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## **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

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Meeting to be held in Civic Hall, Leeds, LS1 1UR on  
Friday, 30th September, 2011  
at 2.00 pm

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### **MEMBERSHIP**

#### **Councillors**

G Driver (Chair)	C Campbell	W Hyde	J Elliott
P Grahame	G Kirkland	C Fox	
N Taggart			
A Lowe			
T Hanley			
G Hussain			

#### **Co-opted Member**

G Tollefson  
(Chair of Standards Committee)

# A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p><b>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</b></p> <p>To consider any appeals in accordance with Procedure Rule 25 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 25, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p><b>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p>1 To highlight reports or appendices which officers have identified as containing exempt information, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.</p> <p>2 To consider whether or not to accept the officers recommendation in respect of the above information.</p> <p>3 If so, to formally pass the following resolution:-</p> <p><b>RESOLVED</b> – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-</p>	

Item No	Ward	Item Not Open		Page No
3			<p><b>LATE ITEMS</b></p> <p>To identify items which have been admitted to the agenda by the Chair for consideration.</p> <p>(The special circumstances shall be specified in the minutes)</p>	
4			<p><b>DECLARATION OF INTERESTS</b></p> <p>To declare any personal / prejudicial interests for the purpose of Section 81(3) if the Local Government Act 2000 and paragraphs 8 to 12 of the Members Code of Conduct.</p>	
5			<p><b>MINUTES OF THE PREVIOUS MEETING</b></p> <p>To confirm as a correct record the minutes held on 18<sup>th</sup> July 2011.</p>	1 - 6
6			<p><b>REPORT ON THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL LETTER 2010/11</b></p> <p>To receive a report of the Chief Officer Customer Services highlighting the Council's performance with regards to Ombudsman cases for the period April 2010 to March 2011.</p>	7 - 26
7			<p><b>APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS 2010/11</b></p> <p>To receive a report of the Director of Resources detailing and requesting approval of the Council's final audited Statement of Accounts for 2010/11.</p>	27 - 62
8			<p><b>RISK MANAGEMENT POLICY REVISION</b></p> <p>To receive a report of the Director of Resources presenting a revised draft Risk Management Policy for 2011 for Corporate Governance and Audit Committee's consideration prior to its approval.</p>	63 - 70

Item No	Ward	Item Not Open		Page No
9			<p data-bbox="676 181 1091 215"><b>INTERNAL AUDIT REPORT</b></p> <p data-bbox="676 255 1390 439">To receive a report of the Deputy Chief Executive and the Director of Resources providing a summary of internal audit activity for the period April – September 2011 highlighting the incidence of any significant control failings or weaknesses.</p>	71 - 94
10			<p data-bbox="676 544 1259 577"><b>ANNUAL GOVERNANCE STATEMENT</b></p> <p data-bbox="676 618 1358 723">To receive a report of the Director of Resources presenting to the Committee the Annual Governance Statement (AGS) for approval.</p>	95 - 104
11			<p data-bbox="676 790 895 824"><b>BRIBERY ACT</b></p> <p data-bbox="676 864 1398 969">To receive a report of the Director of Resources informing the Committee of the contents of the Act and the implications for the Council.</p>	105 - 116
12			<p data-bbox="676 1126 1007 1160"><b>WORK PROGRAMME</b></p> <p data-bbox="676 1200 1406 1305">To receive a report of the Director of Resources notifying and inviting comment from the Committee upon the work programme.</p>	117 - 122

# Agenda Item 5

## Corporate Governance and Audit Committee

Monday, 18th July, 2011

**PRESENT:** Councillor G Driver in the Chair  
Councillors N Taggart, C Campbell,  
G Kirkland, A Lowe, J Elliott, W Hyde,  
T Hanley, C Fox and G Hussain

**Co-optee** G Tollefson

Apologies Councillor P Grahame

### **15 Appeals Against Refusal of Inspection of Documents**

There were no appeals against the refusal of inspection of documents.

### **16 Exempt Information - Possible Exclusion of the Press and Public**

There were no resolutions to exclude the public.

### **17 Late Items**

There were no late items submitted to the agenda for consideration.

### **18 Declaration of Interests**

Councillor Driver declared a personal interest in Agenda Item 12 (Minute 27 refers) as a board member of Aire Valley Homes ALMO. Councillor Lowe declared a personal interest in Agenda Item 12 (Minute 27 refers) as a board member of West North West ALMO. Councillor Fox declared a personal interest in Agenda Item 8 (Minute 23 refers) as a trustee of the West Yorkshire Pension Fund.

### **19 Apologies for absence**

Apologies for absence were received from Councillor P Grahame.

### **20 Minutes of the Previous Meeting**

The minutes of the Corporate Governance and Audit Committee meeting held on 15<sup>th</sup> June 2011 were approved as a correct record.

## **21 Matters Arising**

The Chief Officer (Audit and Risk) updated the Committee on the Communities and Local Government (CLG) consultation process on the future of Local Public Audit which was discussed at the meeting of the Committee held on 15<sup>th</sup> June 2011 (Minute 7. refers). The Committee were informed that the Audit Commission have now published their response to the consultation, which can be obtained on request. Leeds City Council's response to the consultation was circulated to Members of the Committee and has been forwarded to CLG. The next stage is for CLG to co-ordinate a summary of responses which will be circulated when completed.

In relation to the Leeds response Councillor Driver circulated an article from the Local Government Chronicle entitled 'Members matter for an effective audit committee'.

## **22 KPMG Interim Audit Report**

The Principal Finance Manager presented a report of the Director of Resources which identified the findings from KPMG's interim audit work in relation to the 2010/11 financial statements and the initial work undertaken to support their 2010/11 Value for Money conclusion. The report concluded that procedures and system controls are generally sound, full reliance can be placed on the work of Internal Audit and that the Council understands the scale of the financial challenge and is responding appropriately to the risks.

Steve Clarke and Sam Bradford from KPMG were also in attendance and presented the findings of the interim report in detail to the Committee.

Members discussed the report in detail specifically questioning the amount of overtime paid to Council staff, how this arose, the authorisation process for overtime payments and whether in all cases it had been genuinely claimed. Members also considered ways of reducing spend on overtime.

Members also highlighted and discussed the overspend in Children's Services and Adult Social Care Services with the KPMG representatives and that this is an annually occurring problem. KPMG informed the Committee that the Council was trying to take better control over this but that it remains high on KPMG's agenda.

The Chair of the Committee congratulated Council staff for their positive efforts which have resulted in improvements on previous years reports.

**RESOLVED** – The Committee resolved to note the positive assurances provided by KPMG on the organisational procedures and system controls which underpin the Council's financial statements.

(Councillor Hanley entered the meeting during discussion of this item at 2.15pm.)

## **23 2010/11 Statement of Accounts**

The Principal Finance Manager presented a report of the Director of Resources on the 2010/11 Statement of Accounts for Leeds City Council prior to the accounts being made available for public inspection on the 25<sup>th</sup> July 2011. The report provided a summary analysis of the accounts to aid understanding of the main financial issues.

The Statement of Accounts have been certified as correct by the Council's Responsible Financial Officer.

Members discussed the report in detail and questioned figures featured in the accounts specifically around employee remuneration and organisations which are subsidiaries of the Council.

Members also raised the issue of the pension deficit at the Council and the change from pensions being based on the retail price index to the consumer price index and the effect that this would have on Council staff.

The Committee were given details on the pension deficit and its effects on the accounts and an explanation of the factors that determine whether an organisation is a subsidiary organisation for the purposes of the accounts.

**RESOLVED** – The Committee resolved to:

- (a) note the 2010/11 Statement of Accounts as certified by the responsible financial officer; and
- (b) agree to release the accounts for public inspection.

(Councillor Taggart entered the meeting at 2:35pm during the discussion of this item)

## **24 Annual Risk Management Report**

The Principal Risk Management Officer presented a report of the Director of Resources. The report provided the committee with an overview of the risk management work conducted by the Risk Management Unit (RMU) over the last year in support of the Council's Risk Management Framework.

Members considered the report and raised questions surrounding the roll out of risk management software and how this was progressing in the current

financial situation, expressed concern at the continuing delay in its implementation.

Members also reviewed the Corporate Risk Map attached at Appendix 1 to the report and questioned the reasons why certain risks were deemed higher and of greater impact to the City of Leeds than others.

City flooding was also raised as a major risk that could have a devastating impact on thousands of people living in the city centre. and that detailed action plans should be in place to mitigate the impact of a severe flood in Leeds.

**RESOLVED** – The Committee resolved to note the assurances given on corporate risk management, financial risk management, project risk management, and integration of risk into performance management.

(Councillors Kirkland and Campbell left the meeting at 2.55pm during the discussion of this item.)

## **25 Annual Monitoring of Key and Major Decisions**

The Head of Governance Services presented an annual report of the Director of Resources in respect of the Council's decision making arrangements. The report also provided details of the results of a follow up audit undertaken by Internal Audit in 2010/11 with regards to decision making.

Members discussed the report and raised questions specifically on how often a decision is changed after it has been 'called in'. Members also discussed on what grounds a decision is made exempt from Call In.

Members considered the impact partnership working might have on the existing executive decision-making framework, particularly the extent to which Member oversight of decisions might be diluted.

**RESOLVED** – The Committee resolved to note the assurances provided and note the areas for further improvement.

## **26 Localism Bill - Outcome of initial consultation**

The Head of Governance Services presented a report of the City Solicitor. The report provided an update on the proposals in the Localism Bill about ethical issues, and to outline the results of the first round of consultation with various stakeholders on the future of the ethical framework in Leeds.

**RESOLVED** – The Committee resolved to note the timetable for further consultation contained in Appendix 2 to the report.



## **27 Council Housing Assurance Framework**

The Housing Policy and Monitoring Manager presented a report of the Chief Officer for Statutory Housing. The report provided assurance that the delegated housing management service to the ALMOs and BITMO are appropriately managed.

**RESOLVED** – The Committee resolved to note the assurances provided that the management of council housing in the City is being monitored by the Housing Partnerships team based within Housing Services.

## **28 Procurement & Commissioning Efficiency Savings**

The Chief Procurement Officer presented his report informing Members of the actions and measures in place within the Council to achieve the procurement savings required by the 2011/12 budget. The report significantly related to procurement and commissioning efficiency savings.

Members discussed the report in detail and welcomed the work done by central procurement to identify large savings in contracts already in place and by extending contracts with improved terms for the Council. Members questioned officers on why this had not been done previously and for how long contracts were being extended in the context that extending contracts could potentially prohibit the Council receiving quotes for goods and services from the wider market.

Members noted that in obtaining best value, it was right that both quality and price should be considered in all procurement exercises.

**RESOLVED** – The Committee resolved to:

- (a) note the actions in place to create and measure the procurement and commissioning efficiency savings;
- (b) note the governance arrangements in place to give assurance that the procurement efficiency savings will be monitored, recorded and achieved; and
- (c) agree to a further progress report in due course.

(Councillor Lowe left the meeting at 3.34 pm during the discussion of this item.)

## **29 Work Programme**

The Director of Resources submitted a report notifying Members of the work programme.

The Committee reviewed its forthcoming work programme.

**RESOLVED** – The Committee resolved to note the work programme.

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## Report of the Chief Officer, Customer Services

## Report to the Corporate Governance & Audit Committee

Date: 30<sup>th</sup> September 2011

## Subject: Report on the Local Government Ombudsman's Annual Letter 2010/11

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. This report provides comment and feedback for the Committee on the Local Government Ombudsman's Annual Letter for 2010/11.
2. The Annual Letter differs in content from previous years in that it does not provide feedback on the Ombudsman's view of the council's performance levels but does highlight four of the Local Settlements the council received during 2010/11. **See paragraph 3.2 and Appendix 2** of this report.
3. This report also brings together information and statistical data collated by the Corporate Customer Relations Manager with regards to the council's performance on Ombudsman cases received and dealt with during 2010/11. **See 3.9 – 3.29**
4. The Annual Letter for 2010/11 confirmed that for the third year in a row the council did not received any cases of Maladministration resulting in a public report. However, since the receipt of the Annual Letter, the council has received two public reports (in July 2011) with a finding of Maladministration, both reports were considered by the Executive Board on 7<sup>th</sup> September 2011. Brief details of the cases are given within this report, **see paragraphs 3.37 – 3.43.**

### Recommendations

1. Members are asked to consider the issues raised in Ombudsman's Annual Letter and the further contextual information provided.

## 1 Purpose of this report

- 1.1 To discuss the Local Government Ombudsman's Annual Letter a copy of which can be found at the end of this report
- 1.2 To highlight the council's performance with regards to Ombudsman cases for the period April 2010 to March 2011.
- 1.3 To provide confirmation to the Corporate Governance and Audit Committee in its role of overseeing the council's Corporate Governance arrangements , as to the Councils overall good performance in relation to complaint handling including cases progressing to the Ombudsman.

## 2 Background information

- 2.1 Leeds City Council operates a two stage complaints process. At the first stage complaints are dealt with by a service manager from the service complained about. The manager investigates the issues raised, looks to resolve them and responds to the customer within the relevant timescale.
- 2.2 Should the customer remain unhappy after this stage, they can take their complaints to the second stage of the complaints process. At the second stage a more senior officer will investigate and respond to the customers' concerns. The officer will look at how the original complaint was dealt with and also respond to any further issues that the customer may have raised.
- 2.3 There is no further right of appeal to the council following completion of an investigation at stage 2 of our complaints policy. Any customer that progresses to stage 2 of our complaints policy will be advised in our response to them of their right to take their complaint to the Local Government Ombudsman's office should they be dissatisfied with the outcome.
- 2.4 In 2010/11 Leeds received 7,870 stage 1 complaints with 529 (6.78%) progressed to the second stage of our complaints process. Of those only 165 (2.09%) customer complained to the Local Government Ombudsman.
- 2.5 The Local Government Ombudsman provides an individual Annual Letter for every council each year and has done so since 2003/4. The first Annual Letter presented to the Corporate Governance & Audit Committee was for 2004/5. In previous years the Annual Letter has provided the council with valuable feedback as to the Ombudsman's view of our performance with regards to cases they have dealt with during the previous year. In the most recent Annual Letter for 2010/11 there has been a significant change in style in that no comment on our performance is provided.
- 2.6 When investigating complaints against a council the Local Government Ombudsman is looking for possible issues of maladministration and if found, can decide to issue a public report against the council.
- 2.7 For Members convenience, a copy of the Annual Letter for 2010/11 can be found at the end of this report. **Appendix 1.**

### 3 Main issues

- 3.1 This report brings together performance information with regards to all Ombudsman cases received and dealt with by the council during 2010/11.
- 3.2 The Annual Letter highlights four of the Local Settlement cases that the council dealt with during 2010/11. An update on these cases showing what actions the council has taken to ensure that the issues do not re-occur is provided at **Appendix 2** of this report.
- 3.3 As a council, we have a well embedded complaints policy which has been in place for a number of years. Year on year our performance levels on responding to customer complaints within timescale improves and for the fourth year in a row we saw a reduction in the number of cases received from the Ombudsman.
- 3.4 During 2010/11 a review of the complaints process was commissioned by the Assistant Chief Executive. A key outcome of the review was to encourage officers to look to resolve more complaints at the earliest stage in the process . The review put in place a more person centred focus with regards to complaint handling with personal contact between the investigator and the customers being key.
- 3.5 Services also now look to resolve certain issues raised by customers as complaints by contacting the customer by phone or face to face. Where possible, complaints are sought to be resolved in a less formal manner and in the first quarter of 2011/12, 134 issues were dealt with in this way.
- 3.6 To ensure robust checks on performance levels are in place, the Corporate Customer Relations Manager produces a performance report for the Customer Strategy Board every quarter detailing performance levels across the council with regards to compliments, complaints and Ombudsman cases.
- 3.7 In June 2011 the councils' own Annual Report on compliments, complaints and Local Government Ombudsman cases was presented to the Customer Strategy Board. Within the council's Annual Report all directors are required to provide feedback on any trends in complaints identified over the year and what actions were taken to address these. The directorates also provide feedback on their Local Settlements as part of the council's ongoing lessons learnt
- 3.8 The quarterly and annual reporting on complaint performance to the Customer Strategy Board is a key mechanism for ensuring that that the overall complaints process continues to be fit for purpose, is being effectively communicated, complied with and is regularly monitored .

### 3.9 Performance on Ombudsman Complaints 2010/11.

**Table 1 - Ombudsman - Complaints Received during 2010/11**

Service Areas	10/11	
Adult Services	9	
Children's' Services	3	
City Development	33	
Corporate Governance	6	
Early Years & Youth Services	0	
Education Leeds	32	
Environment & Neighbourhoods	26	
Policy, Planning & Improvement	0	
Resources	6	
Aire Valley Homes	12	
Belle Isle Tenancy Management	0	
East North East Homes	22	
West North West Homes	16	
<b>TOTAL</b>	<b>165</b>	

3.10 For the fourth year in a row we have seen a reduction in the number of Ombudsman cases received by the council.

2007/8	183 cases
2008/9	170 cases
2009/10	168 cases
2010/11	165 cases

3.11 Over the last year the Ombudsman's office started approaching the council more often in the form of an informal "enquiry", asking to look at our stage 1 & 2 responses or provide them with information updates on our dealings with a customer. Once this is received the Ombudsman Investigator then decides whether to open a full case or proceed straight to a closure letter.

3.12 Although this is beneficial in some cases as we do not then receive a full case for investigation and response, the timescales for responding to enquiries is usually shorter than the time given to respond to full cases. Whilst in the majority of cases the information needed is easily obtainable, in some cases detailed updates have been requested with short lead times.

3.13 As we have seen an increase in this type of approach by the Ombudsman's office, formal recording has now commenced on all enquiries received from April 2011. Should the Committee require it, commentary can be provided in next years report.

3.14 The Local Government Ombudsman has reported in the Annual Letter for 2010/11 that Leeds achieved an average response time of 26.1 calendar days against the target they have set of 28 calendar days. Although this is a higher number of average days that 2009/10 which was 21 calendar days, our focus remains the quality of the response, rather than the speed.

3.15 Our performance levels are positively impacted by the council's performance on Education Admission Appeal cases. These cases unlike all others received must be responded to within 14 calendar days. Education Leeds and Governance Services had an overall average response time of 9 calendar days on these cases over last year. The average performance for all other service areas was within timescale but ranged closer to the 28 calendar days allowed.

**Table 2 - Ombudsman – Case Decisions**

Period	No Mal-Admin.	LGO Discretion	Out of Jurisdiction	Local Settlement	Mal-Admin.	Total
2005/06	136	38	18	84	5	281
	48%	14%	6%	30%	2%	
2006/07	91	40	27	86	1	245
	37%	16%	11%	35%	1%	
2007/08	74	37	23	68	1	203
	36%	18%	11%	33%	1%	
2008/09	80	31	28	64	0	203
	39%	15%	14%	32%	0%	
2009/10	84	31	17	44	0	176
	48%	18%	10%	25%	0%	
2010/11	64	34	10	47	0	155
	41%	22%	7%	30%	0%	

3.16 The number of decisions received (155) in 2010/11 differs to the number of cases received (165) as some decisions received during 2010/11 were for cases that were received by the council in 2009/10. Detailed below are the current decision types along with an explanation as to what each decision means for the council.

No Maladministration	No or insufficient evidence of maladministration found.
LGO Discretion:	The Ombudsman has decided not to pursue the complaint.
Outside Jurisdiction:	Outside the Ombudsman's jurisdiction eg. a right of appeal exists.
Local Settlement:	Fault was found. Action agreed with the authority and accepted by the Ombudsman.
Maladministration:	Public Report - maladministration causing injustice.

- 3.17 On a positive note, cases closed with a finding of Ombudsman Discretion increased by 4% against 2009/10. However cases closed as Local Settlements also increased by 5% and findings of No Maladministration decreased by 7%.
- 3.18 Analysis was carried out on decisions reported by a number of other authorities (Sample authorities used were Birmingham, Bristol, Liverpool, Manchester, Newcastle and Sheffield) for 2010/11. Of the 7 authorities in the sample, 5 reported an increase of between 5% and 14% in the number of Local Settlements received, with Leeds reporting the lowest percentage increase.
- 3.19 Findings of No Maladministration and Ombudsman Discretion are findings of no fault against the council. Along with the 7% of cases with the finding of Outside Jurisdiction, this equates to 70% of all cases taken to the Ombudsman where no fault was found against the council.
- 3.20 Of the 165 cases received for 2010/11, 88 of them arrived already determined and closed by the Ombudsman, with no need for the council to carry out a full investigation. The remaining 77 cases were allocated out to services for full investigation and response.
- 3.21 For the third year in a row the Annual Letter received from the Ombudsman contained no cases of Maladministration proceeding to a public report. However given that this report helps to inform the Council's Annual Governance Statement for 2011, it is felt appropriate to bring the attention of the committee to two cases which were issued to the council on the 1<sup>st</sup> July 2011, i.e. after the receipt of the Ombudsman's Annual Letter. Both cases have been considered by the Executive Board at their meeting in September and are likely to be reported in the Ombudsman's Annual Letter for 2011/12. Brief details regarding these cases can be found at 3.37 - 3.43 of this report.

**Table 3 - Ombudsman – Financial Settlements**

Service Areas	Financial Settlement
Adult Services	£1,600
Childrens Services	£600
City Development	£17,650
Corporate Governance	0.00
Early Years & Youth Services	0.00
Education Leeds	£500
Environment & Neighbourhoods	£2,991.42
Policy, Planning & Improvement	0.00
Resources	0.00
Aire Valley Homes	0.00
Belle Isle Tenancy Management	0.00
East North East Homes	£1,740
West North West Homes	£400
<b>TOTAL</b>	<b>£25,481.42</b>



3.22 In total 47 of the 155 Ombudsman decisions received had a finding of Local Settlement. Local Settlements are decisions discontinuing an investigation because the Ombudsman is happy that an acceptable Local Settlement has been obtained between the council and the customer. These decisions relate to cases where there has been administrative fault and a remedy is agreed by the council during the course of an investigation. Should an acceptable settlement not be agreed, or the fault found to be severe, a finding of Maladministration would be made and a public report issued.

3.23 Detailed below are number of Local Settlement along with total financial settlements made by the Council with regards to Ombudsman cases since 2005.

05/06 = 84 cases	£69,000.00
06/07 = 85 cases	£35,471.00
07/08 = 68 cases	£42,000.00
08/09 = 65 cases	£67,866.75
09/10 = 44 cases	£16,575.35
10/11 = 47 cases	£25,481.42

3.24 Of the 47 Local Settlement decisions received for 2010/11 the highest single payment was £12,642.00 and was made by City Development. The settlement concerned poor notes on a case file leading to a lack of consistency when different case officers considered a planning application. This case was highlighted to the services management team and steps were taken to ensure that more effective handover of cases was put in place. **Appendix 2** provides further information on this case.

3.25 To benchmark our performance the Corporate Customer Relations Manager looked at the number of cases received and the decisions made for other authorities. The analysis took place against Birmingham, Bristol, Liverpool, Manchester, Newcastle and Sheffield and showed that Leeds had the highest percentage reduction in full cases received for last year, the smallest increase in Local Settlements (only Liverpool had a decrease and Manchester remained the same as 2009/10) and the smallest reduction in findings of no fault.

3.26 The information provided in this report along with the analysis carried out against other authorities demonstrates that Leeds continues its commitment to finding the right resolution to customer complaints. In 2010/11 Leeds received 7,870 formal stage 1 complaints with only 529 (6.78%) progressed to the second stage of our complaints process. Of those only 165 (2.09%) customer complaints were taken up by the Ombudsman with fault only being found in 47 (0.59%) of those cases.

**Table 4 – Premature Cases Re-submitted**

Service Areas	Premature Complaints Resubmitted	Local Settlement Decision
Adult Services	1	
Childrens Services	0	
City Development	2	1
Corporate Governance	2	
Early Years & Youth Services	0	
Education Leeds	0	
Environment & Neighbourhoods	0	
Policy, Planning & Improvement	0	
Resources	1	
Aire Valley Homes	3	
Belle Isle Tenancy Management	0	
East North East Homes	4	
West North West Homes	3	
	16	1

3.27 The council received 78 cases from the Ombudsman last year that had been to them prematurely. These are cases where the customer approached the Ombudsman before they had been through the council’s own complaints process. Such cases are returned to the council so that we have a chance to resolve the issue via our complaints process.

3.28 A small number of these customers (16) were not happy with the outcome of our investigations and again approached the Ombudsman asking them to look at their case. Of the 16 cases only 1 was returned to us with a finding against the council of Local Settlement, all other cases were closed with decisions agreeing with the council’s findings.

3.29 The case in question is detailed within the Ombudsman’s Annual Letter and is the issue regarding a market trader – full details can be found at **Appendix 2**.

### **3.30 Developments detailed in the Annual Letter**

3.31 The Annual Letter provided updates on developments within the Local Government Ombudsman’s office. Detailed below is a summary and information as to the impacts they have had in Leeds.

#### **3.32 *Statement of Reason***

During the past year the Local Government Ombudsman changed the content of the decision notices they send to the council. They now provide a statement of reasons to both the customer who has complained and to the council. These statements are very useful to both the customer and the council in summarizing the complaint and showing the Ombudsman’s reasoning behind their decisions.

### 3.33 *Decision Descriptions*

In April 2011 the Local Government Ombudsman introduced a new IT system for their case management and also revised the descriptions of their decisions (eg: Local Settlement, Ombudsman Discretion). The new decision descriptions are intended to give a more precise representation of the actual work done and the outcome of the complaint for the customer and Councils. Although we have started to see some of these decisions already in Leeds, they will not be reported upon to the Committee until the next Annual Letter for 2011/12.

### 3.34 *Extended powers*

During 2010/11 the Local Government Ombudsman's powers were extended to deal with complaints in two significant areas the first one being around Adult Social Care.

3.35 From October 2010 all complaints connected to Adult Social Care services came under the Local Government Ombudsman's jurisdiction. The greater use of direct payments and personalised budgets means that it is important for the Ombudsman to be able to deal with such complaints irrespective of whether the council has arranged the care for the customer or not. The new powers gives customers who are self funded the same access to the Ombudsman as those who have assistance from the council. So far, none of the complaints received from the Ombudsman relate to these new extended powers.

3.36 The second area of change is regarding the Ombudsman starting to deal with complaints about schools. The Apprenticeships, Skills, Children & Learning Act 2009 introduced powers for the Ombudsman to deal with complaints about schools by pupils or their parents. This was to be introduced in phases and currently applies in 14 council areas. Leeds is not one of the pilot areas and is therefore not currently impacted by this change. However the Education Bill currently before Parliament proposes to rescind this new jurisdiction from July 2012.

## **Public Reports**

3.37 Two Public Reports were received from the Local Government Ombudsman in July 2011. As they were received after 31<sup>st</sup> March 2011, they will be reported on in the Ombudsman's Annual Letter for 2011/12.

3.38 The first case was received by the council in November 2008 and a response provided to the Ombudsman's office in December 2008. After dealing with and responding to a number of follow up enquiries from the Ombudsman, the council was advised in July 2009 that the case was being considered for public report.

3.39 The second case was received in November 2009 and the Ombudsman's office received a response from the council in December 2009. As above, a number of follow up enquiries were dealt with and the council was notified in August 2010 that this case was also being considered for a Public Report.

3.40 Case one concerned a 14 year old child, who has complex needs including hearing loss, poor sight, learning difficulties and a range of physical and medical needs. Case two concerned a 16 year old looked after child in long term foster care, who has a number of learning difficulties.

- 3.41 Child 1's complaint details the failure to meet the provision in the child's statement of Special Educational Needs (SEN) and failure to provide appropriate respite care. Child 2's complaint details the failure to meet the provision in the child's statement of SEN and failure to provide specialist professional support when he was interviewed by Police and incurred a final warning.
- 3.42 The Ombudsman concludes in both cases that the council should offer an apology, financial recompense for lack of provision and time and trouble and also extra specialist educational support. In child 2's case there are also remedies to enable his successful transition into independent adult life.
- 3.43 The council accepted the Ombudsman's findings and is implementing the remedies. A paper supplying details of all actions around the issues raised in the public reports was presented to the Executive Board on 7<sup>th</sup> September.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 As this report is providing the Committee with information on past performance with regards to Ombudsman cases, no public, Ward Member or Councillor consultation or engagement has been sought.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Local Government Ombudsman has not highlighted any issues regarding Equality, Diversity, Cohesion or integration in the Annual Letter for 2010/11.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The Local Government Ombudsman has not raised any issues that would impact on council priorities or city priorities.

### **4.4 Resources and Value for Money**

- 4.4.1 Complaints are free feedback from our customers as to what we could or should do better. Any officer within the council who has service specialist knowledge can and will be called upon to investigate and respond to customer complaints as part of their daily duties. In doing so, if they identify and implement service improvements, this ensures that we provide a better service to all future user.
- 4.4.2 When investigating a complaint, if there is fault, the earlier it is identified and addressed, the more cost effective the process is. With regards to Ombudsman cases, as a council we have a focus on learning from our Local Settlement cases as this is where fault has been found after the council has already investigated the issue. This in itself has a resource implication as we should have resolved the issue earlier but it also has a financial implication as this is where financial settlements are imposed. All cases of Local settlement are reported to the Customer Strategy Board to ensure that lessons are learnt corporately.

4.4.3 In this era of reduced budgets it is in the council's interest to look at reducing the number of Local Settlement cases and in turn the financial remedies that can accompany them.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 As this report is providing an update on past performance relating to Ombudsman cases dealt with during 2010/11, it does not have any legal implications, none of the information enclosed is deemed to be sensitive or requesting decision going forward and therefore raises no issues for access to information or call in.

#### **4.6 Risk Management**

4.6.1 As this report is providing an update on past performance relating to Ombudsman cases dealt with during 2010/11, there are no significant risks identified by this report.

### **5 Conclusions**

5.1 In previous years the Annual Letter has provided the council with valuable feedback as to the Ombudsman's view on our performance with regards to cases that they have dealt with during the previous year. In the most recent Annual Letter for 2010/11 there has been a significant change in content in that no comment on our performance is provided but instead four cases are highlighted where fault was found against the council and Local Settlements agreed. This report includes the Council's response to the issues raised in the four cases which in turn demonstrate that Council has responded appropriately

5.2 This report has described the general arrangements in place for responding to complaints made by the public and has also described how in practice the Council both proactively seeks to resolve customer complaints at an early stage and also learn lessons from the issues raised through complaints. Whilst this report shows good performance in this respect, the Corporate Customer Relations Manager remains mindful of the current economic climate, the impact this may have on customer complaints and the need to continue to encourage services to resolve customer complaints at an early stage in the process with increased personal contact – not just for the customer's benefit but to also reduce the financial impact on council services.

### **6 Recommendations**

6.1 Members are asked to consider the issues raised in Ombudsman's Annual Letter and the further contextual information provided.

### **7 Background documents**

7.1 The Annual Compliments & Complaints Report for 2010/11 - presented to the Customer Strategy Board on 29<sup>th</sup> June 2010 – Author - Wendy Allinson – Corporate Customer Relations Manager.

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24 June 2011

Mr T Riordan  
Chief Executive  
Leeds City Council  
Ground Floor West Gate  
6 Grace Street  
LEEDS LS1 2RP

Dear Mr Riordan

### **Annual Review Letter**

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ending 31 March 2011. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number that the Advice Team forwarded to my office and decisions made on complaints about your council. Not all complaints are decided in the same year that they are received. This means that the number of complaints received and the number decided will be different.

The statistics also show the time taken by your authority to respond to written enquiries and the average response times by type of authority.

The law allows me to discontinue enquiries and I will often do so when a council agrees to remedy the injustice caused to the person who has complained. Those decisions are described as local settlements. Last year there were 46 local settlements. Four of these raised issues that I think it is appropriate to draw to the Council's attention.

1. Issues about waste collection that are well known to the Council and in the City caused 13 residents to complain. In addition to dealing with these complaints, one of my investigators met with a senior manager from the service to understand how the Council was managing the situation. One of the residents is disabled and unable to walk very far. He had experienced problems for two years with missed collections and refuse bags not being collected. Although he had contacted the Council almost weekly the problems continued and he had to pay commercial traders to remove his refuse.

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**Anne Seex**  
Local Government Ombudsman  
**Michael King**  
Deputy Ombudsman

**Advice Team: 0300 061 0614**

In the summer of 2010 the Council suggested that he should become part of the 'wheel out' scheme whereby he would have a wheelie bin collected and returned to his property at each collection. By the spring of this year the bin had only been collected twice and each time it had not been returned to his property but left in the road. Collecting the bin and pulling it up steps was difficult for the resident and left him exhausted.

Officers agreed that a manager would visit to apologise in person and explain how the Council would ensure that the bin was collected and returned to the property, and to pay £500 in recognition of the difficulties caused. They also undertook to review what had happened over the previous two years and identify what had gone wrong.

Given the recent well publicised difficulties with waste collection and its duties under the Equality Act the Council may wish to satisfy itself that systems are now in place to identify any individual problems that are repeated and to take swift and effective action.

2. A planning applicant complained to me about being given incorrect planning advice and not being told of highway safety objections to his planning applications. My investigator found that relevant comments and opinions from a highways officer were placed on an area file. The applicant applied for planning permission in February 2008 and in March 2008 the Highways Development section objected on safety grounds as did a neighbour who provided a copy of one of the comments previously made by a highways officer. From April 2008 to November 2008 there were various discussions between the planning officer and the applicant about the proposed development and the applicant submitted three sets of revised plans. The highways objections were not mentioned during any of these discussions.

The plans submitted in November were passed to the Highways Development section that repeated its objection. This prompted the planning officer to write to the agent in January 2009 and send a copy of the highways comments. The planning application was finally refused in March 2009 – 54 weeks after it had been made – on grounds of over-intensive use of the land with an unacceptable impact on a conservation area and highway safety.

My investigator found that there had been delay and poor record keeping throughout the time that the Council had been considering the application. The Council agreed to reimburse the applicant with all reasonable professional costs incurred between March 2008 and January 2009 and pay 75% of the rental value of a property on the site that the applicant had left vacant whilst awaiting the Council's decision.

Two different complaints came from people whose businesses had been adversely affected by what they saw as unfair Council decisions or actions:

3. The Council acted on behalf of the 2009 Reggae & West Indian Carnival Committee and took payment for a hot food concession. All letters concerning the event were on Council headed note paper. When the concession holder arrived on the first day the stall was not in the place she had been allocated and suffered from lack of water and a poor trading position. She complained to one of the event co-ordinators to no avail and also to a Council officer who was unable to help. On the second day the stall had been allocated to a charity and the concession holder's gazebo had blown away. She complained to the Council. Officers passed her complaint to the Carnival Committee and also told her that she should contact the Committee but gave her no information about how to do so. The concession holder was unable to progress her complaint.



My investigator found that there was no written agreement between the Council and the Carnival Committee, no agreement between the Council and the concession holders and no contract between them and the Carnival Committee. Officers agreed that this year there will be clear written information making it clear that the Carnival Committee is responsible for the event and written agreements with concession holders. The fee paid by the concession holder was refunded by the Council.

4. A market trader complained that the Council unfairly rejected his tender for a pitch that he had been trading on for the previous year and awarded him his second choice of pitch. The Council invited people to apply for more than one site on the basis that they would only be allowed to trade from one. The Council said that each application would be judged on its merits including financial offer, quality and design of the unit, product and impact on surrounding businesses.

On investigating I found that the trader had made the highest bid for his first choice pitch but officers had given over-riding importance to what would give the Council the greatest income when they decided how pitches would be allocated. This had not been a criterion in any of the tender documentation. Officers accepted that if it had not been used the trader would have been allocated his first choice of pitch and paid him £5,300.

#### *Communicating decisions*

We want our work to be transparent and our decisions to be clear and comprehensible. During the past year we changed the way we communicate our decisions and reasons. We now provide a stand-alone statement of reasons for every decision we make to both the citizen who has complained and to the council. These statements replace our former practice of communicating decisions by letter to citizens that are copied to councils. We hope this change has been beneficial and welcome comments on this or any other aspect of our work.

In April 2011 we introduced a new IT system for case management and revised the brief descriptions of our decisions. My next annual letter will use the different decision descriptions that are intended to give a more precise representation of complaint outcomes and also add further transparency to our work.

#### *Extended powers*

During 2010/11 our powers were extended to deal with complaints in two significant areas.

In October 2010 all complaints about injustice connected to adult social care services came under our jurisdiction. The greater use of direct payments and personalised budgets mean that it is particularly important for us to be able to deal with such complaints irrespective of whether a council has arranged the care. The increasing number of people who arrange and pay for their own social care now have the right to an independent and impartial examination of any complaints and concerns they may have about their care provider.

In the six months to April 2011 we received 75 complaints under our new adult social care powers. Between 2009/10 and 2010/11 complaints about care arranged or funded by councils doubled from 657 to 1,351.

The Apprenticeships, Skills, Children & Learning Act 2009 introduced powers for us to deal with complaints about schools by pupils or their parents. This was to be introduced in phases and currently applies in 14 council areas. By the end of 2010/11 we had received 169 complaints about schools in those areas and 183 about schools in other areas where we had no power to investigate. The Education Bill currently before Parliament proposes to rescind our new jurisdiction from July 2012.

Our new powers coincided with the introduction of Treasury controls on expenditure by government departments and sponsored bodies designed to reduce the public spending deficit. This has constrained our ability to inform care service users, pupils and their parents of their new rights.

#### *Assisting councils to improve*

For many years we have made our experience and expertise available to councils by offering training in complaint handling. We regard supporting good complaint handling in councils as an important part of our work. During 2010/11 we surveyed a number of councils that had taken up the training and some that had not. Responses from councils where we had provided training were encouraging:

- 90% said it had helped them to improve their complaint handling
- 68% gave examples of how the knowledge and skills gained from the training had been applied in practice
- 55% said that complaints were resolved at an earlier stage than previously
- almost 50% said that citizens who complained were more satisfied.

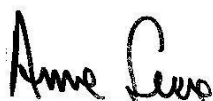
These findings will inform how we develop and provide training in the future. For example, the survey identified that councils are interested in short complaint handling modules and e-learning.

Details of training opportunities are on our web site at [www.lgo.org.uk/training-councils/](http://www.lgo.org.uk/training-councils/)

More details of our work over the year will be included in the 2010/11 Annual Report. This will be published on our website at the same time as the annual review letters for all councils (14 July).

If it would be helpful to your Council I should be pleased to arrange for me or a senior manager to meet and explain our work in greater detail.

Yours sincerely



Anne Seex  
Local Government Ombudsman

## APPENDIX 2

### The LGO Annual Letter 2010/11 - Commentary from Services

In the Annual Letter the Local Government Ombudsman highlighted four cases that had been closed during 2010/11 with a finding of Local Settlements. The relevant services have provided feedback as to lessons learnt and processes changed due to these cases.

#### **Case 1. Waste Collection – Response by Environmental Services**

The service is committed to delivering a safe, reliable and efficient waste collection service. The resident received an apology; collections were monitored over eight consecutive weeks to ensure they occur as scheduled and on two other separate occasions, it has been confirmed that there have been no further problems and that the resident is now very happy with the service being provided. A review was carried out, which has highlighted the following lessons and future actions that could have resolved the issues earlier.

Lesson 1. Having telephoned the Contact Centre to report a missed collection the resident should not have been advised that applying for an Assisted Collection wheeled bin service would resolve the collection problems.

Although staff at the Contact Centre would have been able to identify which collection route was applicable, they would not have been aware that the properties on the collection route were predominantly bag collections and the reasons for this. Neither would they be fully aware of the problems causing the missed collections. This issue has been identified through the review of the resident's contact with the Council and was not raised as part of complaint to the Council at either Stage 1 or Stage 2 or in the complaint to the Ombudsman.

Lesson 2. When Contact Centre staff order wheeled bins for properties that do not already have a bin, they are not prompted by the system to check with the service that the property is suitable to receive a wheeled bin collection.

Action: The Customer Access Programme has been initiated and is currently assessing the way in which information is handled by the Contact Centre. This is looking at this process from end to end with the aim of identifying what systems, or changes to current systems, can be put into place in order to make improvements to the way in which we deliver services and this issue has been brought to their attention.

Action; Within the operational service assisted collections are specifically highlighted on daily tasking sheets and brought to the attention of the collection crew.

Lesson 3. The problems experienced by the resident predate the city wide changes to the collection service and significant work has taken place to improve reliability and deal with repeat complaints since the changes to collections of Oct 2010. However, if a thorough investigation had been carried out at earlier, the full extent of the collection problems would have been identified enabling the problems to be resolved without recourse to the Ombudsman.

Action: The service is incorporating complaint handling into the induction sessions for all

the new managers in order to provide them with the necessary skills for investigating and responding to complaints.

### **Case 2 – Planning Services – Response by City Development**

This case was in relation to an applicant for planning permission - that they had incurred avoidable expense, including possible losses in the acquisition of the property, unnecessary professional fees, potential lost rent and council tax payments.

The Ombudsman closed the case as a local settlement, and asked the council to reimburse the complainant for all reasonable costs incurred in employing a planning consultant and for loss of rent to his property from March 2009 to January 2010. The amount has yet to be accepted by the complainant and is in the region of £12,000.

The investigation identified that the applicant was not made aware of the comments from Highways Officers that formed the basis of one of the reasons for the subsequent refusal of planning permission.

This case has been the subject of discussion by the Chief Planning Officer with Planning Service Team Leaders. Actions have been taken to reduce the likelihood of this situation happening again.

1. All statutory consultee comments are now available in the public domain on the CAPS Uniform Public Access system so all parties are aware of the comments made by consultees.
2. Previous pre application advice is more readily available to other planning officers within the service as these are now recorded on the CAPS Uniform planning application system rather than area files within planning teams.
3. The management of planning application files is now more robust through effective reviews of cases particularly where case files are transferred between officers. Further, a position statement of what stage the application has reached, the material planning considerations and the progress made on them including contact with the agent / applicant is to be brought into use when case files are re allocated to different planning officers.

### **Case 3 – Parks & Countryside- Response by City Development**

Officers within Parks and Countryside now provide clear written information confirming that the Carnival Committee is responsible for the agreements with concession holders for the 2011 event - this information will be provided to all applicants.

For the 2011 Leeds Reggae Concert and Caribbean Carnival, measures have also been put in place to ensure the clarity is provided to all stall holders as to the management process.

- A service level agreement will be in place with both committee's highlighting roles and responsibilities, this will ensure clarity between Leeds City Council and the committee's.
- Within the terms and conditions given to concessionaires, it states that Leeds

City Council is purely the facilitator to aid the Leeds Reggae Committee, and that the stalls are managed by them.

These terms and conditions are then reiterated once the applicant has been successful, the applicant must then signs to agree to the terms and conditions and costs.

#### **Case 4 – Market Services – Response by City Development**

The Markets Service is committed to ensuring that its tendering procedures are equitable and that all traders feels they have been treated fairly.

We have apologised to the complainant and sought to learn from this complaint.

As a result we have reviewed our tender procedures. The tender application packs are being changed to make it clear how tenders will be evaluated and what factors will be taken into account; these are being considered by our Legal Services team to ensure that we have some external challenge and that we are adopting best practice.

Whilst we believe the Council has a duty to maximise both the quality of street trading and its income from street trading, we wish to make the process as simple as possible.

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**Report of the Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> September 2011**

**Subject: Audited Statement of Accounts and the Value for Money Assessment  
2010/11**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. KPMG have issued their audit report to this Committee (**see Appendix 1**). The report provides:
  - an unqualified opinion on the 2010/11 Statement of Accounts;
  - confirms that audit have not identified any adjustments to the accounts; and
  - a view that the Annual Governance Statement complies with the CIPFA/SOLACE framework and that it is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

The report also updates members on the work ongoing on the audit opinion as to whether the Council has appropriate arrangements for securing value for money.
2. KPMG have provided a £3,000 rebate on the audit fee.
3. One material post balance sheet event has occurred with HMRC accepting that the Council is entitled to reclaim VAT on trade waste. This has resulted in a £8.4m payment to the Council, reflecting the reclaimed VAT and interest. The resulting income has been recognised in the 2010/11 accounts and transferred to the Council's General Fund reserves.
4. The accounts have been re-certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31<sup>st</sup> March 2011.

## **Recommendations**

5. Members are asked to receive the report of the Council's external auditors on the 2010/11 accounts and to note the amendments made to the Accounts.
6. Members are asked to approve the final audited 2010/11 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
7. On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
8. Note the work to date on the VFM audit opinion and to receive at Committee verbal confirmation of the final opinion.
9. Note the rebate KPMG have given in respect of the Audit fee.

### **1 Purpose of this report**

- 1.1 This Committee agreed to release the unaudited 2010/11 Statement of Accounts for public inspection on the 18<sup>th</sup> July 2011. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

### **2 Background information**

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council's statutory finance officer, the Director of Resources, has re-certified that the Statement of Accounts presents a true and fair view of the financial position of the Council. On completion of the Audit, the regulations also require that the accounts are approved by resolution of a Committee and published, together with the auditor's opinion and report.

### **3 Main issues**

#### **3.1 Key External Audit Findings**

##### **3.1.1 Audit Opinion**

KPMG have determined that the 2010/11 accounts give a true and fair view of the Council's financial position and they are therefore proposing to issue an unqualified audit opinion.

##### **3.1.2 Audit Differences**

On conclusion of the audit, KPMG did not identified any audit difference which required amendment to the accounts. However, on completion of the audit working papers, Council officers identified that the figure used for the teachers holiday accrual had been incorrectly recorded in the financial statements. The required amendment has increased the Children's and Educational Services net expenditure in the Comprehensive Income and Expenditure Statement by £3.0m. However, under statute, such charges are reversed out of the statement and do not therefore impact on the Council's bottom line.



### 3.1.3 Audit Risks

In their Financial Statements Audit Plan, as reported to this Committee on the 21<sup>st</sup> March 2011, KPMG identified three main areas of risk in compiling the financial statements for 2010/11. The three risks were in respect of the Council's financial standing and financial planning in year; the accurate valuation of Council assets and the International Financial Reporting Standards conversion process. KPMG's audit report recognises that all three risks have been addressed and makes only one recommendation in respect of financial standing as outline in para 3.1.4 below.

### 3.1.4 Audit recommendations

The audit report identifies one recommendation which requires the Council to continually monitor its Medium Term Financial Plan and to take appropriate early interventions to manage any financial pressures. The management response identifies the processes in place to comply with this recommendation. There are no outstanding recommendations from previous years which require further Council action.

### 3.1.5 Use of Resources

KPMG are required to report to those charged with governance, any governance issues identified when discharging their statutory audit responsibilities. They have therefore included in their report an update on the Council's arrangements to secure value for money in its use of resources.

KPMG have a few areas of audit work to complete but it is anticipated that for 2010/11, KPMG will be able to confirm at the Committee meeting that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### 3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the statement complies with the CIPFA/SOLACE framework and that it is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

## 3.2 Post Balance Sheet Events

3.2.1 Up until receipt of the audit certificate, any significant post balance sheet event which arose due to events happening before the 31<sup>st</sup> March 2010, should be adjusted in the accounts. A review of the Council's accounts since they were released for public inspection has identified one such event.

3.2.2 The Council has recently been successful in a VAT claim to HMRC on the fees charged for the collection of trade waste. A claim was submitted in March 2009 relating to the period from 1974 to March 2008. The claim was made on the basis of anomalies between European VAT legislation and the guidance issued by

HMRC, and that the collection of trade waste was a non-business, rather than a taxable business activity.

- 3.2.3 In August 2011, HMRC agreed to pay the Council £3.665m plus interest of £4.767m, a total of £8.432m.

### **3.3 Management Representation letter**

- 3.3.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. Attached as **Appendix 2** to this report is the management representation letter designed to give audit such assurances in respect of the 2010/11 accounts. After consultation with appropriate officers, the Director of Resources has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter. The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

### **3.4 Audit Fee**

- 3.4.1 At the request of this Committee KPMG agreed to review the audit fee upon completion of the audit to identify whether any efficiencies gained through the audit process could be passed back to the Council. Audit efficiencies have been achieved, mainly through the provision of electronic working papers, and consequently the Council has been given a rebate on the £530,383 audit fee of £3,000.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 As this is a factual report based on past financial performance no public, Ward Member or Councillor consultation or engagement has been sought.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 As this is a factual report based on past financial performance there are no direct implications for equality, diversity, cohesion and integration.

### **4.3 Council Policies and City Priorities**

- 4.3.1 As this is a factual report based on past financial performance there are no direct implications for Council policies or City priorities.

#### **4.4 Resources and Value for Money**

4.4.1 As this is a factual report based on past financial performance there are no direct implications for resources. The report does however include an audit opinion on whether the Council has proper arrangements for securing value for money.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 The Accounts and Audit (England) Regulations 2011 require the audited Statement of Accounts to be published before the 30<sup>th</sup> September. Under this Committees terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

#### **4.6 Risk Management**

4.6.1 In respect of the 2010/11 Statement of Accounts this report provides an update on past performance and so there are no significant risks. External Audit did identify a key risk in their recommendation in respect of the Council's budget monitoring. This risk is however included in the risk register and this Committee is not requested to make any decisions in relation to this issue.

### **5 Conclusions**

5.1 The external audit report provides the following assurances to members:

- An unqualified opinion on the 2010/11 Statement of accounts.
- That as at the timing of this report, there are no issues which would suggest that the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Confirmation that in the auditors opinion the Council's Annual Governance Statement complies with the CIPFA/SOLACE framework and that it is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

5.2 External Audit have made one recommendation for 2011/12. Namely the continual monitoring of the Medium Term Financial Plan and to take early intervention to manage financial pressures. The Council has put in place arrangements to comply with this recommendation.

5.3 One material post balance sheet event has been identified which needs to be accounted for in the accounts. This event has resulted in the Council reclaimed VAT and interest totalling £8.4m. This additional income has increased the Council's reported surplus and has been carried forward in the General Fund Reserve.

5.4 Officers have identified one significant adjustment required to the final accounts in respect of the teachers holiday accrual. This adjustment has no impact on the Council's bottom line.

5.5 KPMG have given the Council a £3,000 rebate on the Audit fee.

## **6 Recommendations**

6.1 Members are asked to receive the report of the Council's external auditors on the 2010/11 accounts and to note the amendments made to the Accounts.

6.2 Members are asked to approve the final audited 2010/11 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.

6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.

6.4 Note the work to date on the VFM audit opinion and to receive at Committee verbal confirmation of the final opinion.

6.5 Note the rebate KPMG have given in respect of the Audit fee.

## **7 Background documents**

7.1 KPMG ISA 260 Report 2009/10 and 2009/10

7.2 KPMG Interim Report 2010/11

7.3 Accounts and Audit (England) Regulations 2011

7.4 Amended accounts for Leeds City Council 2010/11.



*cutting through complexity™*

Appendix 1

# Report to those charged with governance (ISA 260) 2010/11

Leeds City Council  
30 September 2011

The contacts at KPMG in connection with this report are:

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*Partner*

*KPMG LLP (UK)*

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This report summarises:

- the key issues identified during our audit of Leeds City Council's ('the Authority's') financial statements for the year ended 31 March 2011; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

**We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you on 23 June 2011, which summarised our planning and interim audit work.**

### Financial statements

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our Interim Audit Report 2010/11 issued in June.

This report focuses on the final two stages: substantive procedures and completion.

Our final accounts visit on site took place between 18 July and 30 September. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

### VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included:

- work to address the specific risk areas identified in our VFM Audit Approach presented to you on 17 April 2011.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

We have reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p><b>Audit Progress</b></p>	<p>At the date of this report our audit of the financial statements is still to be completed, until this point we are unable to issue our opinion. We anticipate issuing the audit opinion on 30 September.</p>
<p><b>Audit adjustments to date</b></p>	<p>Our audit identified no significant audit adjustments, there were a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2010.</p> <p>Management have however identified one 'event after the reporting date' with a total value of £8.4m. This related to the fact that in the Authority's draft accounts a contingent asset, which is an asset where the possibility of receipt depends solely upon a future event, was identified in respect of a VAT claim for Trade Waste. Since the year end HMRC have confirmed to the Authority, in writing, that this claim will be paid. Therefore in accordance with accounting standards, the receipt of this letter confirms that the money from HMRC will be received and so this is classed as an 'adjusting event'. This means that this income has now been recognised in the 2010-11 accounts and a corresponding debtor raised with HMRC.</p> <p>The impact of this was to:</p> <ul style="list-style-type: none"> <li>▪ Increase the balance on the general fund account as at 31 March 2011 by £8.4m;</li> <li>▪ Increase the surplus on provision of services for the year by £8.4m; and</li> <li>▪ Increase the net worth of the Authority as at 31 March 2011 by £8.4m.</li> </ul>
<p><b>Critical accounting matters</b></p>	<p>We have worked with officers throughout the year to review the specific risk areas highlighted during the planning stages of our audit. These specific risks included:</p> <ul style="list-style-type: none"> <li>▪ <b>Financial Standing</b> – The Authority has delivered a surplus of £13.5m against its budgeted position for the year. This is against a backdrop of overspends totalling £10.3m in directorates. The main areas of overspend, again this year, are in Adults and Children's services, with both directorates continuing to face demand pressures. These overspends have been offset by corporate savings of £23.8m. The savings include: <ul style="list-style-type: none"> <li>○ Interest payable savings (£4.7m) due to the Bank of England interest rate remaining at a lower level than budgeted.</li> <li>○ Changes in the accounting treatment of PFI schemes (£8.4m) which have meant that an element of the PFI payment is recognised as capital spend and, in accordance with legislation, can therefore be funded from capital receipts.</li> <li>○ A successful VAT claim (£8.4m) which the Authority were notified about post year end.</li> <li>○ Other net savings (£2.3m).</li> </ul> </li> </ul>



**This table summarises the headline messages. The remainder of this report provides further details on each area.**

<p><b>Critical accounting matters (cont.)</b></p>	<ul style="list-style-type: none"> <li>▪ Valuation of Council Assets – In the prior year we identified two issues in respect of the valuation of fixed assets. There had been three assets which had been revalued during the year however these revaluations had not been reflected on the fixed asset register and there had been six properties which had been revalued and included on the fixed asset register when they should not have been. In addition to the risks as a result of these historical errors there are a number of additional risk factors this year. These risks include the fact that the Authority changed to solely rely upon their internal valuer this year and there has also been significant changes in the accounting treatment for assets as a result of the adoption of IFRS. This year we are pleased to state that we have found no issues as a result of our work in this area which has included reviewing:             <ul style="list-style-type: none"> <li>○ The independence and objectivity of the Authority’s in-house valuer.</li> <li>○ The valuations of fixed assets for complete and accurate recording on the fixed asset register.</li> <li>○ The methodology and accounting entries in relation to component accounting as adopted by the Authority.</li> </ul> </li> <li>▪ IFRS implementation – Throughout the year we have kept in regular contact with the finance team discussing emerging issues and current guidelines. The Authority have handled the implementation of IFRS well and have demonstrated that they have a team who are flexible and adaptable in their approach.</li> </ul>
<p><b>Accounts production and audit process</b></p>	<p>The quality of the accounts and the supporting working papers has remained strong. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We submitted our prepared by client list to the Authority in April and officers delivered a full set of working papers in line with our requirements and within the timescales agreed. This year we have asked for a number of items to be made available electronically and the officers have done this wherever possible.</p> <p>The Authority has implemented all of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements and continue to take action against our recommendations on a timely basis.</p>
<p><b>Fees</b></p>	<p>As per the Audit Fee Letter issued at the beginning of the year our indicative fee for the 2010/11 audit was set at £570,000, although a rebate number of £39,617 was provided to subsidise the ‘one-off’ element of the cost of transition to International Financial Reporting Standards, reducing the fee to £530,383. This was significantly below the recommended Audit Commission mid point fee of £598,500.</p> <p>In year we have also provided additional services to the Authority at no additional cost. This has included employment tax advice relating to the Early Leavers Initiative (ELI) and advice from our business intelligence team on the design of the financial dashboard monitoring that the Authority are looking to introduce.</p> <p>At the request of the Corporate Governance and Audit Committee and in recognition of the financial pressures the Authority is under we agreed to review this fee upon completion of our audit to identify whether any efficiencies gained throughout the audit process could be passed back to the Authority. We are pleased to report that KPMG have agreed to provide the Authority with a rebate of £3,000 as a result of the audit efficiencies we delivered.</p>

**This table summarises the headline messages. The remainder of this report provides further details on each area.**

<p><b>Completion</b></p>	<p>At the date of this report our audit of the financial statements is still to be completed. However before we can issue our opinion we also require a signed management representation letter. This year, in parallel with the work we have done, we are asking for an additional, specific representation in relation to the calculation of the Authorities Equal Pay provision.</p> <p>The Equal Pay provision is an amount of money set-aside by the Authority to settle claims made against it in relation to the Equal Pay Act. The amount of the provision has increased substantially during the year (from £4.3m to £36.1m) and is subject to a greater number of claimants and claimant groups to which an estimation applies than in prior years. This is because the Authority must estimate the number and value of claimants who have been disadvantaged over the past 4 years in relation to protected pay agreements. The Authority have received a capitalisation direction from the government so that this value will be funded over 20 years.</p> <p>Due to the significance of the value and the amount of judgement required in setting this provision we are seeking the specific assurance of management that this value is materially correct.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<p><b>VFM conclusion</b></p>	<p>We have yet to finalise our VFM opinion as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and we are continuing to assess the Authority against the two criteria identified by the Audit Commission:</p> <ul style="list-style-type: none"> <li>▪ Securing financial resilience; and</li> <li>▪ Securing economy, efficiency and effectiveness.</li> </ul> <p>To date we have held meetings with officers and reviewed a wide range of documentation and arrangements across the Authority in order to come to our conclusion. In addition to this we have considered 3 specific risks relevant to the Authority which are discussed below .</p>

This table summarises the headline messages. The remainder of this report provides further details on each area.

**VFM risk areas**

We have considered the specific VFM risks we set out in our VFM audit approach 2010-11:

**Managing with Less** - The Authority has put in place arrangements following the Comprehensive Spending Review (CSR) to ensure that it achieves its objectives. Achievement of the 2010-11 budget, and strong uptake on the Early Leavers Initiative has shown the Authority is responding to the challenges it faces. The Authority has delivered a surplus of £13.5m against its budgeted position for the year and 1,500 staff have left the Authority to date. This is against a backdrop of overspends totalling £10.3m in directorates, which are mainly in Adults and Children's, which the Authority has identified as risk areas and where they continue to seek early intervention throughout the year. These overspends have been offset by corporate savings of £23.8m.

The Authority has achieved this £13.5m underspend with a relative low level of reserves (including earmarked reserves) as a percentage of spending power (LCC 4% average core city 14%) whilst facing funding reductions which are relatively greater than other Authority's. The Authority has always operated within a level of reserves it has felt prudent and has added to these with the surplus reported this financial year.

The results of the Audit Commission financial resilience survey did not identify any areas for major concern when assessing the VFM arrangements at the Authority.

The scale of the challenge ahead is not to be underestimated and key to this will be managing the overspends in Adults and Children's which as at month 4 of 2011/12 are showing overspends of £10.6m.

The Authority therefore need to ensure that they continually monitor their Medium Term Financial Plan and take appropriate early interventions to manage their financial pressures. See recommendation in Appendix 1.

**Early Leavers Initiative (ELI)** - As a result of the significant financial pressures faced by the Authority, the Executive Team approved an early Council wide ELI. The rationale for the introduction of this scheme was to provide the Authority with a mechanism to help respond to the financial challenges it faced.

Initial targets for the first phase of the ELI was for 1,000 employees to leave the Authority achieving around £20m of savings. These figures were determined to support a balanced budget rather than being through a review of future service delivery. The Authority however maximised the VFM achieved through this initiative by not simply stopping when they reached their target of 1,000. The Authority continued reviewing individual applications against the business case criteria and drove through extra savings as a result. In total 1,159 employee posts have been saved as at 31 March 2011. The number of ELI approved cases was 890, with the remainder achieved through not recruiting as employees have left the Authority.

The Authority are also in a second phase of the ELI and have target figures of between 350 – 400 early leavers to be achieved through this process in the current financial period. This is also a continual journey for the Authority and going forward, due to the continual improvements in service planning the Authority plan to move to an approach whereby the resourcing team will look at the future delivery method of the services and use this to identify the future structure of the directorates. This method will be utilised as a tool to identify the target numbers for staffing numbers within the Authority based on the most effective, efficient method of service delivery.

**This table summarises the headline messages. The remainder of this report provides further details on each area.**

**VFIM risk areas  
(continued)**

**Waste Management** – The Authority currently sends over 50% of the waste produced by the residents of Leeds to landfill, for which the costs keep escalating. For a number of years, the Authority have been reviewing a more cost effective method of waste management. To achieve this, the Authority plans to continually improve its recycling targets and have developed a ‘residual waste’ strategy. To manage this ‘residual waste’ strategy the Authority commenced the procurement of a contract to treat the Authority’s residual waste in 2008 . Currently the Authority have short listed the participants down to two bidders who have both submitted their final tenders and the Authority are now completing the final tender evaluation with proposed recommendations to go to the Executive Board in November. It is expected that the facility will become fully operational in March 2016.

Throughout the life of this project the Authority have sought technical, legal and financial advice from external advisors including, DLA, PwC and Jacobs and the internal team within the Public Private Partnership Unit (PPPU). This expert advice has been called upon to undertake a technical review of the technology to be used in this facility and the Authority were satisfied with the assumptions used to underpin this work.

The Authority have also sought external advice to determine what the cost would be for the Authority to do nothing and to continue as they are. The costs of the ‘do nothing’ model are significantly higher than the costs of the ‘residual waste’ strategy. The objective of this project overall is to at least achieve a break even position and if possible achieve a saving in net terms.

There remain some potential risks that need to be managed by the Authority including the fact that the facility has the potential to be either a combined heat and power (CHP) enabled or deliverable scheme.

Our audit did not identify any audit adjustments.

One adjustment has been made by the Authority in relation to an 'event after the reporting date'.

The impact of this was to:

- Increase the balance on the general fund account as at 31 March 2011 by £8.4m;
- Increase the surplus on provision of services for the year by £8.4m; and
- Increase the net worth of the Authority as at 31 March 2011 by £8.4m.

The wording of your Annual Governance Statement accords with our understanding.

#### Proposed audit opinion

At the date of this report our audit of the financial statements is still to be completed, until this point we are unable to issue our opinion. We anticipate issuing the audit opinion on 30 September.

#### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit did not identify any audit adjustments.

The tables on the right illustrate the total impact of the event after the reporting date on the Authority's movements on the General Fund and the Balance Sheet as at 31 March 2011.

The net impact on the General Fund as is to increase the balance as at 31 March 2011 by £8.4m.

The event after reporting date, related to the fact that in the Authority's draft accounts a contingent asset, which is an asset where the possibility of receipt depends solely upon a future event, was identified in respect of a VAT claim for Trade Waste.

Since the year end HMRC have confirmed to the Authority, in writing, that this claim will be paid. Therefore in accordance with accounting standards, the receipt of this letter confirms that the money from HMRC will be received and so this is classed as an 'adjusting event'.

This means that this income has now been recognised in the 2010-11 accounts and a corresponding debtor raised with HMRC.

#### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government*:

A Framework published by CIPFA/SOLACE in June 2007; and

- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the General Fund 2010/11			
£m		Pre-audit	Post-audit
Surplus or (deficit) on the provision of services		69,798	75,224
Adjustments between accounting basis & funding basis under regulations		(49,611)	(46,605)
Transfers to/ (from) earmarked Reserves		(15,132)	(15,132)
<b>Increase/(decrease) in General Fund</b>		<b>5,055</b>	<b>13,487</b>

Balance Sheet as at 31 March 2011			
£m		Pre-audit	Post-audit
Property, plant and equipment		3,482,646	3,482,646
Other long term assets		89,637	89,637
Current assets		122,360	130,792
Current liabilities		(363,685)	(405,519)
Long term liabilities		(2,620,445)	(2,581,617)
<b>Net worth</b>		<b>710,513</b>	<b>715,939</b>
General Fund		(21,131)	(29,563)
Other reserves		(689,382)	(686,376)
<b>Total reserves</b>		<b>(710,513)</b>	<b>(715,939)</b>



We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Further details and findings are documented here.


In our *Financial Statements Audit Plan 2010/11*, presented to you on 21 March 2011 we identified the key risks affecting the Authority's 2010/11 financial statements.



In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing these key risks. We highlighted that we had completed our initial work to assess the Authority's financial resilience following the funding settlement for 2011-2013 and that the Authority

had made considerable progress in the restatement of its 2009/10 financial statements under IFRS.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	<p><b>Financial standing / medium term financial planning</b></p> <p>Following the Government's spending review the Authority announced that it was required to make £90 million savings in the financial year to address the twin constraints of reduced funding and increasing demographic and demand pressures. The final settlement has since confirmed the figure to be accurate.</p> <p>In order to deliver the required savings, the Authority will be undertaking some significant change programmes across all services.</p>	<p>The Authority has delivered a surplus of £13.5m against its budgeted position for the year.</p> <p>This has been achieved by offsetting overspends totalling £10.3m in directorates against corporate savings of £23.8m.</p> <p>The major corporate savings include:</p> <ul style="list-style-type: none"> <li>▪ Interest payable (£4.6m).</li> <li>▪ Changes in the accounting treatment, which result in non cashable savings, on PFI schemes (£8.4m).</li> <li>▪ A successful VAT claim (£8.4m).</li> <li>▪ Other net savings of (£2.3m).</li> </ul> <p>Financial performance to date in 2011/12 demonstrates the continued pressures within adults and children's and the management of these pressures will be critical in the future financial standing of the Authority.</p>

Key audit risk	Issue	Findings
 <p><b>Valuation of Council Assets</b>            Valuation of Council Assets is considered to be a key audit risk for the following reasons:            During 2009/10 audit we found a small number of errors relating to fixed asset valuations.            There is a change in the valuation process during 2010/11 as the Authority are changing the number of Valuers from five to one, bringing all valuations in house.            There are added complications in the valuation of Authority assets during 2010/11 due to componentisation as a result of the transition to IFRS.</p>	<p><b>Valuation of Council Assets</b>            Valuation of Council Assets is considered to be a key audit risk for the following reasons:            During 2009/10 audit we found a small number of errors relating to fixed asset valuations.            There is a change in the valuation process during 2010/11 as the Authority are changing the number of Valuers from five to one, bringing all valuations in house.            There are added complications in the valuation of Authority assets during 2010/11 due to componentisation as a result of the transition to IFRS.</p>	<p>We have found no issues as a result of our work in this area. The work has included reviewing:</p> <ul style="list-style-type: none"> <li>▪ The independence and objectivity of the Authority's in-house valuer.</li> <li>▪ The valuations of fixed assets for completeness and accuracy.</li> <li>▪ The methodology and accounting entries in relation to component accounting as adopted by the Authority.</li> </ul>
 <p><b>IFRS conversion process</b>            The Authority will require a lot of planning and resources to ensure a smooth and successful transition to IFRS.            The Authority have an IFRS Work Plan in place with lead officers being allocated responsibility for individual work areas. The finance team have involved us at an early stage in the conversion process and are keeping us up to date with progress against the Work Plan as well as seeking clarification on specific issues.</p>	<p><b>IFRS conversion process</b>            The Authority will require a lot of planning and resources to ensure a smooth and successful transition to IFRS.            The Authority have an IFRS Work Plan in place with lead officers being allocated responsibility for individual work areas. The finance team have involved us at an early stage in the conversion process and are keeping us up to date with progress against the Work Plan as well as seeking clarification on specific issues.</p>	<p>We completed a review of the IFRS conversion process as part of our interim work and updated this at the final visit.            The Authority has worked well in this area and tackled the issues raised by this major change in a timely and effective manner.</p>

The quality of the accounts and the supporting working papers continue to be of a good standard.

Officers dealt efficiently with audit queries so the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements.

**Accounts production and audit process**

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has a strong financial reporting process and we consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 30 June. The Authority made a number of amendments of a presentational nature during the audit.
<b>Quality of supporting working papers</b>	Our <i>Prepared By Client List</i> , which we issued on 14 April 2011 and discussed with Chris Blythe, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our <i>Prepared By Client List</i> .
<b>Response to audit queries</b>	Officers resolved our audit queries in a timely manner.

**Prior year recommendations**

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

The Authority has now implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Appendix 2 provides further details.



## Section three – Financial Statements Completion



**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Authority for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Resources and Acting Deputy Chief Executive. We require a signed copy of your management representations before we issue our audit opinion.

We have requested representation over the following area of material judgement:

- **Equal Pay Provision** – The Authority are confident that the estimated equal pay costs and associated probability underpinning volume of claims is reasonable and does not provide a material under or over provision based upon available information.

### **Other matters**

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.); and
- other audit matters of governance interest.

There are no matters which we wish to draw to your attention.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**Overview of the new VFM audit approach**

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year’s VFM audit.

The key elements of the VFM audit approach are summarised in the diagram below.



**Conclusion**

We have yet to finalise our VFM opinion as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and we are continuing to assess the Authority against the two criteria identified by the Audit Commission.

VFM criterion	Met
<b>Securing financial resilience</b>	<b>TBC</b>
<b>Securing economy, efficiency and effectiveness</b>	<b>TBC</b>

The following pages include further details on the specific risk-based work.


## Section four – value for money conclusion

### Specific value for money risks


We have considered the specific VFM risks we set out in our VFM audit approach 2010/11.

We have assessed the Authority's arrangements in regard to these risks and found them to be adequate.


Our risk assessment was included in our Value for Money audit approach 2010/11 and we set out our preliminary findings in respect of these risks in our Interim Audit Report 2010/11. We have completed our work on these risk areas and summarise our findings below.

VFM risk	Focus of work	Update
	<p>The Audit Commission published a national study in May 2011 on the impact of the 2011/12 local government settlement on councils' finances. The study examined the approaches taken by councils in responding to the need to make savings and to manage with less.</p> <p>To support the study, we completed a survey which captured:</p> <ul style="list-style-type: none"> <li>information on the financial stability of the Authority following the 2011/12 settlement, focusing in particular on the capacity of the Authority's 2011/12 draft budgets to secure this stability; and</li> <li>actions used by the Authority to secure the necessary savings in its 2011/12 draft budget and any resulting implications for service provision.</li> </ul> <p>We also critically assessed the Authority's financial standing to ensure that its Medium Term Financial Plan and planning has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively.</p> <p>The information collected in the survey is closely based on the financial resilience criterion of the VFM conclusion and forms a mandatory part of auditors' work programmes at all single-tier, county and district councils.</p>	<p>The Authority has put in place arrangements following the CSR to ensure that it achieves its objectives despite the funding reductions it is facing.</p> <p>Achievement of the 2010-11 budget and strong uptake on the Early Leavers Initiative has shown the Authority is responding to the challenges it faces.</p> <p>As part of the new VFM work programme we have held meetings with officers and reviewed a wide range of documentation and arrangements the Authority has put in place to ensure it remains financially resilient.</p> <p>We have completed the Audit Commission financial resilience survey and the results of this confirmed that the Authority is performing adequately. This is in the context of the Authority having relative low level of reserves (including earmarked reserves) as a percentage of spending power (LCC 4%, average core city 14%) and funding reductions which are relatively greater than other Councils.</p> <p>Throughout the year we have discussed with officers the arrangements for managing the Medium Term Financial Plan and these arrangements appear appropriate. However the scale of the funding challenge is large and should not be under-estimated, especially since the Authority continues to face demand and cost pressures within Adults and Children's Social Care.</p> <p>The Authority are in the process of implementing a key performance dashboard to give early warning/indication of possible budget issues and have also implemented monthly monitoring of budget information by Members</p>

Section four – value for money conclusion  
**Specific value for money risks - continued**

VFM risk	Focus of work	Update
	<p>We will consider how the Authority has ensured that its decision on cost reductions and service cuts reflect local priorities and will achieve long-term sustainable savings.</p> <p>This work is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion</p>	<p>(previously quarterly) to improve awareness and increase responsiveness.</p> <p>The scale of the challenge ahead is not to be underestimated, but we feel the Authority has a good understanding of this and to date have responded appropriately.</p>
<p>As a result of the significant financial pressures faced by the Authority following the Comprehensive Spending Review, the Executive Team approved an early Council wide ELI. The rationale for the introduction of this scheme was to provide the Authority with a mechanism to help respond to the financial challenges it faced.</p> <p>Employees were asked to express an interest in Voluntary Severance (VS) or Voluntary Early Retirement (VER) by completing an individual business case.</p> <p>Initially 1,866 business cases were received from employees and whilst 486 were withdrawn these were reviewed initially within Directorates and then by a Corporate Approval Panel. This review process of the individual business cases ensured that the specified criteria were achieved with regards to reducing costs and yet still maintaining service delivery in line with priorities.</p> <p>Initial targets of ELI numbers were set to enable a balanced budget. The initial target was 1,000, however the Authority tried to maximise the VFM achieved through this initiative by not simply stopping when they reached their target. The Authority continued reviewing individual applications against the business case criteria and drove through extra savings as a result.</p> <p>In total 1,159 employee posts have been saved as at 31 March 2011. The number of ELI approved cases was 890, with the remainder achieved through not recruiting as employees have left the Authority.</p>		

Section four – value for money conclusion  
**Specific value for money risks - continued**

VFM risk	Focus of work	Update
	<p>We will take into consideration how the Authority ensures that the waste management plan is affordable and tailored to local needs, delivering value for money.</p> <p>This work is particularly relevant to the economy, efficiency and effectiveness criterion of the VFM conclusion.</p> <p>This project is an example of a large scale procurement exercise and a review of the procedures followed for this project may indicate further risks and lead to additional work.</p>	<p>The Authority are currently in a second phase of the ELI and have target figures of between 350 – 400 early leavers to be achieved through this next stage of the process. This is also a continual journey for the Authority and going forward, due to the continual improvements in service planning the Authority plan to move to an approach whereby the resourcing team will look at the future delivery method of the services and use this to identify the future structure of the directorates and staff numbers required.</p> <p>Currently the Authority have short listed the original nine bidders down to two through using an evaluation framework which was made publically available back in 2008. The Authority are now completing this final tender evaluation on the final two bidders with proposed recommendations going to the Executive Board in November. Throughout this evaluation process the Authority have ensured that local needs and value for money have been factored in.</p> <p>Throughout the life of this project the Authority have sought technical, legal and financial advice from external advisors including, DLA, PwC and Jacobs and the internal team within the Public Private Partnership Unit (PPPU). This expert advice has been called upon to undertake a technical review of the technology to be used in this facility and the Authority were satisfied with the assumptions used to underpin this work.</p> <p>The Authority have also sought external advice to determine what the cost would be for the Authority to do nothing and to continue as they are. The costs of the 'do nothing' model are significantly higher than the costs of the 'residual waste' strategy. The objective of this project overall is to at least achieve a break even position and if possible achieve a saving in net terms.</p>

## Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>● (two)</p>	<p><b>Medium Term Financial Plan</b></p> <p>The results of the Audit Commission financial resilience survey did not identify any areas for major concern when we were assessing the VFM arrangements at the Authority.</p> <p>However, the scale of the challenge ahead is not to be underestimated and key to this will be managing the overspends in Adults and Children's which, as at month 4 of 2011/12, are showing overspends of £10.6m.</p> <p>The Authority need to ensure that they continually monitor their Medium Term Financial Plan and take appropriate early interventions to manage their financial pressures.</p>	<p>Monthly in year budget monitoring is undertaken via the Executive Board. The Medium Term Financial Plan will be reviewed as part of the 2012/13 budget process.</p> <p><b>Responsible officer: Chief Officer Financial Management</b></p> <p><b>Due date: February 2012</b></p>



## Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and reiterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 September 2010
1	● (two)	<p><b>Fixed Asset Disposals</b></p> <p>Our review of Fixed Asset revaluations found there were six properties which were revalued in the year which were included on the fixed asset register which should not have been.</p> <p>Of these, five of the properties had been disposed of in prior years and one asset had been duplicated on the fixed asset register.</p> <p>The value of these properties was £3.2m, this had already been adjusted by the Authority in the accounts approved by Committee and is therefore not included within Appendix D where we show our audit adjustments.</p> <p>We recommend that the Authority reviews all items within the Fixed Asset register which have not been revalued recently to ensure that these assets are still owned by the Authority. This indication of control weakness is considered serious but mitigated as the Authority were aware of this prior to our audit.</p>	<p><b>Principle Accountant - Corporate Financial Management</b></p> <p><b>April 2011</b></p>	<p>Our work this year has included a review of a sample of property revaluations to ensure all assets are correctly included on the fixed asset register.</p> <p>From the sample we selected for testing we did not find any discrepancies.</p>

## Appendix 2: Follow up of prior year recommendations - continued

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 September 2010
2	● (two)	<p><b>Fixed Asset Valuations</b></p> <p>During our work we identified three assets which had been revalued during the year, however these revaluations (upwards) had not been reflected in the fixed asset register.</p> <p>Further review found two more assets where the same situation occurred. This has resulted an increase to the Fixed Asset balance in the accounts of £1.942m.</p> <p>The Authority should ensure that all fixed asset valuations are updated to the Fixed Asset Register each year.</p>	<p><b>Principle Accountant - Corporate Financial Management</b></p> <p><b>April 2011</b></p>	<p>We have sample tested revaluations undertaken during the year to identify if any revaluations have not been reflected in the 2010/11 fixed asset register.</p> <p>From our sample selected we did not identify any cases where the revaluation performed had not been appropriately reflected.</p>



## Appendix 3: Declaration of independence and objectivity

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Corporate Governance and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of Leeds City Council for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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29<sup>th</sup> September 2010

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Leeds City Council (“the Authority”), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Group and of the Authority as at 31 March 2011 and of the Group’s and the Authority’s expenditure and income for the year then ended; and
- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - give a true and fair view of the financial position of the Group and of the Authority as at 31 March 2011 and of the Group’s and the Authority’s expenditure and income for the year then ended; and
  - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern basis.

## Appendix 2

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.
4. In respect of the restatements arising from the restatement to IFRS accounting, the Authority confirms that the restatement is appropriate

### Information provided

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority and Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Authority has disclosed to you all information in relation to:
  - (a) Fraud or suspected fraud that it is aware of and that affects the Authority and its Group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - (b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's and its Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or

## Appendix 2

adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- (a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - are funded or unfunded; and
  - are approved or unapproved,
- have been identified and properly accounted for; and

- (b) all settlements and curtailments have been identified and properly accounted for.

12. The Authority confirms that it has provided you with all relevant information regarding the following:

- a) Equal Pay Provision – The Authority are confident that the estimated equal pay costs and associated probability underpinning volume of claims is reasonable and does not provide a material under or over provision based upon available information.

This letter was tabled and agreed at the meeting of the Audit Committee on 30-09-11

Yours faithfully,

Chair of the Corporate Governance and Audit Committee

Director

of

Resources

## Appendix 2

### Appendix A to the Management Representation Letter of Leeds City Council: Definitions

#### Financial Statements

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

A housing authority shall present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority shall present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund

For pension funds participating in the following pension schemes, pension fund accounts shall be prepared by the local authority that administers the Pension Fund:

- a) the Local Government Pension Scheme (in England and Wales)
- b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts shall be prepared:

- a) the Firefighters' Pension Scheme for England
- b) the Firefighters' Pension Scheme for Wales
- c) the Police Pension Scheme in England and Wales.

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales shall contain:

- a) A fund account disclosing changes in net assets available for benefits.



## **Appendix 2**

- b) A net assets statement showing the assets available for benefits at the year end.
- c) Notes to the accounts.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

### **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

### **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

### **Related party**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);
- b) associates;

## **Appendix 2**

- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and
- b) an entity with which the relationship is solely that of an agency.

### **Related party transaction**

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

**Report of the Director of Resources**

**Report to Corporate Governance & Audit Committee**

**Date: 30 September 2011**

**Subject: Risk Management Policy Revision**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. The previous Risk Management Policy established formal risk management arrangements across the Council. Now that those arrangements have matured, we believe that the focus of the Risk Management Policy should be less on the processes and more on making sure that our risk management information is analysed alongside other management information to ensure robust decisions are made. As a result, the Policy has been revised and is presented here in draft format for the Committee's consideration as part of a consultation exercise.

**Recommendations**

2. Corporate Governance and Audit Committee is requested to comment on the attached draft Risk Management Policy.

## **1 Purpose of this report**

- 1.1 To seek the views of the Corporate Governance & Audit Committee on a revised draft Risk Management Policy.

## **2 Background information**

- 2.1 In 2005, Executive Board approved a Risk Management Policy for Leeds City Council which had been developed in response to new statutory risk management responsibilities and a number of recommendations from external audit. The Policy was updated in 2008.
- 2.2 Through the implementation of this Policy and accompanying Risk Management Strategy, the authority has established strong risk management processes, particularly at a strategic level. Now that those processes are embedded, we feel it is appropriate to revise the Risk Management Policy again to reflect the direction our risk management arrangements should now take whereby risk management is used alongside a range of other management information as a tool to inform robust decision-making.
- 2.3 Alongside this, the Council's performance management and accountability framework have been revised. Given the crossovers with risk management, it is important that the roles and responsibilities within the Risk Management Policy reflect the new arrangements and so these have also been updated.

## **3 Main issues**

- 3.1 The previous Risk Management Policy established formal risk management arrangements across the Council with the result that risks at operational, project, budget and strategic level are now identified, evaluated and reported on both regularly and consistently.
- 3.2 Now that those arrangements have matured, we believe that the focus of the Risk Management Policy should be less on the processes and more on making sure that our risk management information is analysed alongside other management information to ensure robust decisions are made.
- 3.3 The new 2011 Risk Management Policy is therefore a greatly slimmed-down document in comparison to the 2005 and 2008 versions. It does not detail the risk management process or our statutory and regulatory risk management responsibilities, nor does it define 'risk' and 'risk management' as all these are contained within other documents and guidance produced by the Council's Risk Management Unit. Instead, the 1-page Policy Statement emphasises our commitment to applying risk management in a scaleable and proportionate way and making the best use of a range of management information to build a complete picture of the key risks and issues for senior officers and elected members.
- 3.4 The Risk Management roles and responsibilities outlined in the appendix to the draft Policy have also been updated to reflect the revised performance management and accountability framework and so incorporate the new City and Council Priority Boards.
- 3.5 Following approval of the Policy, a new Risk Management Strategy will be drawn up.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 Corporate Governance and Audit Committee is charged with reviewing the adequacy of the Council's internal control arrangements, including risk management. Underpinning those risk management arrangements is the Risk Management Policy and therefore we consider it essential that this Committee is consulted when proposing changes to that Policy.
- 4.1.2 From an officer perspective, the Corporate Risk Management Group is being consulted as part of its responsibilities for supporting and challenging the Council's risk management arrangements. The Plain English Team will also review the Policy to ensure it meets requirements.
- 4.1.3 Following this consultation, a briefing note and final draft of the Policy will be provided to the Council Leader and the Chief Executive for their signed endorsement.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 No direct implications. Managing the risks associated with equality legislation is covered through the Council's Equality and Diversity Policy.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The Risk Management Policy acts as an umbrella for all other Council policies that make reference to managing the risks associated with a particular legislative requirement or high-risk operational area. These include, for example, Health and Safety, Equality and Diversity, Safeguarding, Business Continuity and Information Governance.
- 4.3.2 Using a structured and consistent risk management approach to focus discussion, prioritise resources and enable justifiable risk-taking will help the successful delivery of the Council and City priorities.

### **4.4 Resources and Value for Money**

- 4.4.1 There are no resource implications.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 Without an up-to-date and fit-for-purpose Risk Management Policy that is formally documented, approved and implemented, there is a risk that the Council would be unable to evidence that it has robust risk management arrangements. Leeds could therefore be in breach of the Accounts and Audit Regulations 2011 which require us to have 'a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.' (Section 4.1)
- 4.5.2 This is not a key or major decision and so is not subject to call in.

### **4.6 Risk Management**

- 4.6.1 Without an up-to-date Risk Management Policy and Strategy, there is a risk that the Council's risk management arrangements will become not in accordance with relevant statutory and regulatory requirements and no longer fit-for-purpose.

## **5 Conclusions**

- 5.1 The 2005 and 2008 Risk Management Policies have served the purpose of establishing strong risk management processes across the authority. The new 2011 Risk Management Policy takes our risk management arrangements to the next level whereby they are used as a strategic management tool to inform decision-making.

## **6 Recommendations**

- 6.1 Corporate Governance & Audit Committee is requested to comment on the attached draft 2011 Risk Management Policy as part of a consultation exercise.

## **7 Background documents**

- 7.1 Leeds City Council Risk Management Policy 2005 and revised version 2008
- 7.2 Accounts and Audit (England) Regulations 2011

## **Leeds City Council’s Risk Management Vision:** **Better risk management. Better decisions. Better outcomes.**

Using risk management to help maximise opportunities and minimise threats will support Leeds in its aim to become the best city in the UK and the organisation to become the best council in the country.

### **Policy Statement**

Leeds City Council provides a huge range of services to the people and city of Leeds. Given the importance, diversity, complexity and number of these services, we know we have a responsibility to recognise and take steps to manage the key risks we face. This Policy sets out the Council’s commitment to a risk management framework that enables staff and elected members to do this by effectively identifying, understanding, managing and reporting on strategic and operational risks. This Policy acts as an umbrella for all other Council policies and processes that incorporate risk management.

We commit to:

- Use a structured and consistent risk management approach to focus discussion, prioritise resources and enable justifiable risk-taking.
- Ensure that risk management is applied in a scaleable and proportionate way.
- Make the best use of management information to build a complete picture of the key risks and issues and to jointly report on risk and performance management.
- Publish the corporate risk register.
- Ensure risks are owned and managed in line with the organisation’s commitment to outcomes-based accountability.
- Listen to feedback and reviewing our risk management arrangements to make sure they are still fit-for-purpose.

### **How we shall deliver the Risk Management Vision**

The Council’s Risk Management Vision will be achieved by:

- Clear risk management roles and responsibilities (see Appendix 1) and formal risk reporting lines.
- Incorporating risk management into the Council’s decision-making arrangements.
- Applying risk management to budget, project and business planning processes.
- Actively involving elected members in identifying and managing key risks.
- Providing risk management guidance and training to staff and elected members.
- Monitoring and reviewing our risk management arrangements on a regular basis to ensure they remain effective and comply with risk management standards, legislation and good practice.

### **Benefits**

Risk management is acknowledged as an integral part of good management and a key feature of corporate governance. Effective risk management therefore works alongside our financial management, performance management and other elements of strategic and operational management to demonstrate transparency and accountability and to underpin the successful delivery of our Council and City priorities.

Signed

**Tom Riordan** (Chief Executive)

**Keith Wakefield** (Council Leader)

*Better risk management. Better decisions. Better outcomes.*

## Appendix 1: Risk Management Roles & Responsibilities

### A. ELECTED MEMBERS

#### 1. Council Leader & Executive Board

- 1.1 Ultimate responsibility for ensuring that the Council has effective risk management arrangements lies with the Executive Board. The Board receives an annual update on this work that includes a summary of the management of corporate risks from the Director of Resources. Executive members also review the corporate risk register through the year and have a key role in identifying the risks associated with the delivery of the authority's priorities.
- 1.2 The Board provides appropriate challenge in relation to strategic decision-making and ensures that the risk management implications of its strategic priorities and all major business change proposals coming before it have been satisfactorily taken into account. In this way, Executive Board is also responsible for setting the Council's risk appetite – i.e. the level of risk we are prepared to tolerate.
- 1.3 The Annual Governance Statement, which takes account of the contribution that risk management plays in achieving objectives, is signed by the Council Leader.

#### 2. Corporate Governance and Audit Committee

- 2.1 The Corporate Governance and Audit Committee is responsible for reviewing the adequacy of the Council's governance arrangements, including risk management. The Committee receives an annual assurance report on our risk management arrangements from the Director of Resources and uses this to monitor, review and scrutinise the performance of the Council's risk management arrangements and their implementation. Further, the Committee provides appropriate challenge on the arrangements to manage specific risks.
- 2.2 The Risk Management Policy is reviewed annually and any significant changes are submitted to Corporate Governance and Audit Committee for review. The Annual Governance Statement, incorporating risk management, is signed by the Chair of the Committee.

#### 3. Scrutiny Boards

- 3.1 Scrutiny Boards ensure that appropriate risk management considerations have been given to the areas of their investigations.

#### 4. Member Risk Management Champion

- 4.1 The Member Risk Management Champion is the Executive Member for Resources and Corporate Functions. This member is responsible for ensuring that a robust risk management process is applied to all key and major decisions made by elected members, including the use of quality risk assessments within reports requiring decisions. The role includes promoting the application of risk management and related training to elected members.

#### 5. All Elected Members

- 5.1 All elected members maintain an understanding of the risk management arrangements within the Council and are responsible for considering the risk implications during decision-making and policy approval. This is particularly relevant for decisions which may have resource implications, an impact on the authority's strategic priorities or propose a service change.



## **B. COUNCIL STAFF**

### **1. Corporate Leadership Team**

- 1.1 Members of the Corporate Leadership Team (CLT) are responsible for ensuring that all strategic risks are effectively managed. Individual directors take ownership of specific risks on the corporate risk register and CLT as a whole collectively reviews and challenges this register each quarter as part of a joint risk and performance report.
- 1.2 CLT ensures that due consideration is given to identifying and managing the risks associated with the delivery of the Council's priorities and with major business change proposals. This may include reviewing the allocation of resources and establishing clear lines of accountability across the organisation and with external partners.
- 1.3 The Director of Resources has specific responsibility for providing assurances to the Executive Board and the Corporate Governance and Audit Committee on the adequacy of our risk management arrangements. In addition, the Director of Resources holds delegated authority to approve changes to the Risk Management Policy on behalf of Executive Board and acts as the 'officer risk management champion'.

### **2. City and Council Priority Boards**

- 2.1 Members of the Priority Boards are responsible for ensuring the proper identification, assessment, management and reporting of the key risks that could impact upon the successful delivery of their priorities.

### **3. Senior managers**

- 3.1 Senior managers are responsible for ensuring that arrangements are in place within their directorates and services to identify and manage risks in accordance with the Council's Risk Management Policy. To facilitate this, managers contribute to the regular updating and review of strategic and operational risk registers as needed. This includes corporate, directorate, budget, programme, project and partnership registers. They also ensure that robust but proportionate risk assessments are contained within reports requiring a decision.

### **4. Project Executives and Project Managers<sup>1</sup>**

- 4.1 Project Executives and Project Managers are responsible for ensuring that adequate risk management arrangements are in place throughout the project lifecycle. They also report the 'Red/Amber/Green' (RAG) status of their projects to the corporate Risk Management Unit each quarter for inclusion in the corporate risk register.
- 4.2 The Project Executive, when setting project tolerances, determines the level of risk exposure that the project is willing to accept. Those project risks which are deemed to have a direct impact on the achievement on directorate or strategic priorities are escalated to the directorate management team.

### **5. All Council Staff**

- 5.1 All staff have a duty to consider the risks to the achievement of their day-to-day objectives and the Council's priorities. They also ensure that any risks which they cannot manage or that have a cross-cutting impact are escalated to their managers. At a Chief Officer level, this may mean adding the risks to the Directorate Risk Register. At a directorate level, this may mean proposing a risk for escalation to the corporate risk register.
- 5.2 When developing new policies and processes that incorporate risk management, staff must refer to this Policy in the first instance.

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<sup>1</sup> This includes Programme Executives and Programme Managers

## **6. Corporate Risk Management Group**

- 6.1 The Corporate Risk Management Group (CRMG) is responsible for supporting and challenging the Council's risk management arrangements, embedding risk management within each member's directorate/organisation and co-ordinating the escalation of risks on to the corporate risk register. Working with performance management colleagues, the group also approves the report submitted to the Corporate Leadership Team each quarter on the most significant risk and performance issues.
- 6.2 CRMG members are supported by directorate risk co-ordinators and the Council's Risk Management Unit (see below).

## **7. Directorate Risk Co-ordinators**

- 7.1 Directorate risk co-ordinators are responsible for maintaining their directorate's risk register and ensuring it is reviewed by the management team. They, alongside Corporate Risk Management Group members, act as the main point of risk management communications between the Risk Management Unit and the directorate.

## **8. Risk Management Unit**

- 8.1 The corporate Risk Management Unit (RMU) is responsible for developing, implementing and co-ordinating all strategic risk management arrangements and is the central source of advice and guidance for strategic risk management. The Unit's roles include maintaining the corporate risk management documentation (policy, strategy, project risk management guidance etc.), analysing and reporting on the corporate risk register and liaising with colleagues across the Council and externally to help identify, assess and manage strategic risks.
- 8.2 The Unit supports the Corporate Risk Management Group and is responsible for the development, implementation and administration of the Council's risk management software system.
- 8.3 The RMU is also responsible for providing strategic risk management assurance reports to senior managers and elected members and, where appropriate, to external assessors.

## **9. Internal Audit**

- 9.1 Internal Audit uses robust risk management techniques in its audit processes and considers the corporate risk register when developing its audit plan. Internal Audit also ensures regular and appropriate two-way information sharing with the Risk Management Unit.



Report author: Neil Hunter

Tel: 74214

## Report of the Deputy Chief Executive and Director of Resources

### Report to Corporate Governance and Audit Committee

**Date: 30<sup>th</sup> September 2011**

**Subject: Internal Audit Report September 2011**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.
2. This report provides a summary of internal audit activity for the period April – September 2011 and highlights the incidence of any significant control failings or weaknesses.

### Recommendations

3. The Corporate Governance and Audit Committee is asked to receive the Internal Audit September 2011 report and note the work undertaken by Internal Audit during the period covered by the report.

## **1 Purpose of this report**

- 1.1 This purpose of this report is to provide a summary of internal audit activity for the period April – September 2011 and highlight the incidence of any significant control failings or weaknesses.

## **2 Background information**

- 2.1 The Corporate Governance and Audit Committee ('the Committee') has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

## **3 Main issues**

- 3.1 The report details the work undertaken by the Internal Audit section. The report also contains a summary of completed reviews along with their individual audit opinions.
- 3.2 The report includes progress made in terms of actual days for each assurance block of the Internal Audit operational plan 2011/12. This will continue to be monitored throughout the year and key issues reported to the Deputy Chief Executive & Director of Resources and the Chief Officer (Audit & Risk). The Head of Audit will report key issues arising from this work to the Committee in the bi-monthly and annual reports.
- 3.3 Internal Audit will continue to undertake a follow up audit on audit reports where the impact has been determined as either 'Major' or 'Moderate' to ensure the revised controls are operating well in practice.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 None.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 None.

### **4.3 Council Policies and City Priorities**

- 4.4 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee.

### **4.5 Resources and Value for Money**

- 4.5.1 None.

#### **4.6 Legal Implications, Access to Information and Call In**

4.7 None.

#### **4.8 Risk Management**

4.8.1 None.

### **5 Conclusions**

5.1 There are no issues identified by Internal Audit in the September 2011 Internal Audit Report that would necessitate direct intervention by the Corporate Governance & Audit Committee.

### **6 Recommendations**

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit September 2011 report and note the work undertaken by Internal Audit during the period covered by the report.

### **7 Background documents**

7.1 None.

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# **LEEDS CITY COUNCIL**

## ***INTERNAL AUDIT REPORT***

***September 2011***

*Internal Audit Report September 2011*

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### **1. INTRODUCTION**

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**Progress against the 2011/12 Operational Plan**

**How Internal Control is Reviewed**

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### **2. SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES**

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*Section 1*

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## ***INTRODUCTION***

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### ***1. The Reporting Process***

- 1.1. On behalf of the Corporate Governance and Audit Committee and the Director of Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.2. This bi-monthly report seeks to provide the Corporate Governance and Audit Committee with a summary of internal audit activity for the period and report the incidence of any significant control failings or weaknesses.

### ***2. Background***

The impact of the changing environment in which the council is operating - responding to challenges from the Government's spending review and facing significant cost pressures - is necessitating a thorough and ongoing re-evaluation of the level of coverage required to give stakeholders, including the Corporate Governance & Audit Committee, an appropriate level of assurance on the control environment of the council. Therefore, as in previous years, the internal audit operational plan is subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk.

### ***3. Progress against the 2011/12 Operational Plan***

- 3.1 The following table shows the progress against the operational plan for the first quarter of the financial year for each assurance block. Resources continue to be reprioritised based on continuous risk assessment. At the moment, it is still expected the mix and volume of work will be sufficient to provide the Committee and other stakeholders with an evidence based assurance on the control environment of the Council.

Assurance Block	Total Days per Audit Plan 2011/12	Total Days Spent 1 <sup>st</sup> Quarter 2011/12	% completion
Financial Systems	805	182	23%
Contingency	770	32	4%
Counter Fraud And Corruption	922	273	30%
Head Of Audit Assurances	54	30	56%
ICT And Data Mining	530	32	6%
Internal Control And Compliance	1400	395	28%
Policies And Procedures	52	0	0%
Procurement, Monitoring And Improvement	915	79	9%
Schools	140	46	33%
Unannounced Visits	100	58	58%
Business Analysis And VfM	2178	561	26%
<b>Total Assurance Days</b>	<b>7866</b>	<b>1688</b>	<b>21%</b>

In addition, the audit plan also included days for the following:

Audit Area	Days per Audit Plan 2011/12	Days Spent 1 <sup>st</sup> Quarter 2011/12	% completion
Total Corporate Working Groups	90	0	0%
Total External Contracts	324	174	54%
<b>Total Days</b>	<b>414</b>	<b>174</b>	<b>42%</b>

#### *4. How Internal Control is Reviewed*

- 4.1. There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.
  
- 4.2. However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
  
- 4.3. Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

4.4. To improve consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed:

<b>Control Environment Assurance</b>		
<b>Level</b>		<b>Definitions</b>
1	SUBSTANTIAL ASSURANCE	There are minimal control weaknesses that present very low risk to the control environment.
2	GOOD ASSURANCE	There are minor control weaknesses that present low risk to the control environment.
3	ACCEPTABLE ASSURANCE	There are some control weaknesses that present a medium risk to the control environment.
4	LIMITED ASSURANCE	There are significant control weaknesses that present a high risk to the control environment
5	NO ASSURANCE	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Compliance Assurance</b>		
<b>Level</b>		<b>Definitions</b>
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
2	GOOD ASSURANCE	The control environment has largely operated as intended although some errors have been detected.
3	ACCEPTABLE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact will be reported as either Major, Moderate or Minor. All reports with major organisational impacts will be reported to CLT along with the appropriate directorate's agreed action plan.

<b>Organisational Impact</b>		
<b>Level</b>		<b>Definitions</b>
1	MAJOR	The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
2	MODERATE	The weaknesses identified during the review have left the council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
3	MINOR	The weaknesses identified during the review have left the council open to low risk. This could have a minor impact on the organisation as a whole.

**Internal Audit Report September 2011**

4.5. The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken. The following table includes reports issued between 17<sup>th</sup> May and 2<sup>nd</sup> September 2011. Audit reports for 2011/12 which were issued up to and including 16<sup>th</sup> May 2011 were included in the Internal Audit Annual Report for 2010/11 which was reported to Corporate Governance and Audit Committee on 15<sup>th</sup> June 2011.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
<b>Financial Systems</b>					
Leeds Revenues and Benefits Service - Accounting & Subsidy	Good Assurance	Good Assurance	Minor	Resources	03/06/2011
Integrity of Accounts	Substantial Assurance	Substantial Assurance	Minor	Resources	20/06/2011
Central Financial Management - Central Controls	Substantial Assurance	N/A	Minor	Resources	20/06/2011
Council Tax	Good Assurance	N/A	Minor	Resources	07/07/2011
Capital Programme - Central Controls	Good Assurance	Good Assurance	Minor	Resources	07/07/2011
Leeds Revenues and Benefits Service - Counter Fraud	Good Assurance	Acceptable Assurance	Minor	Resources	08/07/2011
Business Support Centre - Creditors	Good Assurance	Good Assurance	Minor	Resources	14/07/2011
Creditors - Children's Services	Good Assurance	Good Assurance	Minor	Children's Services	20/07/2011
Treasury Management	Substantial Assurance	Substantial Assurance	Minor	Resources	20/07/2011
Business Support Centre - Human Resources Administration	Good Assurance	Acceptable Assurance	Moderate	Resources	20/07/2011
Business Support Centre - Central Payments	Good Assurance	Good Assurance	Minor	Resources	20/07/2011
Sundry Income – City Development	Acceptable Assurance	Acceptable Assurance	Moderate	City Development	23/08/2011
<b>Business Analysis and VFM</b>					
Business Analysis Review - Children's Transport Efficiency		N/A		Children's Services	29/06/2011
Adult Social Care As-Is End to End Review: Learning Disabilities – Continuing Healthcare Team		N/A		Adult Social Care	18/08/2011
Adult Social Care As-Is End to End Review: Learning Disabilities Service – Day Service Modernisation		N/A		Adult Social Care	18/08/2011
<b>Internal Control and Compliance</b>					
Asset Verification - Children's Services	Good Assurance	N/A	N/A	Children's Services	31/05/2011

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Asset Verification - City Development	Acceptable Assurance	N/A	N/A	City Development	13/06/2011
Asset Verification - Adult Social Care	Acceptable Assurance	N/A	N/A	Adult Social Care	13/06/2011
Asset Verification - Environment & Neighbourhoods	Acceptable Assurance	N/A	N/A	Environment & Neighbourhoods	17/06/2011
Asset Verification - Central and Corporate Functions	Good Assurance	N/A	N/A	Resources	07/07/2011
Early Leavers Initiative	Good Assurance	Good Assurance	Minor	Resources	19/07/2011
Right to Buy Scheme	Good Assurance	Good Assurance	Minor	Environment and Neighbourhoods	15/08/2011
<b>Procurement, Monitoring and Improvement</b>					
Open Book Review - Youth Services Provider	Limited Assurance	No Assurance	Moderate	Children's Services	05/04/2011
<b>Schools</b>					
Waterloo Primary School	Limited Assurance	Limited Assurance	Minor	Children's Services	03/06/2011
Middleton Primary School	Good Assurance	Good Assurance	Minor	Children's Services	23/06/2011
Wetherby High School	Acceptable Assurance	Limited Assurance	Minor	Children's Services	08/07/2011
Kirkstall St Stephens COE Primary School	Acceptable Assurance	Acceptable Assurance	Minor	Children's Services	21/07/2011
Boston Spa School	Acceptable Assurance	Acceptable Assurance	Minor	Children's Services	21/07/2011
City of Leeds High School	Limited Assurance	Limited Assurance	Minor	Children's Services	21/07/2011
Cobden Primary School	Acceptable Assurance	Good Assurance	Minor	Children's Services	26/07/2011
Benton Park High School	Acceptable Assurance	Limited Assurance	Minor	Children's Services	09/08/2011
<b>Unannounced Visits</b>					
Pudsey Leisure Centre	Substantial Assurance	Good Assurance	Minor	City Development	19/05/2011
Armley Leisure Centre	Substantial Assurance	Good Assurance	Minor	City Development	19/05/2011
Fredrick Hurdle Day Centre	Good Assurance	Good Assurance	Minor	Adult Social Care	26/07/2011
Meadowfield Children's Centre	Good Assurance	Good Assurance	Minor	Children's Services	26/07/2011
Armley Moor Children's Centre	Good Assurance	Good Assurance	Minor	Children's Services	26/07/2011
Lotherton Hall	Good Assurance	Good Assurance	Minor	City Development	26/07/2011
Richmond Hill Children's Centre	Good Assurance	Good Assurance	Minor	Children's Services	26/07/2011

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Pudsey Civic Hall	Good Assurance	Good Assurance	Minor	City Development	04/08/2011
Leeds Town Hall	Good Assurance	Good Assurance	Minor	City Development	08/08/2011
Apna Day Centre	Good Assurance	Acceptable Assurance	Minor	Adult Social Care	23/08/2011
Harehills Children's Centre	Good Assurance	Good Assurance	Minor	Children's Services	23/08/2011
Hunslet Children's Centre	Good	Good	Minor	Children's Services	02/09/2011
<b>Strategic Landlord Assurance Framework Reviews (Internal Control and Compliance)</b>					
Procurement Quarters 1 & 2 - West North West Homes	Acceptable Assurance	Acceptable Assurance	Minor	Environment & Neighbourhoods	17/05/2011
Keystone Asset Management - Belle Isle Tenant Management Organisation	Good Assurance	Good Assurance	Minor	Environment & Neighbourhoods	17/05/2011
Keystone Asset Management - Strategic Landlord Review (Central Controls)	Acceptable Assurance	Good Assurance	Minor	Environment & Neighbourhoods	26/05/2011
Lettings Enforcement - Aire Valley Homes Leeds	N/A	Acceptable Assurance	Moderate	Environment & Neighbourhoods	08/06/2011
Tenancy Enforcement Policies & Procedure - East North East Homes Leeds	N/A	Good Assurance	Minor	Environment & Neighbourhoods	08/06/2011
Tenancy Enforcement Policies and Procedures - Strategic Landlord Review (Central Controls)	Acceptable Assurance	N/A	Moderate	Environment & Neighbourhoods	13/06/2011
Key Policies: Safeguarding Policy - Aire Valley Homes Leeds	Acceptable Assurance	N/A	Minor	Environment & Neighbourhoods	13/06/2011
Capital Programme Consultation - Aire Valley Homes Leeds	Good Assurance	N/A	Minor	Environment & Neighbourhoods	14/06/2011
Corporate Governance - Belle Isle Tenant Management Organisation	Good Assurance	N/A	Minor	Environment & Neighbourhoods	17/06/2011
Lettings Enforcement - Belle Isle Tenant Management Organisation Quarters 3 & 4	N/A	Acceptable Assurance	Minor	Environment & Neighbourhoods	17/06/2011
Key Policies: Safeguarding Policy - West North West Homes	Substantial Assurance	N/A	Minor	Environment & Neighbourhoods	17/06/2011
Procurement Quarter 3 - West North West Homes	Acceptable Assurance	Acceptable Assurance	Minor	Environment & Neighbourhoods	22/06/2011
Responsive Repairs - East North East Homes	Good Assurance	Good Assurance	Minor	Environment & Neighbourhoods	23/06/2011
Gas Servicing - Belle Isle Tenant Management Organisation	Acceptable Assurance	Acceptable Assurance	Moderate	Environment & Neighbourhoods	24/06/2011
Gas Servicing - Aire Valley Homes Leeds	Good Assurance	Acceptable Assurance	Moderate	Environment & Neighbourhoods	30/06/2011
Keystone Asset Management - Aire Valley Homes Leeds	Acceptable Assurance	Good Assurance	Minor	Environment & Neighbourhoods	08/07/2011
Lettings Enforcement Quarters 3 & 4 - West North West Homes Leeds	Acceptable Assurance	Acceptable Assurance	Minor	Environment & Neighbourhoods	12/07/2011

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Responsive Repairs - West North West Homes Leeds	Acceptable Assurance	Good Assurance	Minor	Environment & Neighbourhoods	14/07/2011
Keystone Asset Management - West North West Homes Leeds	Acceptable Assurance	Acceptable Assurance	Minor	Environment & Neighbourhoods	18/07/2011
Responsive Repairs - Aire Valley Homes Leeds	Acceptable Assurance	Good Assurance	Minor	Environment & Neighbourhoods	27/07/2011
Corporate Governance - West North West Homes	Good Assurance	N/A	Minor	Environment & Neighbourhoods	01/09/2011

4.6. As can be seen, there are a small number of school reviews that have resulted in limited assurance or no assurance. However each review concluded with a number of recommendations that, if implemented, would allow appropriate levels of assurance to be given.

4.7. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.

4.8. Further details of key issues identified within each assurance block are included below in the *Summary of Audit Activity and Key Issues at Section 2*.

*Section 2*

---

## ***SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES***

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A summary of reports issued within each assurance block is included in the table at 4.5. The following section highlights any key issues and outcomes where Internal Audit have added value to the organisation within each assurance block.

### **5.1 Financial Systems**

The level of assurance provided for all key financial systems was acceptable or higher and in all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance.

### **5.2 Business Analysis and VFM**

#### **5.2.1 Business Process Re-engineering (BPR) reports issued**

##### *Children's Transport Efficiency*

The Children's Transport Efficiency Group requested a review of the current business processes operated by the Client Services Team within Passenger Transport Services and to provide options on potential areas where efficiencies could be achieved. This included a review of the Council's transport policy which provides the foundation for customer eligibility criteria.

The review highlighted that were LCC to review the provisions of its Children's Transport policy in line with those of other authorities and/or make some changes to the business processes, efficiency savings could be achieved. Based on a sample of responses from SEN Co-ordinators to a questionnaire on travel arrangements, the review highlighted the potential to consider the needs of existing users in relation to transport and to look at whether alternative, more independent methods of travel are appropriate within the authority's policy and guidelines. Based on the sample of responses from professionals, the potential to reduce demand on the service was approximately £76k. A follow up review will be undertaken later in the year to evaluate progress made against the opportunities and recommendations made in the report.



### 5.2.2 BPR on-going work

Demand from Directorates for Business Process Re-engineering resources on projects and programmes remains extremely high across the authority. A number of projects are currently on-going within Adult Social Care, Children's Services and within the Business Transformation Team's Changing the Workplace programme.

Within Adult Social Care, as part of the Business Systems Transformation (BST) Programme, a number of workshops have been facilitated by the Business Analysts to develop existing processes and practice. The workshops have focused on 5 key areas;

1. The receipt and screening of referrals;
2. Assessment and unscheduled reviews;
3. The approval of care options;
4. Scheduled reviews;
5. Policy, procedures and guidance.

The workshops have successfully engaged a large cross-section of staff and management from across Adult Social Care. The resulting to-be processes are scheduled to be presented to key stakeholders within the Directorate during September.

The Business Analysts are currently working with the project team within Children's Services to produce the business system requirements covering Fostering, Adoption and Finance for the replacement Social Care System.

In addition, the Internal Audit Business Analysis team were commissioned by the Business Transformation team to support the Changing the Workplace programme. The analysts have reviewed a number of Council services to understand and assess their state of readiness for migration to a City Enquiry Centre, and defined new service delivery models for each of the appropriate services for migration.

The team are also working with Leeds Revenues and Benefits Service on the Electronic Document and Records Management System (EDRMS) Project for the Changing the Workplace Programme. Initially, the analysts are undertaking the first phase of the project to understand and baseline current work processes.

## **5.3 Internal Control and Compliance**

### **5.3.1 Overtime**

#### *Background*

The Payroll audit of 2010/11 again reported that the Processing Teams at the Business Support Centre (BSC) do not maintain up-to-date signatory lists to check the validity of all temporary variations (i.e overtime) claims. Instead, reliance is placed on budget monitoring undertaken at Directorate level to ensure that all claims made are valid.

Audit testing was undertaken to verify the appropriateness of the signatories in the absence of checks being undertaken by the Processing Teams. The testing found that in 10/30 cases the requests did not appear to have been authorised at an appropriate level within the Directorate. For these claims, BSC advised Internal Audit that informal arrangements are in place with the Service Areas to allow specified individuals to submit the overtime claims, however these arrangements are not documented.

#### *Scope*

Given the control weakness, in order to gain assurance on the validity of overtime claims, Internal Audit has tested a sample of 35 claims (25 employees selected at random plus the 10 identified during the Payroll audit.) Testing was undertaken to ensure that there is sufficient evidence to support the hours worked and that the authorisation of the claims is appropriate.

Of the 35 overtime claims tested, these were found to be generally satisfactory.

#### *Outcomes*

Internal Audit has put forward a series of recommendations to strengthen the controls for overtime payments, without adding excessive bureaucracy, for example requesting budget holders to give additional scrutiny to the overtime charged to their budgets on a monthly basis, and reminders to ensure relevant documentation is retained to support overtime payments. In addition, Internal Audit will review the authorisation checking process that is due to be introduced within BSC pending the introduction of the Self Service facility and also undertake periodic sample checks within the areas of high spend, making system improvement recommendations where appropriate.

External Audit have been able to place reliance on our additional work to satisfy themselves that the control weakness will not have an impact on their audit opinion for the 2010/2011 financial statements.

### 5.3.2 Third Party Monies

Following a number of whistleblowing allegations received by Internal Audit (as detailed in the Counter Fraud and Corruption section below) in respect of LCC staff misappropriating client monies, Internal Audit is reviewing the central controls in place to safeguard vulnerable adults from financial abuse. Internal Audit, in conjunction with Adult Social Care, has issued a notification to all teams that have contact with the money of vulnerable adults to advise that Internal Audit will be undertaking establishment visits to make sure that the policies and procedures in place to safeguard customer monies are being followed. The establishments will be risk assessed and visits will be undertaken over the next 2 months.

## 5.4 **Procurement, Monitoring and Improvement**

### 5.4.1 Responsive Repairs and Void Works Contractor

Following an extensive procurement exercise managed by the Council's procurement unit, a Contractor was awarded the contracts to deliver the responsive repairs, voids works, capital improvements service for WNWHL and responsive repairs, void works, capital improvement and gas servicing services for AVHL. Letters of intent have been signed by the Council and the Contractor and negotiations on the detail of the header agreement are continuing.

The contracts went live on 1<sup>st</sup> April 2011 and since then the level of service being delivered is well below acceptable standards. The Council and the ALMOs have been actively working with the Contractor on a joint improvement programme which has seen some progress recently in moving the service back to the acceptable levels. There is more to do and joint work will continue.

The contract management structure is in place and Internal Audit are engaged in this process. Internal Audit are currently in negotiations with the Contractor, through the contract management processes, to agree a date for the first open book review.

### 5.4.2 Open Book Review – Youth Services Provider

An open book review was undertaken on a 3 year contract with a provider of an information, advice and guidance service for young people in the Leeds area. The total value of funding over the contract was approximately £10m. This was subsequently reduced in value by negotiation to £8.3m.

The audit review was to determine whether the financial and non financial monitoring of the contract was robust, and that payments made were based on the prices agreed in the original tender.

The review concluded the following:

#### Limited Control Environment

- Lack of evidence to demonstrate there was a robust system in place for monitoring the outputs and financial spend against budget on the contract in 2009/10. It should be noted that the contract was principally outcome focused and not wholly output based.
- There had not been comprehensive reporting against KPI's as stipulated in the approved tender.
- The contract monitoring team was evolving and consequently there were differing practices in terms of contract monitoring and reviews of performance. Contract monitoring roles and responsibilities required clarification.

No assurance was provided for compliance with controls. With respect to the actual spend in year 1, it was identified that £269,158 of costs attributed to this contract could not in the auditors view be justified. Legal advice was sought in relation to some of the costs included in the organisation's expenditure. The payment of some of the costs was permitted due to the budget reductions applied to the contract.

The contract is a fixed price contract and does not have a facility for financial clawback. Financial repayment or penalty could only be imposed if the contract's performance management framework was applied. The use of the framework was not considered necessary by the contract management team based on performance on the contract against existing performance measures.

During 2010/11, there were changes in staff responsibilities and line management for the contract. A new contract monitoring team has now been established and it is understood that steps have been taken to improve financial monitoring of the contract.

Following the review, the Director of Children's Services outlined a number of actions to be taken and confirmed that the Directorate would make urgent improvements and provide improved assurance. An action plan was agreed and the Directorate is prioritising the areas of highest risk i.e. improved contract management processes.

A follow up audit will be conducted later in the year to assess progress towards implementation of recommendations and re-evaluate the level of assurance based on the findings.

## 5.5 Counter Fraud and Corruption

### 5.5.1 Referrals

A total of 41 referrals have been received by the Internal Audit Fraud and Corruption team since 1<sup>st</sup> April 2011, and there are 30 ongoing investigations.

- 16 cases are currently being investigated by the Fraud team;
- 6 are waiting for investigation by the Fraud team;
- 5 have been referred to a Directorate or HR for investigation and the Fraud team is awaiting their responses;
- 3 are awaiting the outcome of police and/or disciplinary action before they can be closed.

In addition:

- 31 cases investigated relating to the current and prior year have been closed.

A list of investigation reports issued to date during 2011/12 is shown in the table below:

Report Title	Date Issued
Honoraria Payments	27/06/11
Voluntary Sector Organisation – Elderly	08/07/11
Fraudulent Insurance Claim	08/07/11
Provider of disabled facilities	15/07/11
Grievance Procedure	20/07/11
Primary School	02/08/11
Concerns re Benefit Fraud Investigation	03/08/11
Employee salary deductions for permits	04/08/11

- 37 referrals not subject to a fraud investigation were closed. These were recorded for reference only or referred to other agencies, local authorities or teams within Internal Audit (for example, fraudulent direct debits which will be covered as part of the review of Creditors.)

### 5.5.2 Major Investigations

#### (a) Completed cases

##### *Primary school 1*

Following the identification of discrepancies in cash and banking by the Finance Officer, an investigation at a school was completed where it was identified that over £35k was missing from the school's extended schools

income, dinner money income, petty cash and school voluntary fund. Police and disciplinary investigations are ongoing. This occurred due to a lack of segregation of duties controls, pre and post banking checks and reconciliation and review of records by a senior officer.

Systems weaknesses and findings to address these have been included in the report provided to the school's Governing Body. A claim has currently been made on the authority's insurance to recover the monies, although reimbursement of these are being sought from the suspect as part of the criminal case.

#### *Primary School 2*

This audit was carried out after anomalies were identified by the school in the School Voluntary Fund. An employee has subsequently admitted in an Interview Under Caution to theft and has been dismissed. The criminal case is on-going, however it is believed that over £23k was misappropriated over a number of years. This occurred due to a lack of controls over the unofficial fund bank accounts held by the school, records held for these and the reconciliation and review of records not being undertaken by a second officer.

Systems weaknesses and findings to address these have been included in the report provided to the school's Governing Body. A claim has currently been made on the authority's insurance to recover the monies, although reimbursement of these is being sought from the suspect as part of the criminal case.

#### *Parking Permits*

Subsidised charges were introduced in April 2009 for city centre parking permits provided to employees. Investigations revealed that 19 employees, who were provided with permits, were not being charged (one employee is now paying for their permit.) Failure to collect associated income from these employees resulted in an estimated loss of £22k, to the end of March 2011.

A report has been issued to management on our findings, including the recommendation that the staff are charged for the uncollected salary contributions so these funds can be recovered.

#### (b) On-going work

##### *Adult Social Care establishment*

An investigation is currently being undertaken at an establishment regarding the suspected theft of monies by a Support Worker. Approximately £27k is believed missing to date, however, the final figure is yet to be determined. The thefts occurred due to a lack of checks to bank statements, invoices and receipts and misunderstanding amongst staff regarding what they were supposed to check when they counter-signed transactions.

Systems weaknesses and findings to address these are to be included in a report to the Director of Adult Social Care and it is envisaged that new guidelines will be drawn up for staff and managers at all such establishments to prevent any form of reoccurrence of this type of fraud.

This investigation is being carried out jointly with the Police and a disciplinary investigation is also being undertaken.

#### *Section 48 team investigation*

An investigation has been undertaken with regard to the alleged theft of monies from the account of a deceased client by an employee on our Receivership team. This employee has resigned and admitted to the theft of at least £17k. However the final figure missing is yet to be determined by the police. Significant control weaknesses have been found and work is ongoing with the directorate to improve the systems in place. The Police are continuing to investigate this case.

### **5.5.3 Proactive Work**

#### *Bribery Act 2011*

A review has been undertaken of the Bribery Act 2010 and the guidelines issued on its implementation in March 2011. These have then been assessed against our current arrangements to prevent our staff being accused of bribery and corruption and any further action needed to implement the legislation has been identified.

Further details of this work can be found in the full report being provided to the Corporate Governance and Audit Committee on the subject.

## **5.6 Schools**

A number of school audits have been conducted during the year to date which have resulted in limited assurance. Weaknesses in controls and compliance with controls have been identified in school voluntary funds, petty cash, school meals, school trips, creditor payments and payroll. For each school, an action plan has been agreed with the Headteacher which gives recommendations to improve the level of assurance given. Follow up audits will be conducted later in the year for reports where limited assurance has been provided to assess progress towards implementation of recommendations and re-evaluate the level of assurance based on the findings.

## **5.7 Policies and Procedures**

### **5.7.1 Financial Procedure Rules**

The team is currently undertaking a review of Financial Procedure Rules (FPR's) to ensure that:

- they are fit for purpose, accessible and relevant to the business of the council; and
- disseminated, promoted and embedded throughout the council by developing and implementing a communications plan.

Our aim is to promote the principle of 'good housekeeping' with respect to the management of council assets and resources, and to remind employees of their public sector values.

### **5.7.2 Whistleblowing Policy**

Internal Audit continues to act as the custodians of the Council's Whistleblowing Policy. As detailed above, in 2011/12 to date, Internal Audit has dealt with a total of 41 potential irregularity referrals.

It has been identified that a large proportion of recent referrals relate to the following areas:

- Schools and establishments, usually in the form of the theft of Leeds City Council, unofficial fund or vulnerable adults monies by trusted employees;
- Disclosure/ misuse of confidential information;
- Misuse of council resources by our employee's, usually vehicles, materials and time;
- Our involvement with third/ voluntary sector organisations, particularly allegations regarding obtaining funding for services not provided and how they utilise their resources in the current economic climate.

We hope to direct proactive work on these areas by reminding managers of the need for key controls to be maintained, revising the Financial Procedure Rules to make them more accessible and are receiving training ourselves on information governance legislation in order to better investigate confidentiality breaches.

## **5.8 Head of Audit Assurances**



5.8.1 Bus Operators Grant Claim

Internal Audit review the grant claim on a six monthly basis. The detailed work completed in order to provide information on ineligible travel led to the level of ineligible miles reducing for both Adult and Children's services. The net effect of this is an increase in income to the Council of £5.2k.

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**Report of Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> September 2011**

**Subject: Annual Governance Statement**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Summary of main issues**

1. The Council has a duty to undertake an annual review of the effectiveness of its system of internal control. Following that review a committee, in our case the Corporate Governance and Audit Committee, must approve an annual governance statement.
  
2. The review of effectiveness of the Council's Governance arrangements, has been informed by matters considered by;
  - Executive Board
  - Corporate Governance and Audit Committee (particularly assurance reports from officers reporting to the committee)
  - Reports and opinions from;
    - Internal Audit
    - External Audit
    - Inspectorates
    - Local Government Ombudsman
  - Appropriate enquiries of management and staff with relevant knowledge and experience.
  
3. The attached Annual Governance Statement has been prepared in accordance with proper practices specified by the Accounts and Audit Regulations 2011.

**Recommendations**

4. Corporate Governance and Audit Committee is asked to approve the attached Annual Governance Statement; and recommend that the Leader of Council, Chair of Corporate Governance and Audit Committee, Chief Executive and Director of Resources sign the document on behalf of the Council.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to present the Annual Governance Statement (AGS) to the committee for approval.

## **2 Background information**

- 2.1 The Annual Governance Statement is a public statement on the adequacy of the Council's governance arrangements, and, as directed by the Accounts and Audit (England) Regulations 2011, must accompany the statement of accounts.
- 2.2 The Regulations, specifically Regulation 4(3), requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with 'proper practices'<sup>1</sup>. These proper practices have not been reviewed since 2007 and aspects, for example references to 'direction of travel statements, are outdated. However they remain broadly fit for purpose as a basis for preparing the Annual Governance Statement which appears at Appendix 1.

## **3 Main issues**

- 3.1 Members may recall that last year a new approach to collating assurances from governance lead officers was introduced, with these assurances providing the basis for the drafting of the AGS.
- 3.2 In light of the current financial climate, and the drive to reduce unnecessary bureaucracy, the Head of Governance Services has further refined and streamlined the drafting process for the AGS.
- 3.3 In Leeds the review of effectiveness is an ongoing process and includes the internal or external audit of internal control processes that have taken place during the year, and matters that have been the subject of reports to Corporate Governance and Audit Committee, the Executive Board and other member forums. In addition Directors have reviewed the attached statement and have confirmed that, to the best of their knowledge and belief, all matters of significance have been disclosed.
- 3.4 Members will note that Section 5 of the AGS, the section dealing with significant governance issues, directly links the areas for improvement to those identified in the Council Business Plan 2011 - 15. This reflects the extent to which governance issues have been embedded into corporate planning and performance management processes and provides a streamlined and sustainable structure to monitor identified areas for improvement.
- 3.5 KPMG have also confirmed, in their report to those charged with governance (also on the agenda for committee today), that, having reviewed the Annual Governance Statement, the statement complies with Delivering Good Governance: A Framework, published by CIPFA/SOLACE in June 2007; and is not misleading or inconsistent with other information that they are aware of.

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<sup>1</sup> CIPFA/SOLACE - Delivering Good Governance in Local Government Framework 2007

- 3.6 Corporate Governance and Audit Committee is asked to approve the attached Annual Governance Statement; and recommend that the Leader of Council, Chair of Corporate Governance and Audit Committee, Chief Executive and Director of Resources sign the document on behalf of the Council.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 The Corporate Leadership Team has been consulted on content of the Annual Governance Statement, particularly to ensure that there are no omissions or misrepresentations.
- 4.1.2 The Annual Governance Statement links to the objectives of the Council Business Plan relating to consultation– specifically that all major decisions affecting the lives of communities can evidence that appropriate consultation has taken place.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Annual Governance Statement links to the objectives of the Council Business Plan relating to Equality – specifically that all major decisions needing to evidence that appropriate consideration has been given to equality issues.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The Annual Governance Statement reports that whilst progress has been made in agreeing policies and implementing procedures to govern the management of data and information, a number of incidents of data loss have occurred during the year.
- 4.3.2 Following approval of the statement a review of the Council’s Code of Corporate Governance will be undertaken.

### **4.4 Resources and Value for Money**

- 4.4.1 The Annual Governance Statement makes links to the objectives of the Council Business Plan relating to the budget and financial planning and management – specifically that all directorates work within their approved budget and that arrangements ensure the Council maintains revenue reserves.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 The Annual Governance Statement is a public statement on the adequacy of the Council’s governance arrangements, and as directed by the Accounts and Audit (England) Regulations 2011, must accompany the statement of accounts.

### **4.6 Risk Management**

- 4.6.1 The Accounts and Audit (England) Regulations 2011, specifically Regulation 4(3), requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with proper practices. The system of internal control, including arrangements for the management of risk, assists the Council in effectively exercising its functions.

- 4.6.2 In addition the committee and the Executive Board have received regular reports which demonstrate that there is an on-going process for identifying, evaluating and managing risks.

## **5 Conclusions**

- 5.1 The Annual Governance Statement concludes that key systems are generally operating soundly and, where weaknesses have been identified arrangements, arrangements are in place to resolve them.

## **6 Recommendations**

- 6.1 Corporate Governance and Audit Committee is asked to approve the attached Annual Governance Statement; and recommend that the Leader of Council, the Chair of Corporate Governance and Audit Committee, the Chief Executive and the Director of Resources sign the document on behalf of the Council.

## **7 Background documents**

- 7.1 Constitution
- 7.2 Accounts and Audit (England) Regulations 2011
- 7.3 CIPFA/SOLACE - Delivering Good Governance in Local Government Framework 2007
- 7.4 Committee and decision making records for 2010-11 and 2011 to date
- 7.5 Summary of the External Audits and Inspections for 2010/11



# **Annual Governance Statement 2011**

## **1. SCOPE OF RESPONSIBILITY**

The changing needs of our citizens and communities, significant reductions in resources and central government reforms, present a challenge to all councils. In addressing these challenges the Council must ensure that governance arrangements (the way we direct and control our business and relate to communities) supports the effective delivery of services and management of risk.

Our Code of Corporate Governance outlines our governance principles;

1. Focussing on the Council's purpose and community needs;
2. Having clear responsibilities and arrangements for accountability;
3. Good conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and risk management;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and other stakeholders.

By applying the principles in the Code the Council commits itself to devising and delivering services to the citizens of Leeds in a way that demonstrates accountability, transparency, effectiveness, integrity, and inclusivity.

This statement describes how the council has complied with our Code of Corporate Governance and how we have met the requirements of the Accounts and Audit Regulations 2011. The statement should be read alongside our planning, performance management and accountability arrangements described in;

- The Vision for Leeds 2011-2030
- Our City Priority Plans 2011-2015
- Our Council Business Plan 2011-2015

## **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework in Leeds comprises the systems and processes, and culture and values that allow us to monitor the achievement of our strategic objectives and establish the extent to which services are delivered in an appropriate and cost effective way.

The system of 'internal control' is a significant part of our governance arrangements and is designed to manage risk to a reasonable level. It cannot eliminate all risks but can provide reasonable assurance of effectiveness.

The governance framework has been in place for the year ended 31 March 2011 and up to the date of approval of this Annual Governance Statement and the Annual Report and Statement of Accounts.



### **3. THE FRAMEWORK**

The systems and processes which comprise our governance arrangements include our:

- Vision, shared priorities and intended outcomes for citizens and service users documented in the Vision for Leeds, Council Business Plan and other documents contained in our Budget and Policy Framework;
- Performance and accountability arrangements that measure the quality of services; ensuring they are delivered in accordance with our objectives and that they represent the best use of resources;
- Delegation and sub delegation arrangements which document the roles and responsibilities of the executive, non-executive, scrutiny and statutory officer functions;
- Values and codes of conduct that define the standards of behaviour for members and staff,
- Procedure rules and internal management processes for;
  - Financial Management
  - Procurement
  - Health and Safety
  - Compliance with statutory obligations
  - Decision making
  - Risk Management
  - Whistleblowing and Complaints handling
  - Appraisal and development
  - Anti Fraud & Corruption
- Arrangements for consultation and engagement with the community
- Internal Audit service
- Corporate Governance and Audit Committee
- Arrangements for the receipt and consideration of External Audit and Inspection Reports

### **4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its system of internal control.

The review of effectiveness is informed by decisions taken and matters considered by Full Council and committees appointed by Full Council, the Executive Board, Corporate Leadership Team (and Directors knowledge of the operation of governance arrangements within their directorates), the work of the Corporate Governance and Audit Committee, internal auditors, service managers, work undertaken by external auditors and inspectorates and the opinion of the Local Government Ombudsman.

The Council has reviewed objectives and dependencies of the Vision for Leeds 2011 to 2030, City Priority Plans and Council Business Plan for the period 2011 to 2015.

The changes made to the city and council planning and partnership framework have allowed the introduction of an outcomes based accountability approach that has been incorporated into the strategic planning and performance management arrangements.

The Council continues to provide arrangements for citizens to present their concerns to the Council, these include deputations to Full Council and Area Committees, Open Forum items at Area Committee meetings and arrangements for members of the public make a request for scrutiny and to submit petitions.

Whilst progress has been made to agree policies and implement procedures to govern the management of data and information, a number of information security issues have arisen during the year. An action plan to further communicate data management requirements and ensure routine compliance with them is in the process of being implemented.

Positive assurances have been given by the Chief Planning Services Officer (in respect of planning functions), the Director of Resources relating to the council's executive decision making framework, access to information processes, and financial management procedures, and from the Scrutiny Officer in relation to the Council's Overview and Scrutiny arrangements.

The delegation scheme for Council and Executive responsibilities has been regularly reviewed and updated to reflect various legislative and organisational changes. Sub delegation processes are in place and provide a clear description of decision making responsibilities below director level.

A positive assurance has been received from the Strategic landlord as to the operation of internal control processes within the Arms Length Management Organisations.

Codes of Conduct for both employees and Members have been reviewed and new a set of values have been agreed within the council's Business Plan for 2011-15.

Registers of Interest for Elected Members and Employees have been maintained and arrangements are in place for the declaration of personal and prejudicial interests when decisions are taken. The Standards Committee has operated in accordance with legislative requirements.

The Executive Board has overall responsibility for managing risk. The Executive Board has approved the corporate risk register of the significant business risks facing the council and the Corporate Governance and Audit Committee has received positive assurances about the operation of the arrangements for identifying and managing risk.

The Executive Board has received reports from Ofsted, the Care Quality Commission, and Her Majesty's Inspectorate of Probation. The findings and recommendations from these agencies have been carefully considered and arrangements put in place to address and monitor the implementation of the recommendations arising.

In light of the changes to the performance reporting arrangements going forward further work will be undertaken to review to the arrangement for the receipt and consideration of external audit and inspection reports.

The Corporate Governance and Audit Committee has received the Ombudsman's Annual Letter which provided a favourable opinion as to how the Council deals with circumstances where council services fall below expectations.

However during the year the Ombudsman issued two reports with findings of maladministration and injustice – each of which were considered by the Executive Board. The Council deeply regrets the shortcomings in service provision which the Ombudsman has reported. Apologies have been given to those affected and the remedies proposed by the Ombudsman have either been implemented, are soon to be implemented or are to form part of a longer term action plan within the Children's Services directorate.

The Council's Head of Internal Audit function reports to the Corporate Governance & Audit Committee, every other meeting on significant matters arising in respect of the control environment.

The annual internal audit report concluded that the internal control environment, including the key financial systems, is well established and continues to generally operate well in practice.

## 5. SIGNIFICANT GOVERNANCE ISSUES

The challenges facing us, particularly arising from the changing needs of our citizens and communities, significant reductions in resources and the central government's reform agenda, are significant and we are determined not to be complacent.

The changing face of service delivery with greater emphasis on partnership working with local and regional bodies and in a variety of settings has been identified raising issues concerning governance and financial accountability and control.

The Council Business Plan provides the framework for how the Council has prioritised these challenges over the period between 2011–15 and includes the following objectives:

- **Appraisals** – every year 100% of staff have an appraisal – this will help ensure staff have a clear understanding of their role as well as clear objectives and performance targets.
- **Engagement** – increase the level of engagement so that staff are fully involved in delivering change and feel able to make an impact on how services are delivered.
- **Consultation** – ensure that all major decisions affecting the lives of communities evidence that appropriate consultation has taken place.
- **Equality** - ensure that all major decisions evidence that appropriate consideration of equality issues has taken place.
- **Budget** – ensure that all directorates work within their approved budget with no overspends.
- Delivery of the city's **planning and performance management** framework
- Put in place effective **workforce planning** arrangements that enable the reduction in the size of the workforce required by the budget
- Maintain a **robust and proportionate control environment**
- Delivery **effective financial planning and management** arrangements which ensure the maintenance of our revenue reserves
- Deliver effective leadership and governance arrangements for the **city region** partnership

In addition action plans have been drawn up to address recommendations arising from external and internal audit reports, findings from Inspectorates and issues identified and reported by the Local Government Ombudsman.

In light of the changes to the performance reporting arrangements going forward further work will be undertaken to review the arrangements for the receipt and consideration of external audit and inspection reports.

The Corporate Governance and Audit Committee will seek assurances (and provide challenge) on the progress made in responding to these matters.

### **ASSURANCE SUMMARY**

Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making - collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance councils will struggle to improve services.

From the review, assessment and on-going monitoring work undertaken and supported by the ongoing work undertaken by Internal Audit, we have reached the opinion that, overall, key systems are operating soundly and that there are no fundamental control weaknesses.

We can confirm, to the best of our knowledge and belief, and there having been appropriate enquiries made, that this statement provides an accurate and fair view.

*Signed*

*Signed*

Date

Date

**Councillor Keith Wakefield  
Leader of the Council**

**Tom Riordan  
Chief Executive**

*Signed*

*Signed*

Date

Date

**Councillor Geoff Driver  
Chair, Corporate Governance  
and Audit Committee**

**Alan Gay  
Director of Resources**



Report author: Bernard McPheely  
Tel: 2474217

**Report of the Chief Officer – Audit & Risk**

**Report to Corporate Governance and Audit Committee**

**Date: 30 September 2011**

**Subject: The Bribery Act 2010**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Summary of main issues**

1. The Bribery Act 2010 came into force on 1 July 2011. The Act creates offences of offering or receiving bribes, bribery of foreign public officials and of failure to prevent a bribe being paid on an organisation's behalf.
2. The council already has a number of procedures in place to prevent or identify bribery.
3. Procedures for preventing or identifying bribery should be proportionate to the risk.
4. The main emphasis of the Act is for organisations to prevent a bribery being paid on their behalf.

**Recommendations**

5. The contents of the report should be noted.
6. CGAC should comment on the draft Anti-Bribery policy

## **1 Purpose of this report**

- 1.1 To inform CGAC of the contents of the Act and the implications for the council.
- 1.2 To obtain support for the approval and communication of the Anti-Bribery Policy

## **2 Background information**

- 2.1 The Bribery Act 2010 came into force on 1 July 2011. The Act creates offences of offering or receiving bribes, bribery of foreign public officials and of failure to prevent a bribe being paid on an organisation's behalf. Combating the risks of bribery is largely about common sense, not introducing burdensome procedures. The core principle it sets out is proportionality.
- 2.2 The principles make it clear that organisations should adopt a risk-based approach to managing bribery risks. Procedures should be proportionate to the risks faced by an organisation. No policies or procedures are capable of detecting and preventing all bribery. A risk-based approach will, however, serve to focus the effort where it is needed and will have most impact.
- 2.3 The Act repeals the Prevention of Corruption Act 1916, which is referred to in the Officers Code of Conduct. We will liaise with HR with a view to updating the Code of Conduct.

## **3 Main issues**

- 3.1 The Act contains two general offences covering
  - the offering, promising or giving of a bribe (active bribery) and
  - the requesting, agreeing to receive or accepting of a bribe (passive bribery)
- 3.2 It also sets out two further offences which specifically address commercial bribery,
  - an offence relating to bribery of a foreign public official in order to obtain or retain business or an advantage in the conduct of business
  - a corporate liability for failing to prevent bribery on behalf of a commercial organisation.
- 3.3 The emphasis of the first, third and fourth offences relate to the giving of bribes and, as such, place a responsibility on the organisations to put steps in place to prevent persons associated with them from committing bribery on their behalf.
- 3.4 This is not a situation that the council is likely to face but we should be proactive by including the requirement for potential contractors to include their method statement for preventing bribery when they submit a tender and for this to be included in the tender evaluation.
- 3.5 The second offence of requesting, agreeing to receive or accepting of a bribe is the one which has greater implications for the council.
- 3.6 We need to assess what controls we have in place, assess their adequacy and improve them or introduce new controls where necessary.

- 3.7 The main controls that we currently have in place are detailed in Appendix A.
- 3.8 A draft Anti-Bribery Policy has been produced and is attached at Appendix B. At this stage, the Council is exploring options to address the issues addressed in the Bribery Act. For example, some authorities have, thus far, decided not to adopt an anti-bribery policy. Others have taken the lead from the Chartered Institute of Public Finance and Accountancy who have produced a pro forma policy for Councils to adapt for local circumstances. Members comments are sought on the draft policy.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 The Anti-Bribery Policy should be communicated to employees and contractors of the council.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The Anti-Bribery Policy should help us to achieve our spending money wisely and being open, honest and trusted values.

### **4.4 Resources and Value for Money**

- 4.4.1 Preventing bribery should assist in achieving value for money when procuring goods and services.
- 4.4.2 The council could be liable to a fine if we breach the Act.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 Failure to take appropriate action could result in individuals and/or the council being subject to court action.

### **4.6 Risk Management**

- 4.6.1 We need to ensure that we take action proportionate to the risk.

## **5 Conclusions**

- 5.1 The introduction of the Act has implications for the council – we need to bear in mind that our actions should be proportionate and provide an assurance that our anti-bribery controls are adequate.
- 5.2 The main emphasis of the Act is for organisations to prevent a bribe being paid on their behalf.
- 5.3 The council already has a number of procedures in place to prevent (or identify) bribery.

- 5.4 Given the introduction of the new legislation, the council should adopt an Anti-Bribery policy to ensure that it complies with the Act.

## **6 Recommendations**

- 6.1 The contents of the report should be noted.
- 6.2 CGAC should comment on the draft Anti-Bribery policy which, when approved, should be adequately publicised and communicated across the council
- 6.3 Potential contractors should be required to include their method statement for preventing bribery when they submit a tender and for this to be included in the tender evaluation.

## **7 Background documents**

- 7.1 Contract Procedure Rules and Code of Practice
- 7.2 Members Code of Conduct
- 7.3 Officers Code of Conduct (including Gifts & Hospitality)
- 7.4 Whistleblowing Policy
- 7.5 Raising Concerns Policy



## Existing Controls

There are a number of controls in place to protect the council against bribery.

## Contract Procedure Rules and Code of Practice

CPRs set down rules for the whole of the procurement exercise and, if followed, minimise the risk of bribery taking place.

In addition, the Code of Practice states,

- *Adequate division of duties and internal checking must exist and must be capable of being audited by the maintenance of documentary evidence detailing the nature and extent of checks undertaken. Failure to comply with the Contracts' Procedure Rules, this Code of Practice and Financial Procedure Rules by officers can result in disciplinary action.*
- *All officers (including temporary staff) involved with purchasing goods, services and works must notify their line manager immediately if they become aware of any conflict of interest that arises during a procurement procedure. This will include, for example, instances where the officer or the officer's family have an interest in a company submitting a tender or quotation.*

## Members Code of Conduct

*You must not do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, your authority.*

*You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or authority into disrepute.*

*You must not use or attempt to use your position as a member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage.*

*You must, when using or authorising the use by others of the resources of your authority act in accordance with your authority's reasonable requirements;*

## Officers Code of Conduct

The Code of Conduct is aimed at ensuring that employees are aware of the standards of behaviour expected of them by Leeds City Council (LCC). The Code of Conduct applies to all employees of Leeds City Council and goes into detail about being aware of the code, how it should be applied and the consequences of breaching it. It includes the following:-

*The public is entitled to expect the highest standards of conduct from all employees who work for Leeds City Council.*

*Individuals are responsible for ensuring that they are aware of the Code and that they comply with its requirements.*

*Failure to observe the standards set out in this code may be regarded as serious and any breach may render an employee liable to disciplinary action, which may include dismissal.*

*Section 117 of the Local Government Act 1972 specifies that "an officer shall not, under colour of his office or employment accept any fee or reward whatsoever other than his/her proper remuneration".*

*Section 2 of the Prevention of Corruption Act 1916 provides that where it is proved that anyone holding or seeking a contract with a public body has made a payment to an employee of that body, the payment shall be deemed to be corrupt unless the contrary is proved. This has been repealed by the Bribery Act*

There is also a detailed section about the receipt of, or being offered, gifts and hospitality. This outlines what to do if offered a gift or hospitality, including declaring and recording it, and details of the type of gift that may be received and under what circumstances.

## **Whistleblowing Policy**

*The Council is committed to the highest standards of openness, probity and accountability. In line with that commitment, we encourage Council employees and Members, who have serious concerns about any aspect of the Council's work, to come forward and voice those concerns.*

*Concerns to be reported under this policy may relate to something that:*

- *is unlawful;*
- *is against the Council's Contract Procedure Rules, Financial Procedure Rules or other policies;*
- *falls below established standards or practice; or*
- *amounts to improper conduct*

## **Raising Concerns Policy**

*The Council is committed to the highest standards of openness and accountability. In line with that commitment, we encourage members of the public, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns.*

*Concerns to be reported under this policy may relate to:*

- *Fraud or financial irregularity*
- *Corruption, bribery or blackmail*
- *Criminal offences*
- *Failure to comply with a legal or regulatory obligation*
- *Improper use of authority*

### **Draft Policy Statement - Anti Bribery**

Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

### **Objective of this policy**

This policy provides a coherent and consistent framework to enable the council’s employees to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

We require that all personnel, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the council’s resources for which they are responsible
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the council operates, in respect of the lawful and responsible conduct of activities

### **Scope of this policy**

This policy applies to all of the council’s activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the council, the responsibility to control the risk of bribery occurring resides at all levels of the council. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

### **This council’s commitment to action**

This council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date

- Making employees aware of their responsibilities to adhere strictly to this policy at all times
- Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

## **Bribery**

Is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

## **The Bribery Act**

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

## **What are “adequate procedures”?**

Whether the procedures are adequate will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the organisation. It is for individual organisations to determine proportionate procedures in the recommended areas of six principals. These principles are not prescriptive. They are intended to be flexible and outcome focussed, allowing for the different circumstances of organisations. Small organisations will, for example, face different challenges to those faced by large multi-national enterprises. The detail of how organisations apply these principles will vary, but the outcome should always be robust and effective anti-bribery procedures.

## **Proportionate procedures**

The council's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of its activities. They are also clear, practical, accessible, effectively implemented and enforced.

## **Risk Assessment**

The council assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage.

## **Due diligence**

The council applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

## **Communication**

The council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

## **Monitoring and review**

The council monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

**The council is committed to proportional implementation of these principles.**

## **Penalties**

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

## **Bribery is not tolerated**

It is unacceptable to:

- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them

- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy.

### **Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

### **Gifts and hospitality**

This policy is not meant to change the requirements of our Officers Code of Practice (gifts and hospitality section). This makes it clear that, in general, gifts should be refused except where to refuse them would inhibit the normal business activities of the Council. Details of the type of gift that might be accepted are included in the Code.

### **Public contracts and failure to prevent bribery**

Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. There are no plans to amend the 2006 Regulations for this to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The council has the discretion to exclude organisations convicted of this offence.

### **Staff responsibilities**

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its control. All appropriate staff are required to avoid activity that breaches this policy.

You must:

- ensure that you read, understand and comply with this policy
- raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

### **Raising a concern**

The council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. We want each and every member of staff to know how they can raise concerns.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up –

your information and assistance will help. The sooner you act, the sooner it can be resolved.

There are multiple channels to help you raise concerns - please refer to the Whistleblowing policy. Preferably the disclosure will be made and resolved internally (e.g. to your head of department/on line reporting/telephone hotline). Secondly, where internal disclosure proves inappropriate, concerns can be raised with the regulator (e.g. external auditor). Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

Concerns can be anonymous. In the event that an incident of bribery, corruption, or wrongdoing is reported, we will act as soon as possible to evaluate the situation. We have clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Staff who refuse to accept or offer a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. We aim to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

We are committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

If you have any questions about these procedures, please contact Internal Audit

### **Other relevant policies**

Members Code of Conduct

Officers Code of Conduct (including gifts and hospitality)

Anti money laundering policy

Whistleblowing policy

Raising Concerns policy

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**Report of Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> September 2011**

**Subject: Work Programme**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Summary of main issues**

1. Members are requested to consider whether they wish to add any items to the work programme.
2. The draft work programme is attached at Appendix 1.

**Recommendations**

3. Members are asked to note the draft work programme and advise officers of any additional items they wish to add.

**1 Purpose of this report**

- 1.1 The Purpose of this report is to notify Members of the Committee of the draft work programme. The draft work programme is attached at Appendix 1

**2 Background information**

- 2.1 The work programme provides information about the future items for the Corporate Governance and Audit Committee agenda, when items will be presented and which officer will be responsible for the item.

**3 Main issues**

- 3.1 Members are requested to consider whether they wish to add any items to the work programme

3.2 The draft work programme is attached at Appendix 1

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 This report consults Members on the content of the work programme of the Committee.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 No significant issues.

### **4.3 Council Policies and City Priorities**

4.3.1 This report helps support the implementation of the Code of Corporate Governance.

### **4.4 Resources and Value for Money**

4.4.1 It is in the best interests of the Council to have sound control arrangements in place to ensure effective use of resources, these should be regularly reviewed and monitored as such the work programme directly contributes to this.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 This report is not an executive function and is not subject to call in.

### **4.6 Risk Management**

4.6.1 By the Committee being assured that effective controls are in place throughout the Council the work programme promotes the management of risk at the Council.

4.6.2 The work programme adopts a risk based approach to the significant governance arrangements of the Council.

## **5 Conclusions**

5.1 The work programme of the Committee should be reviewed regularly and be updated appropriately in line with the risks currently facing the Council.

## **6 Recommendations**

6.1 Members are asked to note the work programme and advise officers of any additional items they wish to add.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE  
WORK PROGRAMME**

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
<b>November 9<sup>th</sup> - 2011</b>		
6 Monthly Update Report on risk Management	To receive a report updating members on the Council's risk management arrangements.  (This report is part of the Committee's annual work programme)	Chief Officer (Audit and Risk) Tim Pouncey
Leeds Initiative and City Planning	To receive a report updating the Committee on progress made with the review of the Leeds Initiative and Partnership Arrangements and the associated planning and performance arrangements in the City  (This report was requested by the Committee on 18 <sup>th</sup> April 2011)	Chief Officer (Leeds Initiative and Partnerships) Kathy Kudelnitzky
Local Enterprise Partnerships	To receive a report on the governance arrangements for the new Local Enterprise Partnership specifically exploring governance issues contained within the partnership governance toolkit.  (requested at the 14 <sup>th</sup> December 2010 meeting following a discussion on the Leeds City Region)	Chief Officer (Leeds Initiatives and Partnerships) Kathy Kudelnitzkey
Small Claims Made Against the Council	To receive a report detailing the amount and type of small claims and the actions taken to reduce them.  (requested at the meeting held on 14 <sup>th</sup> February 2011)	Insurance Manager Frank Morrison
<b>December 13<sup>th</sup> - 2011</b>		
Review of the Code of Corporate Governance	To receive a report reviewing the code of corporate governance	Head of Governance Services Andy Hodson
Localism Bill	To receive a report updating the Committee on the Localism Bill	Head of Governance Services Andy Hodson

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.  (This is a report brought to the Committee on bi-monthly basis)	Chief Officer (Audit and Risk) Tim Pouncey
<b>January 23<sup>rd</sup> - 2012</b>		
KPMG Financial Statements Audit Plan and VFM Audit plan	To receive a report detailing the financial statements audit plan. Value for Money Audit Plan and Financial Statement Audit Plan.	Chief Officer (Financial Management) Doug Meeson
External Audit Planning	To receive a report from the appointed External Auditor in respect of the audit fee for 2011/12	Chief Officer (Financial Management) Doug Meeson
<b>February 27<sup>th</sup> - 2012</b>		
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.  (This is a report brought to the Committee on bi-monthly basis)	Chief Officer (Audit and Risk) Tim Pouncey
<b>March 28<sup>th</sup> - 2012</b>		
Information Security Annual Report	To receive a report on the Council's Information Security arrangements.	Chief Officer (Business Transformation) Lee Hemsworth
<b>April 23<sup>rd</sup> - 2012</b>		
Annual Report on Community Engagement	To receive a report presenting the annual report on Community Engagement.	Assistant Chief Executive (Planning, Policy and Improvement) James Rogers

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Decision Making Framework; Annual Assurance Report	To receive a report presenting the outcome of the monitoring process relating to Key and Major decisions.	Head of Governance Services Andy Hodson
ALMO Annual Assurance Report	To receive the Annual Assurance report from Strategic Landlord based on the assurances received from the ALMOs.  (This report is part of the committee's annual work programme)	Strategic Landlord Liz Cooke
Annual Report on Risk Management	To receive a report regarding the Council's risk management arrangements.  (Part of the Committee's annual work programme)	Chief Officer (Audit and Risk) Tim Pouncey
Annual Report on Planning Framework	To receive the Annual report on the Planning Framework and the assurance that is provides	Chief Planning Officer Phil Crabtree
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.  (This is a report brought to the Committee on bi-monthly basis)	Chief Officer (Audit and Risk) Tim Pouncey
<b>Un-scheduled items for 2011/12</b>		

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