The nature of the service means that savings can realistically only be achieved by cutting staff especially as we have already invested in IT systems to improve quality and consistency and achieve efficiencies. The resource available for county council work in 2016/17 is expected to be the equivalent of about 6 staff which means that we have to focus on the really key issues.

To make the best use of our limited resources we have sought to align our work with the Council's risk base again this year, by liaising extensively with senior management to identify areas for review where management require assurance that systems of internal control are adequate and operating effectively. The results of these discussions are supplemented by reviewing entries in the corporate risk register, work on key financial systems and audits of topics not previously audited or audited some time ago. In addition, the head of audit regularly attends various professional networking meetings which highlight wider the issues affecting local government internal audit which need to be reflected in the programme of work. The risk of potential fraud forms part of the risk assessment process and national surveys and intelligence on risk areas is taken into account along with data on actual frauds at Warwickshire.

The upward trend in suggestions / requests for audit continues. The number of suggestions / requests for audit work received has significantly exceeded the resources available and a number of suggestions, roughly equating to about 600 days of work, cannot therefore be accommodated within the resources available.

To minimise duplication and make the best use of limited resources we aim to rely on work undertaken by other assurance providers rather than undertake our own detailed checks. For example if the health and safety function undertakes compliance checks we will evaluate their approach and if it is sound then future audit work on the topics covered can be limited. The internal audit service therefore builds upon the work on other assurance providers.

Similarly, although our roles and responsibilities are different the service continues to liaise closely with the Authority's external auditors.

The majority of assurance services will be provided directly by the Risk and Assurance Service. External parties may be employed to provide support in specialist areas for example the provision of IT audit expertise. External support may also be called upon to cope with peaks in demand.

There will inevitably be circumstances where the Chief Risk and Assurance Manager will have to amend the programme, e.g. when risks change or a specific project becomes a matter of priority. There may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Throughout the year the plan will be updated to ensure it remains relevant. In year changes to the plan to reflect such changes are accepted as best practice. This plan, therefore, is not set in stone. It will need revising as circumstances change.

A detailed list of topics is shown in Figure 2 and key points to note are:

- **Advice**

    The Council is continuing to undergo significant changes so provision has been included to allow us to respond to requests for advice during the year. It is anticipated that the major project requiring an audit input will be the continuing implementation of the new social care system. In addition to the specific tasks outlined an allocation of time has been reserved for providing advice on general issues that might arise during the year.

- **Delivery of organisational savings**

    A key risk on the Strategic Risk Register and a common theme arising from discussions with senior managers are the challenges presented by the savings targets. Financial and performance management will therefore feature in many of this year's audits.

- **Value for money**

    Although internal auditors consider value for money issues where relevant during risk based audits, specific value for money audits are not usually undertaken because such work would adversely impact the core assurance and advice work. However, auditors will continue to highlight any VFM issues that arise during general audits and will pay particular attention to identifying opportunities to reduce over-control, and streamline processes.

- **Counter fraud**

  The Council is fortunate in not having a large number of irregularities but provision has been included in the plan for any investigations that are required based on past experience of the number and complexity of cases. Also included in this category is the work arising from the Authority's mandatory participation in the National Fraud Initiative.

Quality Assurance and Improvement Programme

The PSIAS require the Chief Risk and Assurance Manager to develop and maintain a quality assurance and improvement programme (QAIP) covering all aspects of the internal audit activity.

The QAIP includes internal assessments, periodic self-assessments and external assessments and is not only designed to assess the efficiency and effectiveness of Internal Audits, but also to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The Service operates a quality management system compliant with the internationally accepted ISO 9001 standard. As part of this we have an Audit Manual based on accepted professional practice which as well being compliant with PSIAS builds quality into every stage of the audit process. A summary of the QAIP is shown in Figure 3.
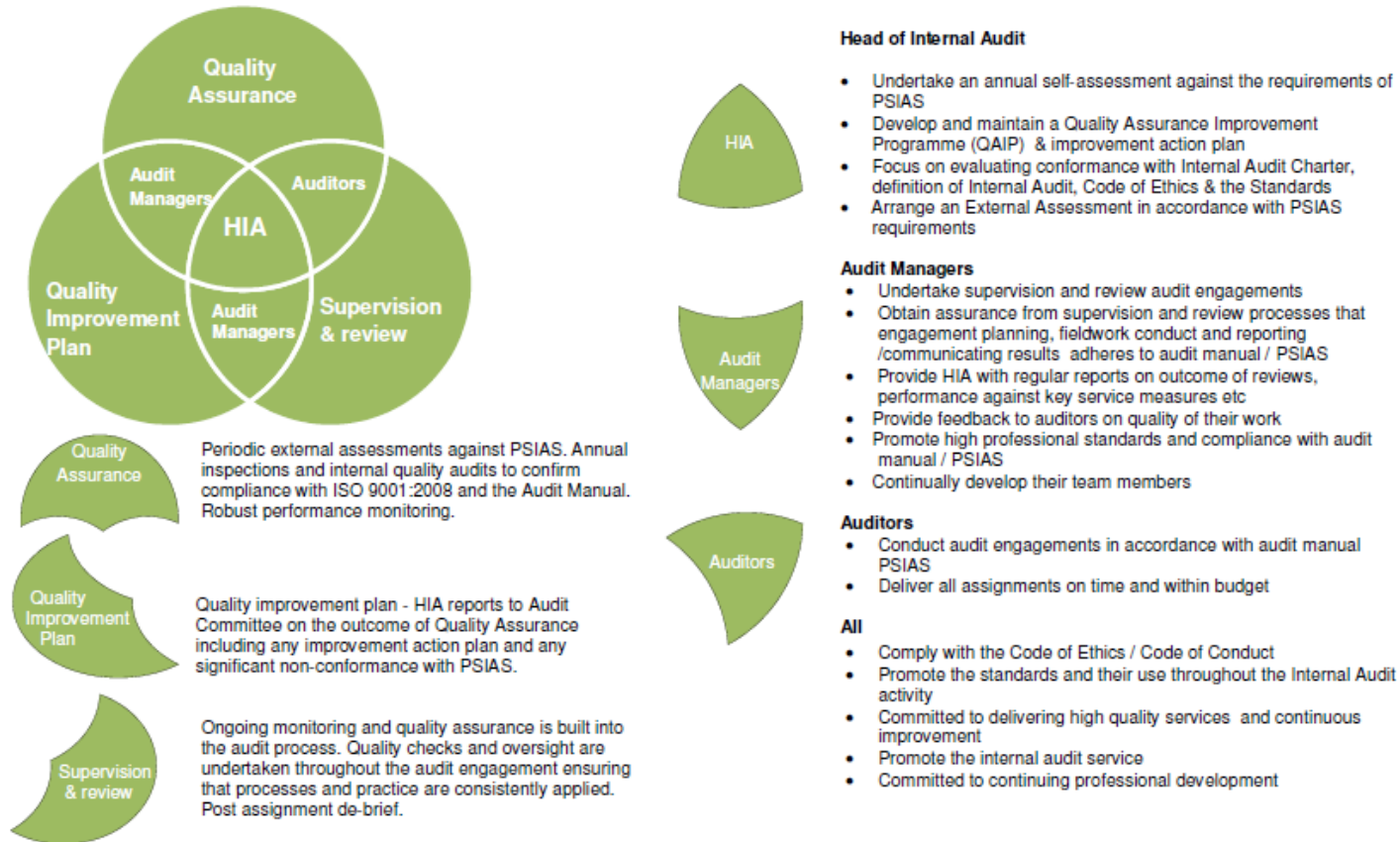
Figure 2: Workplan 2016/2017

Business Group	Topic	Assurance	Investigation	Counter fraud	Certification	Advice
Fire	Transport	✓				
	Capital Grant				✓	
People	MASH	✓				
	Commissioning	✓				
	Contract Management	✓				
	Mosaic	✓				✓
	Child Protection	✓				
	SEND	✓				
	Permanence arrangements	✓				
	Section 17 Payments	✓				
	Adoption Reform Grant				✓	
	Missing Children process	✓				
	Domiciliary Care	✓				
	Reviewing	✓				
	HIPI - Payments to Home Carers	✓				✓
Communities	Contract Management	✓				
	Local transport capital grant				✓	
	Bus operators grant				✓	
	Home to School Transport	✓				
	Pinch Point Funding				✓	
	S 106 agreements	✓				
	Development Income	✓				
	Priority families				✓	
	Flood damaged roads				✓	
	Trading Standards Grant				✓	
Schools	Payments to staff	✓				
	School audits	✓				
Resources	Financial Systems					✓
	Financial support arrangements - Fire	✓				

Business Group	Topic	Assurance	Investigation	Counter fraud	Certification	Advice
Corporate	Capital accounting / programme	✓				
	Customer Service Centre / Warwickshire Direct	✓				
	HR Management - Fire	✓				
	Absence management	✓				
	Vetting	✓				
	Information Security protocols	✓				
	Mobile Devices & Endpoint Security	✓				
	Service Desk Operation & Management	✓				
	Website Security	✓				
	Application Security	✓				
	Zendesk	✓				
	Programme and project management	✓				
	Performance management	✓				
	Corporate Consultation process	✓				
	NFI Download	✓				
	NFI Investigations		✓			
	Counter Fraud			✓		
	AGS	✓				
	Members Club				✓	
	Lord Lieutenants Fund				✓	
	Justices Wine and Plate Fund				✓	
	Staff club				✓	
	Fraud Partnership			✓		
Pension Fund	Governance and strategy	✓				

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Figure 3: QAIP

Warwickshire County Council – Quality Assurance and Improvement Programme

Head of Internal Audit

- Undertake an annual self-assessment against the requirements of PSIAS
- Develop and maintain a Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment in accordance with PSIAS requirements

Audit Managers

- Undertake supervision and review audit engagements
- Obtain assurance from supervision and review processes that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit manual / PSIAS
- Provide HIA with regular reports on outcome of reviews, performance against key service measures etc
- Provide feedback to auditors on quality of their work
- Promote high professional standards and compliance with audit manual / PSIAS
- Continually develop their team members

Auditors

- Conduct audit engagements in accordance with audit manual PSIAS
- Deliver all assignments on time and within budget

All

- Comply with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Committed to delivering high quality services and continuous improvement
- Promote the internal audit service
- Committed to continuing professional development

Quality Assurance
Periodic external assessments against PSIAS. Annual inspections and internal quality audits to confirm compliance with ISO 9001:2008 and the Audit Manual. Robust performance monitoring.

Quality Improvement Plan
Quality improvement plan - HIA reports to Audit Committee on the outcome of Quality Assurance including any improvement action plan and any significant non-conformance with PSIAS.

Supervision & review
Ongoing monitoring and quality assurance is built into the audit process. Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied. Post assignment de-brief.

G Rollason
Chief Risk and Assurance Manager
1 April 2016

Audit & Standards Committee

23 June 2016

External Auditors Report – Audit & Standards Committee Update

Recommendation

The Audit and Standards Committee is asked to consider and make any comments on the attached External Auditors Update Report.

1.   Purpose of the Report

1.1.   The purpose of this report is for our external auditors to provide a report to inform the Council's Audit and Standards Committee of their progress in delivering our responsibilities as our external auditors. The report also includes a summary of emerging national issues and developments and a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

2.   Background Papers

None

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Local Members consulted
Not applicable
Other Members consulted
None

Audit and Standards Committee Progress and Update Report for Warwickshire County Council
Year ended 31 March 2016

14 June 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Contents

Introduction

This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Standards Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Better Together: Building a successful joint venture company; http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/

- Knowing the Ropes – Audit Committee; Effectiveness Review ; www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/

- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 14 June 2016

Progress against plan
On track

Opinion and VfM conclusion
Plan to give before deadline of 30 September 2016

Outputs delivered
Fee letter, Progress Reports, delivered to plan

2015/16 work	Completed	Comments
Fee Letter We issued the 'Planned fee letter for 2015/16 in April 2015.	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit and Accounts committee.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements. We also inform you of any subsequent changes to our audit approach.	March 2016	This was presented to the Audit and Standards Committee in March.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing	January - March 2016	Interim audit findings for the work completed to date are included in this report (pages 7 - 9).

Progress at 13 May 2016

2015/16 work	Completed	Comments
Final accounts audit Including: • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts	*Planned for June – July 2016*	We are planning to complete our audit fieldwork by 18 July as part of the transition to the earlier closedown and audit cycle that is required from 2018. To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and discussed the implications of emerging accounting matters with finance staff.
Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	*Field work in March – July , formal conclusion reported by 30 September 2016*	We have set out the result of our risk assessment and the proposed focus of our work at pages 10 and 11. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.
Other activities We provide a range of workshops, along with network events for members and publications to support the Council.	Ongoing	Further details of the publications that may be of interest to the Council are set out from page 10.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised below.

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have also considered the outcome of internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the arrangements for internal audit contribute to an effective internal control environment. The Council has not yet had a formal independent assessment undertaken of Internal Audit's compliance with the Public Sector Internal Audit Standards which were first published in April 2013 and updated in April 2016.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses in these overall controls which are likely to adversely impact on the Council's financial statements
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely employee remuneration and operating expenses.	Our work has identified no material weaknesses in the design or operation of key financial systems which are likely to adversely impact on the Council's financial statements

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table to the right.

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements

- illustrative significant risks identified and communicated by the NAO in its Supporting Information

- any other evidence which we consider necessary to conclude on your arrangements

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Sustainable resource deployment The Council has a "One Organisation plan 2014-2018" in place which identified the need to make significant savings (£92m) but our assessment in 2014/15 was that it was on track to deliver. However, the spending review announcement in December 2015 has led to further reductions in funding which has led the Council to identify the need to revisit this plan and reassess levels of savings required for 2016/17 and beyond – potentially £10m further savings needed in 2016/17.	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	We propose to meet with key officers to discuss key strategic challenges and the Council's proposed response and consider reports to members to: • review the outturn position for 15/16 and the budget plans for 16/17 and 17/18 • review the Council's progress in updating its medium term financial strategy .
Working with partners and other third parties In March 2016. NHS England announced plans for area-based Sustainability and Transformation Plans (STPs) aimed at driving improvements in health and care outcomes between 2016 and 2021. One of the areas announced for these plans covers Coventry and Warwickshire. The Council will need to engage with other health and local government bodies within the Coventry and Warwickshire STP area to ensure robust plans are developed and delivered.	This links to the Council's arrangements for working with third parties to deliver strategic priorities	We propose to meet with key officers and consider reports to members to review progress made in development and delivery of Sustainability and Transformation Plans for Coventry and Warwickshire.
Working with partners and other third parties The West Midland Combined Authority (WMCA) has been set up within the region in order to help rebalance the West Midlands economy, closing the £16bn output gap and leading the Midlands Engine. In order to do this the WMCA needs to work together across geographic boundaries and sectors. In May 2016 the Council have took the decision to join WMCA as a non-constituent member. with a view to negotiating the basis of an acceptable deal on which Warwickshire could become a constituent member.	This links to the Council's arrangements for working with third parties to deliver strategic priorities	We propose to meet with key officers and consider reports to members to review progress made in development its membership of the West Midland Combined Authority and the extent to which it has been able to assess that this will support delivery of its strategic priorities.

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income

- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils

- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: **http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/**

Grant Thornton
An instinct for growth

ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company

Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment

- illustrates the financial benefits that can accrue from fighting fraud more effectively

- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement

- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan

- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

LGPS Pooling of Assets

LGC Briefing

Local Government Pension Scheme Funds had to submit draft plans to form six investment pools each worth £25bn by 19 February 2016.

The LGPS scheme responded eagerly with eight separate pooling proposal , two of which did not meet the size requirement; one from the eight Welsh funds, and another from the Local Pensions Partnership (LPP), comprising the London Pension Fund Authority, Lancashire and Berkshire.

Local government minister Marcus Jones has now written to each pension fund's committee chair to give them his opinion of the plans and instructions for improvement before final proposals must be submitted on 15 July.

Mr Jones told the Welsh group that although it does not meet the £25bn requirement, weighing in at just £12.3bn, he will overlook this in light of Wales' "unique culture, politics and regulations".

However, the minister told the Local Pensions Partnership that it must work towards the £25bn. A spokesman for the group was unperturbed by the lack of partners available now that the rest of the funds appear to have chosen their pools.

Other groups have not made "hard and fast commitments" yet and that the partnership continues "to have positive discussions with a number of other LGPS funds and pools" about joining up.

Mr Jones also used his letters to clarify some of the technical questions about pooling. in particular "the structure, standards and systems required for an entity regulated by the FCA provides substantial assurance" and that therefore he "would expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff".

Peter Wallach, head of the Merseyside fund, which is part of the Pensions Powerhouse group with Greater Manchester and West Yorkshire, said this has given the group pause for thought.

Mr Jones also cleared up questions about whether a fund could join more than one pool, following a request from a fund to be allowed to invest 65% of its assets with the London CIV and the remainder elsewhere. The minister confirmed that this will not be allowed

In all of the letters seen by LGC, Mr Jones instructed the pools to provide more detail on their plans to invest in infrastructure and how they will address the requirements the government has set out to report on costs and performance.

Events

Events

29 June 2016 Local Pensions Board Conference

CIPFA are now taking bookings for Local Pensions Board Conference. This event is aimed at all members, including chairs, of local pension boards.

This seminar will enable pension board members to network with pension board members from other funds and hear from the key players who will affect board agendas in the year ahead. This will include the Pensions Regulator, the LGPS's own regulator, the DCLG, and the Scheme Advisory Board. We will also focus on the financial viability of the scheme and consider the challenging problem of managing data. There will be interactive sessions to facilitate discussion and networking as well as plenty of networking time during the refreshment breaks.

Attendees will benefit by:
• Hearing the views on progress from the Pensions Regulator.
• Discussing the latest developments on scheme reform.
• Participation in a debate on how local boards can operate effectively.
• Consider the implications of Section 13 and the role of GAD.
• Understand more about scheme data and employer challenges

5 July 2016 CIPFA Pensions Network Summer Workshops

The pace of reform in the Local Government Pension Scheme (LGPS) appears relentless, with asset pooling guidance, new investment regulations and local pension boards all adding to the 'usual' pressures of triennial valuations and employer relations. To cover many of these issues CIPFA have put together a programme with a range of expert speakers. This event is aimed at both investment and administration officers involved in the LGPS and we will use the experiences of network colleagues to develop best practice around good governance

Audit & Standards Committee

23 June 2016

County Council Reserves

Recommendation

The Committee is asked to consider and comment on the County Council's reserves position and approach outlined in this report.
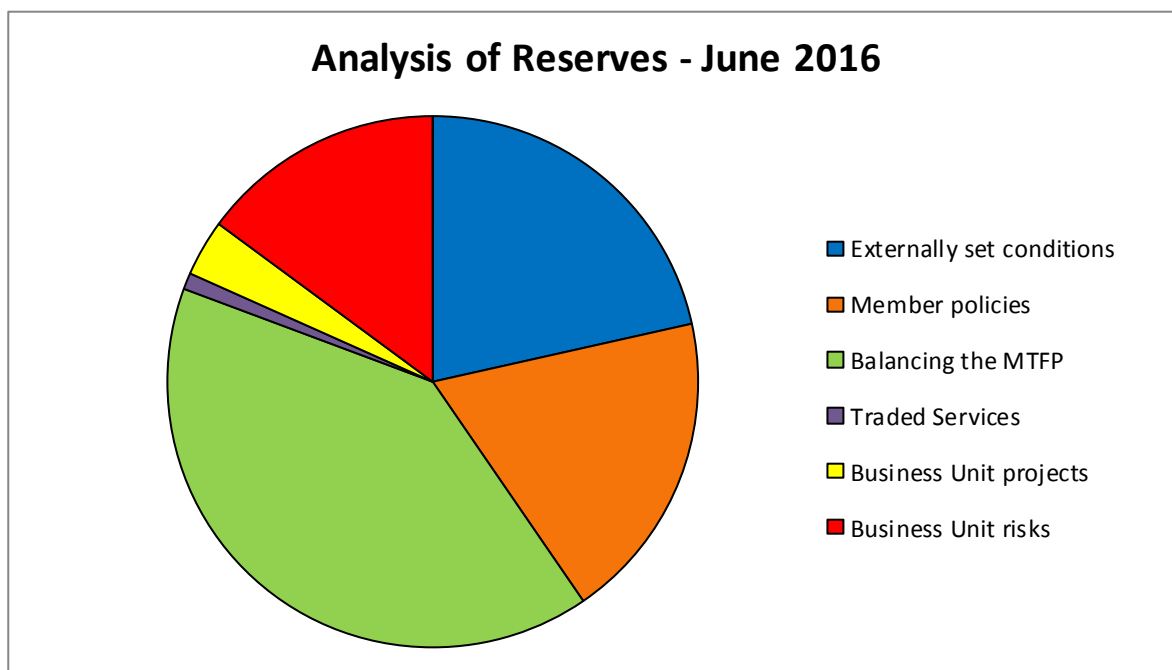
1.   Purpose of the Report

1.1.   The Committee has requested a report on the County Council's reserves, with a particular focus on their adequacy to meet the level of financial uncertainty facing the authority and the difficult decisions about the future of services that will be needed to deliver a balanced budget into the future as financial austerity continues.

1.2.   This report provides background information on the level of reserves the authority holds, why they are held and the financial control arrangements in place to ensure the authority's reserves are effectively managed.

2.   Summary Reserves Position

2.1.   At 31 March 2016 the authority had £132.6 million in reserves. Decisions made in the budget in February about the phasing of spend and savings over the four years of the 2014-18 One Organisational Plan and the use of reserves to support spending in 2016/17 mean that as at the end of June 2016 our unallocated reserves are £110.2 million.

2.2.	The £110.2 million reserves we hold can be broken down into five broad categories. These categories and their relative size are shown in the chart below. The remainder of this section considers each of the categories in turn.

Analysis of Reserves - June 2016

Legend:
- ■ Externally set conditions
- ■ Member policies
- ■ Balancing the MTFP
- ■ Traded Services
- ■ Business Unit projects
- ■ Business Unit risks

### 2.3.	Reserves with Externally Set Conditions

The £23.7 million of reserves in this category (22%) relates to funding received from third parties with specific conditions attached. As a result the funding cannot be used for any other purpose. Services request drawdowns from these reserves as and when they plan to incur eligible expenditure. The biggest element of this, at £18.4 million, are the balances held by schools.

### 2.4.	Reserves to Support and Deliver Member Policies

At £20.9 million, 18% of reserves relate to funding set aside as a result of specific decisions by Members. The £20.9 million can be further sub-divided into two broad categories:

- Specific Allocations in Budget Resolutions - £4.6 million
  Where, as part of approving the budget, Elected Members allocate funding for a specific purpose, e.g. the 0-5 Strategy or the £2 million allocation over the 2014-18 period for skills delivery to support economic growth, then any funding unused at the end of one financial year is put in a separate reserve to ensure it is used in subsequent years for the same purpose. Much of this funding is committed in advance over the medium term through making multi-year contractual commitments.
- Phasing of Volatile Spend - £16.3 million
  Some of the costs of that have to be met by the County Council are unpredictable and, by their nature, vary between years e.g. there are only

local elections every four years. This category of reserves allows these costs to be managed over time without undermining the One Organisational Plan and associated Medium Term Financial Plan. All of these reserves have been set up as the result of reports to Elected Members is previous years where it was agreed that a specific reserve to manage the uncertainty was the best approach. The £16.3 million mainly comprises of two reserves: the Insurance Fund (£8.5 million) which provides for a level of self-insurance and provides funding when excesses are called on various corporate insurance policies and the Interest Rate Volatility Reserve (£5.4 million) which allows fluctuations in interest rates as they impact on both the interest we can earn and the interest we pay on any borrowing to be managed over the medium to long term.

2.5. Balancing the Medium Term Financial Plan

At £44.3 million (40%) this is the largest single category of reserves and is comprised of three elements:

- General Reserves - £19.5 million
  £16.5 million of the General Reserves is the current minimum amount specified by the Head of Finance to cover in year financial risks not covered by other reserves. Any use of this funding would be required to be replaced as part of the subsequent year's budget. The balance of £3.0 million is available to support the budget in future years.

- Medium Term Contingency - £12.1 million
  The Medium Term Contingency is the remaining one-off funding to manage any timing differences between the delivery of savings and spending need across the four years of the current One Organisational Plan. At the start of the 2014-18 One Organisational Plan this Contingency was £20.5 million, meaning £8.4 million has been used to date. This is the only source of funding if savings are not delivered on time and as one-off funding can only be used to defer any decision. A further £2.5 million is already planned to be used as part of balancing the last year of the 2014-18 Plan and a minimum of £5.0 million is held to cover timing differences that emerge in-year. As with the minimum level of General Reserves any use of this funding would be required to be replaced as part of the subsequent year's budget.

- Service Realignment Fund - £12.7 million
  The Service Realignment Fund meets the costs of redundancies/early retirements that arise as a result of the reduction in staff numbers that are a consequence of the delivery of the approved savings plan. Without this funding any costs would have to be met from within service budgets, increasing the level of savings to be identified.

2.6. Traded Services Working Capital Reserves
Traded Services are those parts of the organisation set up to operate as financially self-sufficient businesses. They do not receive any corporate funding allocations, such as inflation, and are required to self-fund any capital investment. As a result they need to set aside funding to manage trading conditions and fund service improvements. Their reserves of £1.1 million (1%) have been built up from surpluses generated in previous years.

2.7. Reserves Set Aside by Business Units for Specific Projects
Business Units have set aside £3.8 million (4% of total reserves) from underspends in previous years to deliver named projects. Most relate to the upfront investment needed to deliver the approved savings plan, such as the replacements of the adult social care information systems and the HR Management system. The remainder are for initiatives such as Kenilworth Station and the extension of the Family Nurse Partnership.

2.8. Business Units Management of Risk
The final category of reserves is the funding of £16.4 million (15% of total reserves) set aside by Business Units to manage the service specific risks they face. Many of these risks, particularly around the implementation of the Care Act and adult social care more generally, are of such material significance to the authority that they would need to be provided for within General Reserves if the reserve was not available to manage them at Business Unit level.

3.   Management of Reserves

3.1.   Holding reserves to manage our financial risks, to deal with unexpected events and to meet the costs of projects and initiatives that extend over one year is fundamental to our financial resilience and the overall sustainability of the organisation. It is acknowledged that the current financial climate, the need to maintain and manage those reserves is more important than ever.

3.2.   It is recognised that all reserves funding is one-off and cannot be used to replace the need to deliver savings or fund permanent increases in spending. As we move through the current and next One Organisational Plans there will inevitably be ups-and-downs in the level of reserves as progress on the actual delivery of the Plan will not fully align to the timeframes originally envisaged. It is for this reason the level of reserves is actively managed.

3.3.   We have a reserves policy and protocols in place that covers the guidelines within which the authority operates, establishing the monitoring and reporting requirements on reserves. (To ensure our approach and controls remain

relevant and appropriate, they are currently under review and a refreshed version will be brought forward to Elected Members for consideration as part of approving the 2017-20 One Organisational Plan.)

3.4. The main features of the current reserves protocol are:
- Reserves can only be established with the approval of the Head of Finance, in his capacity as the authority's Section 151 Officer and must meet the criteria for a reserve as laid down in Cipfa's recommended accounting practice.
- At the end of the year any variance from the budget (i.e. an over or under spend) will in the first instance form part of the Head of Service/Group reserves. This will enable the complete financial picture of each Business Unit/Group to be seen.
- Any overdrawn reserves are the first call on next year's budget. This means that effectively the overdrawn reserve is repaid at the start of the year from the Business Unit's/Groups budget, unless otherwise agreed by Elected Members.
- All Groups and Heads of Service are authorised to draw down on their reserves, accumulated from previous year's savings, subject to notifying the Head of Finance. Approval for this will be sought through the inclusion of the request within the quarterly One Organisational Plan progress report to Cabinet.

3.5. The arrangements for those reserves classified as 'Balancing the Medium Term Financial Plan' are slightly different. These are held at a corporate level. These reserves consist of General Reserves, the Medium Term Contingency and the Service Realignment Fund. The Service Realignment Fund has its own separate policy, agreed by Elected Members when the reserve was created at the start of the 2011-2014 Medium Term Financial Plan.

3.6. For the remaining two reserves, General Reserves and the Medium Term Contingency, the level of the reserve is determined to be consistent with the overall financial environment and the key financial risks faced by the County Council. These risks are assessed at least annually and take account of circumstances at the time of assessment and the Statement of Internal Control. Any decision on the use of General Reserves and the Medium Term Contingency can only be taken by Full Council.

3.7. Any General Reserves or Medium Term Contingency reserves in excess of the minimum assessed amount can in the first instance be used to fund one-off or time-limited expenditure and secondly to support recurring revenue expenditure over the medium term, subject to sustainability.

3.8.   These reserves are monitored and reported to Elected Members five times a year, as part of the budget setting process, through quarterly budget monitoring process and as part of closedown. When reviewing the level and proposed use of these reserves, Council notes the advice of the Head of Finance.

3.9.   A statement in the budget report shows the estimated opening general reserve balance, any anticipated additions or withdrawals, and the estimated end of year balances. Any reserves that are to be used to fund ongoing expenditure should be stated as such and how a permanent source of funding will be identified and approved.

3.10.   Should the level of General Reserves of the Medium Term Contingency be lower than recommended in the Head of Finance's risk assessment then the shortfall becomes the first call on the new financial year's revenue budget.

4.   Background Papers

None

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Local Members consulted
Not applicable

Other Members consulted
None

Audit and Standards Committee
Work Programme 2016/17

Item	Lead Officer	Date of next report
Audit plan 2016/17	Garry Rollason	June 2016
Internal Audit Annual Report 2015/16	Garry Rollason	June 2016
Annual Governance Statement 2015/16	Garry Rollason	June 2016
Update Report on Council's Reserves	Virginia Rennie	June 2016
Qtr 4 2015/16 Update Report (EXEMPT)	Garry Rollason	June 2016
Adult Social Care Update	Beate Wagner	September 2016
External Auditors Annual Governance Report 2015/2016	Virginia Rennie	September 2016
Statement of Accounts 2015/2016	Virginia Rennie	September 2016
2015/16 Statement of Accounts - Pension Fund	Mathew Dawson	September 2016
External Auditors Annual Governance Statement - Pension Fund 2015-2016	Mathew Dawson	September 2016

Last Updated 9th June 2016