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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, 9th November, 2012  
at 2.00 pm

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### **MEMBERSHIP**

#### **Councillors**

P Grahame	J Bentley	C Fox	J Elliott
N Taggart		R Wood	
T Hanley			
G Hussain			
T Murray			
E Taylor			
J Illingworth			

PLEASE NOTE: Before the meeting at 1pm the following will be presented to Members:

- Interpretation of the HRA within the Accounts; and
- The role of the Corporate Governance and Audit Committee in reviewing Treasury Management at the Council.

# 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 DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</b></p> <p>To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13-18 of the Members' Code of Conduct. Also to declare any other significant interests which the Member wishes to declare in the public interest, in accordance with paragraphs 19-20 of the Members' Code of Conduct.</p>	
5			<p><b>APOLOGIES FOR ABSENCE</b></p> <p>To receive any apologies for absence.</p>	
6			<p><b>MINUTES OF THE PREVIOUS MEETING</b></p> <p>To approve as a correct record the minutes of the meeting held on 28<sup>th</sup> September 2012.</p>	1 - 6
7			<p><b>INTERNAL AUDIT REPORT APRIL TO SEPTEMBER 2012</b></p> <p>To receive a report of the Director of Resources providing a summary of Internal Audit activity for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2012 also highlighting the incidence of any significant control failings or weaknesses.</p>	7 - 38
8			<p><b>KPMG REPORT - ANNUAL AUDIT LETTER 2011/12</b></p> <p>To receive a report of the Director of Resources providing a summary of the key external audit findings in respect of the 2011/12 financial year.</p>	39 - 50

Item No	Ward	Item Not Open		Page No
9			<p><b>TREASURY MANAGEMENT GOVERNANCE REPORT</b></p> <p>To receive a report of the Director of Resources outlining the governance framework for the management of the Council's Treasury Management (TM) function. This report also reviews compliance with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and guidance notes and a revised prudential code.</p>	51 - 74
10			<p><b>LOCAL PUBLIC AUDIT; AN UPDATE</b></p> <p>To receive a report of the Director of Resources providing the Committee with a progress report on the Local Public Audit Bill.</p>	75 - 78
11			<p><b>WORK PROGRAMME</b></p> <p>To receive a report of the Director of Resources notifying and inviting comment from the Committee on the work programme.</p> <hr/> <p><b>PLEASE NOTE: Before the meeting at 1pm the following will be presented to Members:</b></p> <ul style="list-style-type: none"> <li>• Interpretation of the HRA within the Accounts; and</li> <li>• The role of the Corporate Governance and audit Committee in reviewing Treasury Management at the Council.</li> </ul>	79 - 82

# Agenda Item 6

## Corporate Governance and Audit Committee

Friday, 28th September, 2012

**PRESENT:** Councillor T Murray in the Chair  
Councillors P Grahame, N Taggart, J Elliott, T Hanley, C Fox, T Murray, R Wood and E Taylor, N Walshaw (as substitute for J Illingworth) and M Hamilton (as substitute for J Bentley)

Apologies Councillors G Hussain, J Illingworth and J Bentley

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

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

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

There were no resolutions to exclude the public.

### **16 Late Items**

There were no late items submitted to the agenda.

### **17 Declaration of Disclosable Pecuniary and Other Interests'**

There were no declarations made.

### **18 Apologies**

Apologies for absence were received from Councillor J Bentley, Councillor J Illingworth and Councillor G Hussain.

### **19 Minutes of the Previous Meeting**

The minutes of the meeting held on 4<sup>th</sup> July 2012 were approved as a correct record.

### **20 Local Government Ombudsman's Annual Letter**

The Chief Officer (Customer Services) presented his report. The report discussed the Local Government Ombudsman's Annual Letter, highlighted the

Draft minutes to be approved at the meeting  
to be held on Friday, 9th November, 2012

Council's performance with regards to Ombudsman cases received for the period April 2011 to March 2012, and provided a commentary on the handling of complaints within by the Council.

Also in attendance were a representative from the Local Government Ombudsman's Office and the Executive Officer (Client and Customer Relations).

The Ombudsman's representative reported that the Leeds officers co-operated fully with all Ombudsman investigations, and commented that the authority took lessons learned from such cases seriously. Changes being made to the Local Government Ombudsman's Office were highlighted, these include the creation of an Independent Housing Ombudsman which will take on issues relating to housing provided by the Council. It was also stressed to Members and officers that the Ombudsman's office was managing budget cuts and as such this would effect the services it provides.

Members sought confirmation from the Local Government Ombudsman's representative that ALMOs respond to requests in a similar way to the rest of Leeds City Council. The Ombudsman confirmed that the services provided by the ALMO were viewed corporately and that responses by the ALMOs were equally as good as those provided by Leeds City Council staff.

**RESOLVED** – The Committee resolved to note the contents of the report and its appendices.

## **21 Decision Making Framework; Annual Assurance Report**

The Head of Governance Services presented a report of the Director of Resources. The report was the annual report to the Committee concerning the Council's Decision Making Arrangements, the report did not cover Planning matters as these have been the subject of a previous report to the Committee from the Chief Planning Officer, nor did it consider the arrangements for Licensing decisions taken by officers.

The report provided details of amendments made to the decision making framework at the Annual Council Meeting on 21<sup>st</sup> May 2012, steps taken to embed these changes, and additional changes to the Council's decision making arrangements arising from the Local Authorities (Executive Arrangements) (England) Regulations 2012.

This report also provided one of the sources of assurance for the Committee to take into account when considering the approval of the Annual Governance Statement. This being that overall, decision making systems are operating soundly and that there are no fundamental weaknesses.

Members welcomed the report and reported performance and in particular noted the significant number of staff that have received training in relation to the decision making framework.

**RESOLVED** – The Committee resolved to note the report and the positive assurances it provided.

## **22 Internal Audit Annual Report 2011/12**

The Chief Officer (Audit and Risk) presented a report of the Director of Resources which brought to the Committee's attention the basis of the Internal Audit assurance for 2011/12. Internal Audit provided the opinion that the internal control environment, including key financial systems, is well established and continues to operate well in practice. In addition, there are no outstanding significant issues arising from the work of Internal Audit. It was also noted that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Members discussed the report in detail particular in relation to the corporate purchasing card review.

Members reviewed the list of reports issued during the course of the year that provide the evidence for the overall opinion. Questions were asked about reviews that concluded in limited assurance. The Chief Officer (Audit and Risk) responded to Members queries, confirmed the arrangements to follow up reviews resulting in limited assurance and undertook to provide more detail where appropriate.

Members raised the issue of the assets and organisations that have been transferred from the Council to be run independently, examples included academies and historic swimming pools. Members asked officers what responsibilities Leeds City Council had in terms of providing audit coverage for such organisations.

**RESOLVED** – The Committee resolved to:

- (a) note the Internal Audit Annual Report 2011/12 and the assurances provided; and
- (b) note the Internal audit Operational Plan for 2012/13.

## **23 Shared Service Partnership with Calderdale Metropolitan Borough Council to meet Adult Social Care Technology Requirements**

The Chief Officer Resources and Strategy presented a report of the Director of Adults Social Services. The report provided The Committee with details of and assurance that the Calderdale Client Information System will be fit for

Leeds' purpose and that the acquisition of the system adheres to the procurement rules and regulations.

The Senior Project Manager for the scheme was also in attendance to help answer Member questions.

Members gave consideration to the report and commented on previous IT systems that had not been as successful as anticipated. Members also discussed with officers the reasons for working with an authority which, despite having a widely acknowledged good record for developing IT systems, is significantly smaller than Leeds City Council.

Members took assurance from officers that this system would work effectively for Leeds and that social services staff had trialled the system and had responded positively to it.

Members also sought clarification on the arrangements between Calderdale MBC and Leeds City Council for the future marketing of the product.

**RESOLVED** – The Committee resolved to:

(a) note the contents of the report and the assurances provided regarding:

- The diligence conducted to ensure the system will be fully fit for purpose; and
- The mechanisms and governance being put in place to effectively support the acquisition and implementation of the solution.

(b) Request a further report updating the Committee on the progress made with the acquisition of the system in six months time.

## **24 Report to Those Charged With Governance from KPMG**

The Principal Finance Manager presented a report for the Director of Resources. The report presented both KPMG's report to those charged with governance for 2011/12 (ISA 260 report) and the final audited Statement of Accounts for approval. The ISA 260 report provided an unqualified audit opinion on the Council's accounts along with a conclusion that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resource. This report highlighted one significant adjustment to the accounts related to the transfer of a school to trust status.

In attendance were representatives from KPMG who took Members through their report. As part of the introduction to the report Members were assured by



the Partner in attendance from KPMG, that there would be a 40% reduction in the audit fee for 2012/13.

Members discussed the report in detail initially questioning KPMG representatives about the reduction in fee and the system employed for recording work undertaken at Leeds City Council.

Members sought clarification on the accounting practices for heritage assets specifically how such assets are valued and depreciated and the potential impact this has on insurance.

Members also questioned the auditors on potential changes to the Council's contingent liabilities. The Partner from KPMG confirmed that prior to signing off the accounts further discussions would be taking place to confirm that the position on key contingent liabilities remained unchanged.

The Partner from KPMG announced that his company had offered to work with the Council to help simplify the accounts of the Council while still complying with proper practice. The aim would be to make them more accessible to Members and the Public.

**RESOLVED** – The Committee resolved to:

- (a) receive the report of the Council's external auditors on the 2011/12 accounts and to note the amendments made to the Accounts;
- (b) approve the final audited 2011/12 Statement of Accounts and agreed that the Chair acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts;
- (c) agree that the Chair sign the management representation letter on behalf of the Committee; and
- (d) note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **25 Annual Governance Statement**

The Head of Governance Services presented a report of the Director of Resources seeking approval to the Annual Governance Statement.

**RESOLVED** – The Committee resolved to:

- (a) approve the Annual Governance Statement; and
- (b) recommend that the Leader of Council, the Chair of the Committee, the Chief Executive and the Director of Resources sign the document on behalf of the Council.

## 26 Work Programme

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

Members were informed that a development session would take place for one hour before the 9<sup>th</sup> November 2012 meeting.

The Committee reviewed its forthcoming work programme.

**RESOLVED** – The Committee resolved to:

- (a) note the work programme; and
- (b) note that a Member development session will take place for one hour before the meeting on 9<sup>th</sup> November 2012.

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

## Report to Corporate Governance and Audit Committee

**Date: 9<sup>th</sup> November 2012**

**Subject: Internal Audit Report April to September 2012**

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 1<sup>st</sup> April to 30<sup>th</sup> September 2012 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 April to September 2012 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 1<sup>st</sup> April to 30<sup>th</sup> September 2012 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 There are no issues identified by Internal Audit in the April to September 2012 Internal Audit Report that would necessitate direct intervention by the Corporate Governance & Audit Committee.
- 3.3 Internal Audit will continue to undertake a follow up audit on audit reports with limited or no assurance or 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 This report did not highlight any consultation and engagement considerations.

### **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 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.

### **4.4 Resources and value for money**

- 4.4.1 In relation to use of resources and value for money, the Internal Audit work plan includes a number of value for money reviews and a number of initiatives in line with the council's value of spending money wisely.

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

4.5.1 None.

## **4.6 Risk Management**

4.6.1 The Internal Audit 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. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

## **5 Conclusions**

5.1 There are no issues identified by Internal Audit in the April to September 2012 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 April to September 2012 report and note the work undertaken by Internal Audit during the period covered by the report.

## **7 Background documents<sup>1</sup>**

7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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# **LEEDS CITY COUNCIL**

## ***Internal Audit Half Yearly Report 1<sup>st</sup> April to 30<sup>th</sup> September 2012***

***2012/13***

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*Internal Audit Half Yearly Report April to September 2012*

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***Section 1***

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***INTRODUCTION***



## 1.1 The Reporting Process

1.1.1 This report provides stakeholders, including the Corporate Governance & Audit Committee, with a summary of internal audit activity for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2012.

## 1.2 Background

1.2.1 The changing public sector environment continues to necessitate an ongoing re-evaluation of the type & level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council. Therefore, in addition to outlining the work completed in the first 6 months, this report also highlights the work scheduled for the next period and input into this plan is sought from all stakeholders to ensure that audit resources are prioritised and directed towards those areas of highest risk.

## 1.3 Progress against the 2012/13 Operational Plan – High Level

1.3.1 The following table shows the progress against the operational plan for the first 6 months of the financial year, broken down by assurance block.

Assurance Block	Total Days per Audit Plan 2012/13	Days spent at 2nd Quarter 2012/13	% completion at Quarter 2
Financial and Other Key Systems	800	380	48%
Compliance Reviews	800	509	64%
Procurement, Monitoring and Improvement	595	137	23%
Risk Based Audits	650	220	34%
Spending Money Wisely	525	176	34%
Counter Fraud and Corruption	869	410	47%
Update, Communication and Monitoring	55	2	4%
Head of Audit Assurances	50	31	62%
Contingency	480	111	23%
Professional Liaison	43	0	0%
<b>Total Audit Days</b>	<b>4867</b>	<b>1976</b>	<b>41%</b>

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

Audit Area	Days per Audit Plan 2011/12	Days spent at 2 <sup>nd</sup> Quarter 2012/13	Q2 % Completion
Business Analysis	1626	930	57%
Data Analytics Project	400	132	33%
External Contracts	840	209	25%
<b>Total Days</b>	<b>2866</b>	<b>1271</b>	<b>44%</b>

## 1.4 How Internal Control is reviewed

- 1.4.1 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.
- 1.4.2 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.
- 1.4.3 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.
- 1.4.4 To ensure 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.

Organisational Impact		
Level	Definitions	
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.

## 1.5 Progress against the 2012/13 Operational Plan – Individual Reviews

1.5.1 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 1<sup>st</sup> April and 30<sup>th</sup> September 2012.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
<b>Financial and Other Key Systems</b>					
Central Sundry Income	Substantial Assurance	N/A	Minor	Resources	02/04/2012
Non-Domestic Rates	Substantial Assurance	Substantial Assurance	Minor	Resources	02/04/2012
Housing Benefits – Accounting and Subsidy	Substantial Assurance	Good Assurance	Minor	Resources	02/04/2012
Sundry Income – Environment and Neighbourhoods	Acceptable Assurance	Good Assurance	Minor	Environment and Neighbourhoods	17/04/2012
Council Tax	Substantial Assurance	Good Assurance	Minor	Resources	24/04/2012
Housing Benefits Assessment and Payments	Substantial Assurance	Substantial Assurance	Minor	Resources	25/04/2012
Integrity of Accounts	Substantial Assurance	Substantial Assurance	Minor	Resources	30/04/2012
Creditors – City Development	Good Assurance	Good Assurance	Minor	City Development	08/05/2012
Payroll Services	Good Assurance	Good Assurance	Minor	Resources	24/05/2012
Payroll – Human Resources Administration	Good Assurance	Good Assurance	Minor	Resources	24/05/2012
Non-Domestic Rates Year End Reconciliation	Satisfactory			Resources	30/05/2012
Year End Reconciliation of Powersolve to FMS	Satisfactory			Resources	30/05/2012

**Internal Audit Half Yearly Report April to September 2012**

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Council Tax Year Reconciliation	Satisfactory			Resources	30/05/2012
Income Management System Year End Reconciliation	Satisfactory			Resources	26/06/2012
Payroll Year End Reconciliation	Satisfactory			Resources	26/06/2012
West Yorkshire Pension Fund Reconciliation	Satisfactory			Resources	26/06/2012
Business Support Centre – Central Payments Service	Good Assurance	Good Assurance	Minor	Resources	04/07/2012
Sundry Income – City Development	Good Assurance	Acceptable Assurance	Minor	City Development	05/07/2012
Creditors Year End Reconciliation	Satisfactory			Resources	24/07/2012
Community Care Finance – Payments to independent providers of residential and nursing care and customers in receipt of direct payments and personal budgets	Good Assurance	Acceptable Assurance	Moderate	Adult Social Care	31/07/2012
Corporate Financial Management Central Controls	Substantial Assurance	N/A	Minor	Resources	06/08/2012
Bank Reconciliation and Cashbook	Substantial Assurance	Substantial Assurance	Minor	Resources	06/08/2012
Creditors – Adult Social Care	Good Assurance	Good Assurance	Minor	Adult Social Care	10/08/2012
Treasury Management Electronic Record Query	N/A	N/A	N/A	Resources	30/08/2012
Capital Programme Central Controls	Acceptable Assurance	Good Assurance	Moderate	Resources	17/09/2012
Housing and Council Tax Benefits Year End Reconciliation	Satisfactory			Resources	21/09/2012

Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
Ethical Standards	Members Allowances	High	Resources	28/09/2012
Human Resource Policies and Procedures	Purchasing Cards 2011-12 (Quarter 4)	High	Adult Social Care	30/07/20102
	Purchasing Cards 2011-12 (Quarter 4)	High	Children's Services	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	City Development	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High	Environment & Neighbourhoods	30/07/2012
	Purchasing Cards 2011-12 (Quarter 4)	High/Medium	Resources	30/07/2012
Payroll – non basic pay	Overtime Payments 2011-12	Low	Adult Social Care	17/09/2012
	Overtime Payments 2011-12	Medium	Business Support Centre	17/09/2012
	Overtime Payments 2011-12	Low	Children's Services	17/09/2012
	Overtime Payments 2011-12	Low	City Development	17/09/2012
	Overtime Payments 2011-12	Low	Environment & Neighbourhoods	17/09/2012
	Overtime Payments 2011-12	Low	Overarching report	17/09/2012
	Overtime Payments 2011-12	Medium	Resources	17/09/2012
Unannounced Visits	Dolphin Manor Homes for	Medium	Adult Social	03/08/2012

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Compliance Area	Report Title	Level of compliance	Directorate	Date Issued
	Older People		Care	
	Richmond House Home for Older People	Medium	Adult Social Care	13/08/2012
	Armley Library	High	City Development	21/08/2012
	Garforth Library	Medium	City Development	21/08/2012
	Osmondthorpe Resource Centre	High	Adult Social Care	28/08/2012
	Manorfield House Home for Older People	High	Adult Social Care	28/08/2012
	Scott Hall Sports Centre	High	City Development	28/08/2012
	Morley South Children's Centre	High	Children's Services	20/09/2012
	Fairview Home for Older People	Medium	Adult Social Care	20/09/2012

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Customer Monies Learning Disabilities Supported Living Service – Delph View	Acceptable Assurance	Acceptable Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – Westerton	Acceptable Assurance	Limited Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – Albert Court	Acceptable Assurance	Limited Assurance	Moderate	Adult Social Care	29/06/2012
Customer Monies Learning Disabilities Supported Living Service – SouthParkway	Acceptable Assurance	Acceptable Assurance	Moderate	Adult Social Care	29/06/2012
Benton Park School – follow up review	Good Assurance	Acceptable Assurance	N/A	Children's Services	18/07/2012
Income from Cemeteries and Crematoria	Good Assurance	Good Assurance	Minor	City Development	01/08/2012
City of Leeds High School Follow Up Review	Good Assurance	N/A	Minor	Children's Services	04/09/2012

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
<b>Procurement, Monitoring and Improvement</b>					
Purchasing Cards – Adult Social Care	N/A	Acceptable Assurance	N/A	Adult Social Care	17/04/2012
Purchasing – Resources	N/A	Acceptable Assurance	N/A	Resources	17/04/2012
Purchasing Cards – Children's Services	N/A	Acceptable Assurance	N/A	Children's Services	17/04/2012
Purchasing Cards – City Development	N/A	Acceptable Assurance	N/A	City Development	17/04/2012
Purchasing Cards – Environment & Neighbourhoods	N/A	Acceptable Assurance	N/A	Environment and Neighbourhoods	17/04/2012
Purchasing Cards – Adult Social Care	N/A	Acceptable Assurance	N/A	Adult Social Care	21/05/2012
Purchasing Cards – Resources	N/A	Good Assurance	N/A	Resources	21/05/2012
Purchasing Cards – Children's Services	N/A	Acceptable Assurance	N/A	Children's Services	21/05/2012
Purchasing Cards – City Development	N/A	Good Assurance	N/A	City Development	21/05/2012

**Internal Audit Half Yearly Report April to September 2012**

**Internal Audit Half Yearly Report April to September 2012**

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Purchasing Cards – Environment and Neighbourhoods	N/A	Acceptable Assurance	N/A	Environment and Neighbourhoods	21/05/2012
Procurement Unit – Off Contract Spend	Good Assurance	N/A	Minor	Resources	10/08/2012
Quarterly Review of Published Payments – Children's Services	N/A	Good Assurance	N/A	City Development	21/08/2012
Quarterly Review of Published Payments – Adult Social Care	N/A	Good Assurance	N/A	Adult Social Care	21/08/2012
Quarterly Review of Published Payments – Environment and Neighbourhoods	N/A	Good Assurance	N/A	Environment and Neighbourhoods	21/08/2012
Quarterly Review of Published Payments – Resources	N/A	Good Assurance	N/A	Resources	21/08/2012
<b>Risk Based Reviews</b>					
Nursery Education Grants Follow Up Review	Acceptable Assurance	N/A	Minor	Children's Services	14/05/2012
Information Governance Follow Up Review	Acceptable Assurance	N/A	Moderate	Resources	29/08/2012
<b>Strategic Landlord Assurance Framework Reviews</b>					
Corporate Governance – West North West Homes	Good	N/A	Minor	Environment and Neighbourhoods	11/04/2012
Belle Isle Tenant Management Organisation - Business Continuity	Acceptable Assurance	N/A	Minor	Environment and Neighbourhoods	08/05/2012
Procurement – East North East Homes	Good Assurance	Limited Assurance	Minor	Environment and Neighbourhoods	08/05/2012
Corporate Governance Follow Up Review – Belle Isle Tenant Management Organisation	Good Assurance	N/A	Minor	Environment and Neighbourhoods	09/05/2012
Corporate Governance – East North East Homes	Acceptable Assurance	N/A	Minor	Environment and Neighbourhoods	21/06/2012
Corporate Governance – Aire Valley Homes	Good Assurance	N/A	Minor	Environment and Neighbourhoods	25/06/2012
Procurement – Aire Valley Homes	Good Assurance	Good Assurance	Minor	Environment and Neighbourhoods	25/06/2012
Neighbourhood Management – Aire Valley Homes	Good Assurance	N/A	Minor	Environment and Neighbourhoods	25/06/2012
Procurement – West North West Homes	Acceptable Assurance	Acceptable Assurance	Minor	Environment and Neighbourhoods	02/08/2012
Tenancy Enforcement (Tenancy Fraud) – West North West Homes	Good Assurance	Acceptable Assurance	Moderate	Environment and Neighbourhoods	02/08/2012
<b>Head of Audit Assurances</b>					
City Region Grant Claim: Urban Eco Settlements	Review of Grant Claim – Satisfactory.			Customer Access and Performance	06/06/2012
City Region Grant Claim: New Points Growth Funding	Review of Grant Claim – Satisfactory.			Customer Access and Performance	06/06/2012
Leeds City Region Accounts – Internal Audit Statement	Signed Internal Audit Statement for 2011/12 Accounts.			Customer Access and Performance	06/06/2012
Bus Operators Grant Claim	Certification of Grant Claim 1 <sup>st</sup> October 2011 – 31 <sup>st</sup> March 2012			Resources	13/06/2012
Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance) Specific Grant Determination 2010 No 31/1859	N/A			Resources	13/07/2012

**Internal Audit Half Yearly Report April to September 2012**

**Internal Audit Half Yearly Report April to September 2012**

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Organisational Impact		
Interreg Grant Claim - SeNS		N/A		Adult Social Care	22/08/2012
Welcome to Yorkshire Tourism Grant Claim		N/A		City Development	28/09/2012
<b>Business Analysis and VFM</b>					
Electronic Document Records Management System Rollout Options		N/A		Resources	04/04/2012
Changing the Workplace: Customer Access Project- Electoral Services Review		N/A		Customer Access and Performance	24/04/2012

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

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# **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 in Section 1. The following section highlights any key issues and outcomes within each assurance block.

## **2.1 Financial and Other Key Systems**

- 2.1.1 The level of assurance provided for the key financial systems reviews issued during the period was good or substantial and in all cases an action plan has been agreed with the appropriate officers that, if implemented, will give substantial control environment assurance in all areas. Good systems continue to be operating effectively across the key financial systems, resulting in the Internal Audit assurance opinions either improving or remaining the same when compared to the previous year.

The Section has completed the key reviews necessary to enable KPMG to rely upon internal audit work for opinion purposes. KPMG concluded that:

*“Internal Audit have covered all areas of work that we wished to rely upon to a good standard and we are again able to place full reliance on their work.”*

### **2.1.2 Community Care Finance (CCF)**

The audit identified concerns regarding delays in payments to providers and accuracy of payments to customers in receipt of a personal budget. This is key as the Quality Assurance Framework Project in Adult Social Care is considering the introduction of fines payable to providers where there are delays in making payments for new placements. There are currently no performance targets to measure the timeliness of processing financial assessments or new placements. The implementation of recommendations for performance management information in this area would assist in understanding the reasons for this. The findings have been shared with the Programme Team within Adult Social Care so that they can be included in the new ‘To Be’ process.

*Outcomes – There has been a recent increase in the number of complaints from providers over delayed payments. Internal Audit has been commissioned to do some additional work to establish the reasons for these delays.*

### **2.1.3 Capital Programme Central Controls**



The audit found that a strong control environment is in place to seek appropriate approval prior to the injection of schemes into the Capital Programme and where originally estimated scheme values are varied at tender stage. However, the process for the approval and monitoring of variations that are made following the award of contracts could be improved, particularly in the current climate where even stronger financial controls are necessary.

There are currently no central mechanisms in place to;

- highlight and escalate instances where Chief Officer Approvals (COAs) are not in place prior to the contractual commitment of schemes
- identify where expenditure exceeds the approved amounts in relation to the contracted sum
- monitor essential and non-essential variations which have been approved in addition to these contracted sums.

It is currently under consideration whether the Capital Team will take on this responsibility and discussions have been held with the Capital Team and the Director of Resources to determine the most proportionate response to address the issues identified during the audit.

## **2.2 Compliance Reviews**

### **2.2.1 Compliance Strategy**

Internal Audit has developed a compliance strategy for the year including the number of days that will be allocated to each area of compliance work. This is predominantly weighted towards financial impact.

The key areas identified are:

- § Payroll;
- § Procurement;
- § Third party monies;
- § HR policies;
- § Fees and charges;
- § Asset verification;
- Grants to voluntary organisations.

### **2.2.2 Third Party Monies**

Following a number of whistleblowing allegations and fraud investigations, a comprehensive audit review of the arrangements in place for safeguarding customer monies within the Learning Disabilities Supported Living Service was completed. The objectives of the review were to ensure

that there were adequate policies and procedures in place for safeguarding customer monies and that these were followed in practice.

A working group was established in 2011 within the Learning Disabilities Service to ensure that the procedures relating to customer monies within the Supported Living Service were fit for purpose and could sufficiently safeguard both customers and staff. Internal Audit has attended this working group to feedback the ongoing findings of the audit review, so that the relevant recommendations could be incorporated into the revised set of procedures.

No instances of misappropriation were identified during the review, however, a number of high priority recommendations were made to reduce the risks whilst ensuring that customers have the independence they require, and providing workable solutions for staff.

*Outcome - Safeguarding: Improving safeguarding arrangements, reducing the risk of financial irregularity.*

### 2.2.3 Overtime 2011-12

The Council spent £12.5 million on overtime in 2011/12. Internal audit has conducted a suite of audits across the Authority, testing a sample of 80 overtime payments for 2011/12. The audits have identified many compliance failings which have resulted in overpayments being made and claims being paid without supporting prime documentation. The key issues identified are non-compliance with the Council's Planned Overtime Rules and non-compliance with other procedures and best practice when approving, checking and challenging overtime payments;

In addition to recommending a number of actions to improve compliance with policy and procedures, Internal audit has included additional compliance testing in this area for the next quarter.

*Outcome –The estimated value of overpaid overtime is likely to be approximately £180k per year.*

*Internal audit has also added this to the list of planned VFM reviews*

### 2.2.4 Ethical standards

The audit of Members Allowances identified no issues. Internal Audit has scheduled a review of gifts and hospitalities and declarations of interests for Quarters 3 and 4.

### 2.2.5 Fees and charges

An audit was undertaken of the processes in place for collecting income due from burials and cremations. This identified some instances where head-stones had been erected without a permit. An estimated £15,000 has been lost in income during 2011-12.

### 2.2.6 Unannounced visits

Unannounced visits have been undertaken to 9 establishments across the Council. As part of the reviews cash-ups are undertaken and reviews of petty cash records and any unofficial funds. Whilst no significant issues have been identified to date they will continue to form part of the compliance work programme as part of the Council's zero tolerance to fraud and corruption.

### 2.2.7 Follow up reviews

The follow up reviews at Benton Park School and City of Leeds High School has verified good progress against the previous recommendations. This has resulted in the opinion level for the control environment being upgraded to good. Some compliance issues were identified at Benton Park School regarding the administration of the school fund and recording of income due/outstanding for school trips. Action has been agreed with the Head Teacher to improve these weaknesses.

## 2.3 *Procurement, Monitoring and Improvement*

### 2.3.1 Procurement Strategy

The strategy for procurement audit has been developed during quarter 1 to define how procurement audit work will be undertaken during the year. Coverage will be split into the following areas:

- *Central Controls*: This will include a follow up of the progress made by Procurement Unit against the limited assurance reports issued during 2011/12. Internal Audit have been in ongoing dialogue with Procurement Unit regarding the work undertaken by the Transforming Procurement Project Team to strengthen the Council's procurement controls and this review will be tailored to reflect the new arrangements in place.
- *Contract Monitoring*: Internal audit has consistently reported on, and made recommendations regarding, contract monitoring arrangements in the organisation. A schedule of reviews undertaken in quarters 2 to 4 will provide assurance on the adequacy of the Council's contract monitoring arrangements and will make recommendations for improvements where necessary. The overall findings of these reviews will be summarised and, if appropriate, reported on in a lessons learned review in quarter four.
- *Capital Contract Reviews*: This will involve auditing individual capital schemes to review compliance with procedures.

### 2.3.2 Procurement 2011

Internal Audit has continued to be involved in supporting the council team with the ongoing issues experienced on the Procurement 2011 contracts. The contractor is yet to provide their final account for the first year of the contract to allow this to be considered by the ALMOs and Strategic Landlord in terms of accuracy and VFM.

When this has been received and a way forward agreed between the ALMOs and Strategic Landlord, Internal Audit has offered support to carry out an open book review on the final account to try and establish the cost position on the contract although it is recognised this approach will be less appropriate as time progresses.

### 2.3.3 Bankside

Internal Audit was asked to agree/comment on the recommendation to accept the contractors 'final' commercial offer. A high level review by audit concluded that this would be difficult to support, notwithstanding the complexity of this scheme and agreed to coordinate further substantiation. This was completed by the Quantity Surveyor (QS) resource to reduce the margin of error on the final position and reach a timely and satisfactory position given the circumstances.

This exercise improved substantiation of the project costs giving more evidence to support the final account position and also allowed internal audit to 'negotiate' a reduction of £35K in the commercial settlement.

Children's Services has reported to Executive Board, explaining the overspend on this scheme and also requesting the Authority to Spend approval. Whilst Internal Audit were able to bring the account dispute to a resolution there are a number of lessons that can be taken forward to prevent such significant overspends on similar major projects. These areas of best practice were previously highlighted by Audit and Risk in relation to this project and key controls, particularly design freeze, variations and accurate financial management included in the other capital scheme audits to be undertaken during the year.

*Outcome – a reduction in the final account of around £35K and increased awareness of the need for improved contract management.*

### 2.3.4 Purchasing Card Expenditure

Internal Audit has continued with quarterly reviews of Purchasing Card expenditure. The sample tested has shown a general increase in the level of compliance and as such this audit work will be reduced in the next quarter.

## 2.4 *Risk Based Audits*

### 2.4.1 Nursery Education Grants Follow Up

Internal Audit originally carried out a review in October 2011. This identified several significant issues regarding the compliance with the Code of Practice, including 'external' nursery providers overcharging clients, and the way in which the grant was calculated. As a result, a follow up audit was carried out to monitor the progress made against key recommendations.

The incorrect payments in respect of the Summer 2011 deprivation allocations have been recovered by adjustment to the Autumn 2011 and Spring 2012 payment.

Issues of non-compliance with the Code of Practice within nurseries are now logged and monitored by the Early Years Team, however, at the time of the follow up review no arrangements had been put in place to confirm that all parents have been appropriately refunded. The Early Years Team is currently liaising with their internal contracts and commissioning team with the aim of agreeing a series of sanctions to be imposed where non-compliance is identified. Upon approval of this procedure, the Early Years Team intend to make progress with ensuring that appropriate refunds are issued to clients.

*Outcome - Financial: £40k overpayment identified in the October 2011 audit has been recovered.*

*The issue of overcharging clients has not yet been satisfactorily resolved and refunds of overpayments, identified in the October 2011 report, have not yet been agreed.*

#### 2.4.2 Taxi Licence Follow Up

The objective of the audit was to carry out a follow up review of the recommendations made in the audit report of 2010/11. The key issue highlighted was that drivers that applied for their initial licences before CRB disclosures were introduced and have been granted subsequent licence renewals had not been subject to CRB disclosure checks at any point. Also, CRB disclosures were not sought every three years, contrary to the best practice guidance issued by the Department for Transport.

In agreement with the Licensing Committee, an online consultation questionnaire was published on the Talking Point intranet site on 26<sup>th</sup> July 2012 seeking views on whether licensed drivers should undertake regular enhanced criminal record checks. The consultation period is due to end on the 5<sup>th</sup> October 2012.

*Outcome - Safeguarding: The directorate has objectively considered the risks identified in the 2010/11 audit review and has decided against implementing the recommendations made in the final report at this stage. Further consideration will be given to this risk when the outcomes of this internal consultation are available.*

#### 2.4.3 Information Governance

In August a follow up review found that although some progress had been made against the recommendations detailed in the 2009/10 internal audit, a high proportion of these have not yet been completed. The key area was ensuring that a programme of Information Governance training is delivered to all officers involved in information governance. This will ensure awareness of information management principles and the authority's Information Governance Framework and compliance with statutory requirement in this area. The Information Governance Team is updating their action plan that will address this outstanding issue.

## **2.5 Spending Money Wisely**

### **2.5.1 Spending Money Wisely Communications Strategy**

Internal Audit has worked with the Intranet and Corporate Communications Teams to prepare content for the new intranet which includes;

- a 'blog' to provide staff with updates and examples of Spending Money Wisely
- promotion of the Spending Money Wisely hotline and e-mail address.
- clear policy guidance for staff

### **2.5.2 Spending Money Wisely Challenge**

Internal Audit introduced a regular challenge of expenditure within the council. The aim of this is to both raise awareness of Spending Money Wisely across the authority and to act as a deterrent against any spending that does not provide value for money.

On a monthly basis a sample of payments made across the authority will be selected, and officers will be asked for clarification of why the money was spent, and how assurance can be provided that the money was spent wisely. A briefing note was issued to Directors and Heads of Finance outlining the process and the first exercise is underway.

### **2.5.3 Current Spending Money Wisely Reviews**

#### **Charges for the hire of Children's Services buildings**

A Spending Money Wisely review has recently been carried out on the hire of Children's Services buildings. The scope of the review was to assess the usage of a sample of 2 facilities and the charges levied for this usage. The work is in the final stages and the findings from the review are:

- Each Children's Services building currently has its own charging policy. These are not always clear because they are based on ranges of prices and discounts, and these are often applied

inconsistently. There was no evidence that the charging policy considered the running costs of the buildings reviewed;

- The current charges are lower than similar facilities in the area, for example City Learning Centres;
- Usage is approximately 15% of current opening hours, however at one building the original business case anticipated that usage would be 25%. In addition to this, the current opening hours for this building are less than those detailed in the business plan;
- Bookings are currently managed on site at individual buildings rather than by a central bookings team.

The review has identified a number of recommendations that could provide both financial and non-financial benefits.

#### *Financial benefits*

The review identified a number of options available to one specific building although the principles could be applied for other buildings across the city. Through a combination of reviewing and enforcing charges, and increasing opening hours and usage to that detailed in the original business case, the following financial benefits could be obtained:

- If existing charging policies were enforced more robustly, net income could increase by up to £69k per year compared to the current position.
- However by increasing opening hours and attaining 25% occupancy in line with the business plan, as well as increasing charges to those used by the City Learning Centres, this could increase the net additional income figure up to £204k per year.

The review identified that in the longer term further savings could be obtained by establishing a central council bookings hub.

#### *Non-financial benefits*

The recommendations above would also lead to non financial benefits, including:

- A more consistent, equitable service.
- Charges that support council priorities and provide community benefits.
- Competitive prices that are better controlled and maximise usage.
- Efficiencies and increased usage resulting from better co-ordinated bookings.
- A single point of contact for bookings and a consistent, good quality service for customers.

## **2.6 Counter Fraud and Corruption**

### 2.6.1 Referrals

35 new referrals have been received by the Internal Audit Fraud and Corruption team from 1<sup>st</sup> April to 30<sup>th</sup> September 2012. 30 of these were received under the Council's Whistleblowing and Raising Concerns Policies and 5 were received from a Service.

36 cases have been investigated and closed in the same period.

There are 22 ongoing investigations:

- 16 cases are currently being investigated by the Fraud team;
- 4 have been referred to a service or HR for investigation and the Fraud team is awaiting their responses;
- 2 have been referred to the Police for action.

### 2.6.2 Issues/ cases closed

#### *Supported Living service*

An investigation initially reported in September 2011 has been completed and is currently going through the courts. A Support Worker is believed responsible for the theft of monies missing from client accounts. The employee was dismissed at a disciplinary hearing on 16<sup>th</sup> June 2011.

A report detailing the systems weaknesses and findings to address these was issued from compliance work undertaken to review the controls in place to safeguard client monies (see 2.2.2 above.)

£21,300 of the £23,800 loss has been recovered from our insurers in order to compensate the clients concerned. Reimbursement through the Pension Fund or as part of the criminal prosecution case is ongoing. A sum of £990.41 has been recovered from the employee in the form of accrued holiday pay.

#### *School Meals Income*

A Head Teacher contacted Internal Audit to ask for assistance with regards to issues with school meals income. An investigation has revealed that records of income were not being maintained properly and has identified a discrepancy of over £4,300 for the current academic year. The individual has been suspended, the details have been referred to the police and recovery of the money will be pursued.

#### *Section 48 Team Investigation*

Further to the report in September 2011, the individual has recently appeared in court and pleaded guilty to four charges - misconduct in public office, two counts of theft and fraud using a false instrument with intent. The individual received a 16 month custodial sentence.

#### *Data Security*



An anonymous whistleblowing call was received alleging that a temporary member of staff with access to various databases was emailing sensitive information to their personal email account. Investigations have failed to discover anything to corroborate this. Discussions with the Chief Officer (ICT) confirmed ICT staff need access to systems and data in order to carry out their roles and that there is a risk that one of these individuals could download data and send it via e-mail without detection. Staff accessing sensitive information are CRB checked, are appraised of the policies of the Council such as E-Mail usage and guidelines and managed accordingly.

The Chief Officer (ICT) and Chief Officer (Intelligence and Improvement) are to consider the risks and if necessary, introduce appropriate and proportionate controls. Internal Audit will review this risk assessment and actions arising as part of its planned work.

#### *Parking Permits*

Further to the September 2011 report, charges have now been introduced for those members of staff who had been missed from the initial exercise. This will produce additional income of £4,700 p.a.

#### *Care Services Provider*

A whistleblowing report was received that council monies were being spent frivolously by a contractor who provides care services and accommodation on our behalf. Investigations found that whilst the allegations were not substantiated there were systems weaknesses in the way in which one of their contracts was monitored to ensure we are actually receiving the services being paid for.

Further work is therefore to be undertaken by Internal Audit to determine if these weaknesses are more widespread across all contracts of this type.

#### *School- Conflict of Interest*

Concerns were raised with Internal Audit regarding a potential conflict of interest within a school where the Inclusion Manager and her husband, an Outreach Teaching Assistant (subsequently Assistant Behaviour Manager) established and ran a company for the provision of off-site education, which the school then began to use. The Governing Body were aware of the issue and steps had been taken by the school to address the conflict of interest but not stop the arrangement.

The Director of Children's Services and the Chair of Governors are satisfied with the action taken.

#### *Adult Social Care Establishment*

Further to the September 2011 report, the former employee has appeared in court, pleaded guilty to a number of charges and been sentenced to 2<sup>1</sup>/<sub>2</sub> years, half of which is in prison and the other half on licence.

### 2.6.3 Proactive Work

#### *'Fighting Fraud Locally'*

The National Fraud Authority published their three year strategy for tackling fraud in local authorities and gaining our assistance in addressing it in other sectors. The document is called 'Fighting Fraud Locally' and was accompanied by a best practice checklist.

We have undertaken a review of our current arrangements to counter fraud and corruption against the checklist and the actions the report recommends for consideration. This confirmed that we already comply with the vast majority of the best practice.

#### *Revision of Whistleblowing and Raising Concerns Policies*

The current Whistleblowing and Raising Concerns Policies and their supporting arrangements have been reviewed in line with British Standards Institute/ Public Concern at Work Code of Practice and other best practice and minor changes made.

### 2.6.4 Reports Issued

A list of investigation reports issued to directorates and services from 1<sup>st</sup> April to 30<sup>th</sup> September 2012 is shown in the table below:

<b>Report Title</b>	<b>Date Issued</b>
Annual Leave	21-May-12
Children's Disability Team (2)	11-Jun-12
School - Conflict of Interest	15-Jun-12
Voluntary Organisation	25-Jun-12
Blue Badge (4)	25-Jun-12
Non-Referral of Whistleblowing Allegations	25-Jun-12
Nepotism	28-Jun-12
School- Dinner Monies	11-July-12
Complaints- Re-housing & Kitchen Refurbishment	16-July-12
Children's Disability Team	20-July-12 (& 03-Sept-12)
Database Misuse	24-July-12
National Fraud Initiative Blue Badge Review	28-Jun-12

## 2.7 *Head of Audit Assurances*

A review of the Bus Operators Grant claim for 1<sup>st</sup> September 2011 to 31<sup>st</sup> March 2012 identified a number of discrepancies in the initial claim value which resulted in an increase in the amount of the grant claim of £948.

## **2.8 Data Analytics Project**

The Council Tax Single Person Discount (SPD) review for the first quarter of the year resulted in almost 2,000 SPD's being cancelled, although 330 have applied for or have been granted another discount to the same value. The annual equivalent net increase in Council Tax billings from the work in this first quarter of 2012/13 was estimated at £227,000. The SPD review work was transferred to the Council Tax Team at Hough Top Court from mid-September. To ensure the transition went smoothly no large batches of review letters were sent on the run up to the transfer. There will be continued liaison during the pilot. For the second quarter of the year, the number of net SPD cancellations has been approximately 300 with an estimated net increase in Council Tax billings of £67,000.

Work is currently on-going with the housing tenancy sub-letting review. Some issues have been identified but to date no sub-letting frauds have been confirmed. We are currently arranging for the data on the high risk tenancies to be re-processed and will then arrange a training session to share best practice.

## **2.9 Business Analysis**

### **2.9.1 Business Process Re-Engineering Projects**

The first quarter of 2012 has seen the successful implementation of a change in the way in which the Internal Audit BPR team is deployed. Following a decision taken by RLT, BPR team members are now engaged to work on a long term basis directly for major projects throughout the Council. This approach recognises that projects across the Council require a business case to secure funding for supporting resources, including BPR, and also that it was not practical to maintain a central team to meet a fluctuating demand. Inevitably this will mean some projects will have to source their own BPR resource directly however this approach will remove the risk of over recruiting a BPR resource and reduce the tensions between competing projects when deploying finite resources.

However, it is key that good standards and good guidance is available to all project teams across the organisation. Work is also underway to create a BPR 'centre of excellence' intranet page which will be an invaluable source of information and best practice methodology for business analysts working directly for Directorates throughout the council. The aim of this intranet page is to provide users with a toolkit for undertaking different types of business analysis along with standardised reporting documentation. In addition, there will be guidance on training and development opportunities – including a programme of internal seminars

and external qualifications, a guide to key competencies required of a business analyst.

## **2.10 External Clients**

### **2.10.1 Housing Partnerships**

Internal Audit is commissioned by Housing Partnerships to undertake a suite of audits to provide certain assurances in relation to elements of the Housing Partnership monitoring function and the key risk areas in the BITMO and each of the ALMOs. The audit work programme for 2011/12 is now complete and the Annual Audit Summaries for each organisation have been issued. Performance across the areas audited and reported in quarter one of 2012/13 was found to be satisfactory.

Meetings to develop and agree the 2012/13 Assurance Framework have been held with all stakeholders (LCC, ALMOs, BITMO and Internal Audit). The outcomes of these meetings have been used to determine the key areas of coverage for the Assurance Framework. From this, a proposed suite of audits has been developed, along with areas of work to be included in the individual ALMO/BITMO audit plans to enable Internal Audit to give assurance on the risks to both the Director of Environment & Neighbourhoods and the ALMO / BITMO Boards. The audit programme for 2012/13 is intended to be more focussed on self assessment with support from Internal Audit.

### **2.10.2 Contracts**

The contracts for 2012/13 for each of the external clients have been developed and approved by the appropriate Boards and Committees.

*Outcome - Financial: The contracts for 2012/13 will provide total income of £220K.*

2.10.3 Following a request from a school, Internal Audit has undertaken a review of their catering contract to ensure that the contract terms and conditions are being complied with. The review made a number of recommendations about how processes could be improved to ensure that the school can gain assurance that it is receiving value for money from the catering contract and that the contract terms and conditions are being complied with.

*Outcome - an overpayment in salary costs for the current year and the final year of the contract was identified which the school should seek to recover from the Contractor of approximately £8,600.*

## **2.11 Reducing Bureaucracy**

Internal Audit has continued to provide ad-hoc advice to officers in Directorates on a wide range of issues including interpretation of Contract

Procedure Rules and Financial Procedure Rules, and on risks and controls within individual systems or processes. Internal Audit provides clear, risk based recommendations to Directors, Chief Officers and Senior Managers with a view to reducing bureaucracy whilst still maintaining a robust control environment. Examples of the types of areas Internal Audit has provided advice on are as follows:

Internal Audit have provided advice to BSC on risks and proportionate controls on a number of areas with the aim of reducing bureaucracy including moving to acceptance of change of employee details by telephone, and moving to sample checking of the input of special leave forms rather than 100% checking.

As part of the wider Welfare Reform agenda changes have been made to increase the age threshold for Shared Accommodation housing benefit. This necessitated an exemption to be introduced for certain ex-offenders. Instruction from DWP required local authority's Chief Internal Auditor to receive confidential information regarding these offenders to allow the exemption to be processed. Internal Audit have reviewed this proposal in consultation with the Benefits Services and identified that this function can be delegated directly to a nominated officer within the Benefits Service. This arrangement should ensure that any delays in processing such information are minimised.

## **2.12 Savings and Efficiencies**

The following table provides a summary of the savings and efficiencies identified by Internal Audit for the 6 months from 1<sup>st</sup> April to 30<sup>th</sup> September (further details have been provided in the Section above):

**Table of Savings/Efficiencies**

	<b>Audit Area</b>	<b>Value £</b>	<b>Explanation</b>
1	Data Analytics Project	£294,000	Annual equivalent net increase in Council Tax billings from review of Council Tax Single Person Discount (SPD) with approximately 2300 SPDs being cancelled (although a proportion of these will have applications for other discount to the same value.)
2	Overtime	£180,000	Potential estimated saving per annum to be gained from ensuring the Planned Overtime Rules are followed across the authority for employees with a spinal column point of 29 or more.
3	Nursery Education Grants Follow Up Review	£40,040	Overpayment of deprivation allocation was identified by the review of Nursery Education Grants. This amount has now been recovered.
4	Bus Operators Grant Claim Sept 2011 to March 2012	£948	Discrepancies were identified in the initial claim value resulting in an increase in the amount of the grant claim.
5	Fraudulent change	£4,900	Monies being recovered through courts.

	<b>Audit Area</b>	<b>Value £</b>	<b>Explanation</b>
	of bank details		
6	Fraudulently cashed cheque	£545	Monies being recovered through bank/cashing agent.
7	Supporting Living – theft of monies	£23,800	Monies being recovered through insurance.
8	School Meals – theft of monies	£4,300	Method of recovery still to be determined.
9	Staff Parking	£4,700	Monies now being charged through payroll.
10	Review of final account	£34,937	Reviewed a proposed commercial settlement for a capital scheme and agreed a revised figure.
11	Catering Contract Review	£8,600	Identified overpayment of salary as part of school catering contract £8,600 – to seek recovery from contractor.
12	Children’s Services – Charges for hire of Children’s Buildings	Up to £204,000	Range of opportunities to maximise income identified from the review. Potential additional income in the range £69,000 to £204,000 per annum dependant on the recommendations implemented.
13	Cemeteries and Crematoria	£15,000	Estimate of additional income per annum in relation to permits for headstones.
	<b>Total</b>	<b>£815,770</b>	

## Section 3

## AUDIT PLAN FOR THE NEXT QUARTER

The 2012/13 audit plan used, as a base, the tried and tested risk based approach to prioritising internal audit work.

Progress against the plan is being monitored throughout the year and key issues reported to the Director of Resources, and the Chief Officer (Audit & Risk). The Head of Audit will continue to report key issues arising from this work to the Corporate Governance and Audit Committee.

Given the constantly changing environment, the audit plan is subject to continuous review as changes in relative priorities of jobs already included and risks emerging throughout the year will need to be addressed. On a quarterly basis, changes to the audit plan from the re-prioritisation of resources and audit reviews will be reported to the Corporate Governance and Audit Committee by including the proposed audit plan for the forthcoming quarter.

### Quarterly Plan – Quarter 3 2012/13

Audit	Days Q3 Plan	Assurance Block	Directorate
<b>Financial and Other Key Systems</b>			
Payroll	85	Financial and Other Key Systems	Cross Cutting
ICT Reviews	40	Financial and Other Key Systems	Resources
Creditors (inc purchasing cards)	55	Financial and Other Key Systems	Cross Cutting
Income Management System	25	Financial and Other Key Systems	Resources
NDR	20	Financial and Other Key Systems	Resources
Treasury Management	25	Financial and Other Key Systems	Resources
Council Tax	20	Financial and Other Key Systems	Resources
Housing Rents	25	Financial and Other Key Systems	Environment and Neighbourhoods
Sundry Debtors	30	Financial and Other Key Systems	Cross Cutting
	<b>325</b>		
<b>Compliance</b>			
Travel and Subsistence	15	Compliance	Cross Cutting
Direct Payments	10	Compliance	Adult Social Care
Faster Payments	10	Compliance	Cross Cutting
Safeguarding	20	Compliance	Adult Social Care
Overtime	20	Compliance	Cross Cutting
Key Performance Indicators	5	Compliance	Cross Cutting
Chief Officer Approvals	15	Compliance	Cross Cutting
Register of Interests	5	Compliance	Cross Cutting
Agency Staff	5	Compliance	Cross Cutting
Acting Up	5	Compliance	Cross Cutting
Key Decisions	5	Compliance	Cross Cutting

**Internal Audit Half Yearly Report April to September 2012**

<b>Audit</b>	<b>Days Q3 Plan</b>	<b>Assurance Block</b>	<b>Directorate</b>
Published Payments	10	Compliance	Cross Cutting
	<b>125</b>		
<b>Procurement, Monitoring and Improvement</b>			
Passenger Transport Contract Review	25	Procurement, Monitoring and Improvement	Resources
Highways Contract Review	25	Procurement, Monitoring and Improvement	City Development
Grounds Maintenance Contract Review	25	Procurement, Monitoring and Improvement	Environment and Neighbourhoods
Waste Management Contract Review	25	Procurement, Monitoring and Improvement	Environment and Neighbourhoods
Lift Supplies Contract Review	25	Procurement, Monitoring and Improvement	Cross Cutting
IT Supplies Contract Review	25	Procurement, Monitoring and Improvement	Children's Services
Leeds Arena Capital Scheme Review	25	Procurement, Monitoring and Improvement	City Development
Oulton Primary School Capital Scheme Review	25	Procurement, Monitoring and Improvement	Children's Services
Other Contract Reviews	25	Procurement, Monitoring and Improvement	Cross Cutting
Prevention and Management of Procurement Challenges	10	Procurement, Monitoring and Improvement	Resources
Procurement Unit Follow Up Review	15	Procurement, Monitoring and Improvement	Resources
	<b>250</b>		
<b>Risk Based Audits</b>			
Telecare	10	Risk Based Audits	Adult Social Care
Bailiffs	10	Risk Based Audits	Cross Cutting
Registrars	10	Risk Based Audits	Resources
Fees to Foster Carers	10	Risk Based Audits	Children' Services
Section 106	20	Risk Based Audits	City Development
Section 278	20	Risk Based Audits	City Development
External Grant Income	20	Risk Based Audits	Cross Cutting
Anti Social Behaviour Unit	15	Risk Based Audits	Environment and Neighbourhoods
	<b>115</b>		
<b>Spending Money Wisely</b>			
Spending Money Wisely Challenge Process	30	Spending Money Wisely	Cross Cutting
Agency Staff	30	Spending Money Wisely	Cross Cutting
ICT Benefits Realisation	30	Spending Money Wisely	Resources
Highways Services	20	Spending Money Wisely	City Development
Other Spending Money Wisely Reviews	30	Spending Money Wisely	Cross Cutting
	<b>140</b>		
<b>Counter Fraud and Corruption</b>			
Proactive Exercise – Protecting the Public Purse	5	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Fraud and Corruption Policy	10	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Direct Payments	20	Counter Fraud and Corruption	Cross Cutting
Proactive Exercise – Recruitment Checks	20	Counter Fraud and Corruption	Cross Cutting
Reactive Fraud Work	115	Counter Fraud and Corruption	Cross Cutting
	<b>170</b>		
<b>Update, Communication and Monitoring</b>			
Policies and Procedures	10	Update, Communication and Monitoring	Cross Cutting
Performance Management Central Controls	10	Update, Communication and Monitoring	Customer Access and Performance
	<b>20</b>		
<b>Head of Audit Assurances</b>			
Bus Operators Grant Claim	5	Head of Audit Assurances	Resources
	<b>5</b>		

**Internal Audit Half Yearly Report April to September 2012**



**Internal Audit Half Yearly Report April to September 2012**

<b>Audit</b>	<b>Days Q3 Plan</b>	<b>Assurance Block</b>	<b>Directorate</b>
<b>Contingency</b>			
General Contingency	40	Contingency	Cross Cutting
Follow Up Reviews	10	Contingency	Cross Cutting
	<b>50</b>		
<b>Business Analysis</b>	<b>248</b>	Business Analysis	Cross Cutting
<b>Data Analytics Project</b>	<b>60</b>	Data Analytics	Cross Cutting
<b>External</b>			
ALMO/BITMO	50	External	Contract Work
Strategic Landlord Assurance Framework (including ABCL)	100	External	Contract Work
School Voluntary Funds	7	External	Contract Work
	<b>157</b>		
<b>Total Days</b>	<b>1665</b>		

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## Report of the Director of Resources

## Report to Corporate Governance and Audit Committee

Date: 9<sup>th</sup> November 2012

Subject: KPMG report – Annual Audit Letter 2011/12

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. In line with proper audit practice, KPMG have issued a summary of the key audit findings for the 2011/12 financial year (**see Appendix 1**). The report concludes that the auditors have been able to provide unqualified opinions in respect of all the areas they are required to assess. In addition, the audit report confirms that the Council has mitigated against the key risks identified for 2011/12.
2. For 2012/13, KPMG have only made one recommendation. The recommendation was in respect of Academy transfers and the Council has updated procedures in order to mitigate the risk identified.

## Recommendations

3. Members are asked to note the conclusions and recommendations arising from the 2011/12 external audit process.

## **1 Purpose of this report**

- 1.1 To provide a summary of the key external audit findings in respect of the 2011/12 financial year.

## **2 Background information**

- 2.1 Section 4 of the Code of Audit Practice 2010 for Local Government bodies requires external auditors to issue an Annual Audit Letter. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued and matters previously reported to those charged with governance.

## **3 Main issues**

- 3.1 Members should note the assurances KPMG give in respect of:
- An unqualified Value for Money conclusion;
  - The Annual governance Statement complies with proper practice and is not inconsistent with other information they are aware of from the audit of the financial statements;
  - An unqualified audit opinion on the 2011/12 Statement of Accounts; and
  - The Council's Whole of Government Accounts return to the HM Treasury was consistent with the audit financial statements.
- 3.2 The report also recognises that the Council continues to act to mitigate key risks identified in the audit reports and to implement any recommendations made. To date KPMG have made only one recommendation in respect of 2012/13, namely that any transfer of a school to Academy status is supported by the relevant legal documents to ensure that the disposal is accounted for in the correct financial period. Procedures have now been amended to ensure such transactions are properly accounted for in the 2012/13 accounts.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 This is a factual report based on evidence provided by the external auditors and consequently no public, Ward Member or Councillor consultation or engagement has been sought.

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

- 4.2.1 This is a factual report based on evidence provided by the external auditors and has 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 evidence provided by the external auditors 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 evidence provided by the external auditors 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 Under Section 4 of the Code of Audit Practice 2010 for Local Government bodies, external auditors are required to issue an Annual Audit Letter summarising the main audit findings in relation to the financial year.

4.5.2 As this is a factual report based on evidence provided by the external auditors 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 KPMG have confirmed that the Council has adequate controls in place to mitigate the key risks identified within the 2011/12 external audit reports.

#### **5 Conclusions**

5.1 There are no major issues arising from the work of external audit and officers continue to actively implement any recommendations raised in the reports.

#### **6 Recommendations**

6.1 Members are asked to note the conclusions and recommendations arising from the 2011/12 audit process.

#### **7 Background documents<sup>1</sup>**

7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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# Annual Audit Letter 2011/12

Leeds City Council

23 October 2012

The contacts at KPMG in connection with this report are:

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### Report sections

- Headlines

### Appendices

1. Summary of reports issued 4
2. Audit fees 5

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, textphone (minicom) 020 7630 0421.



**This report summarises the key findings from our 2011/12 audit of Leeds City Council (the Authority).**

**Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.**

**Our audit covers the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.**

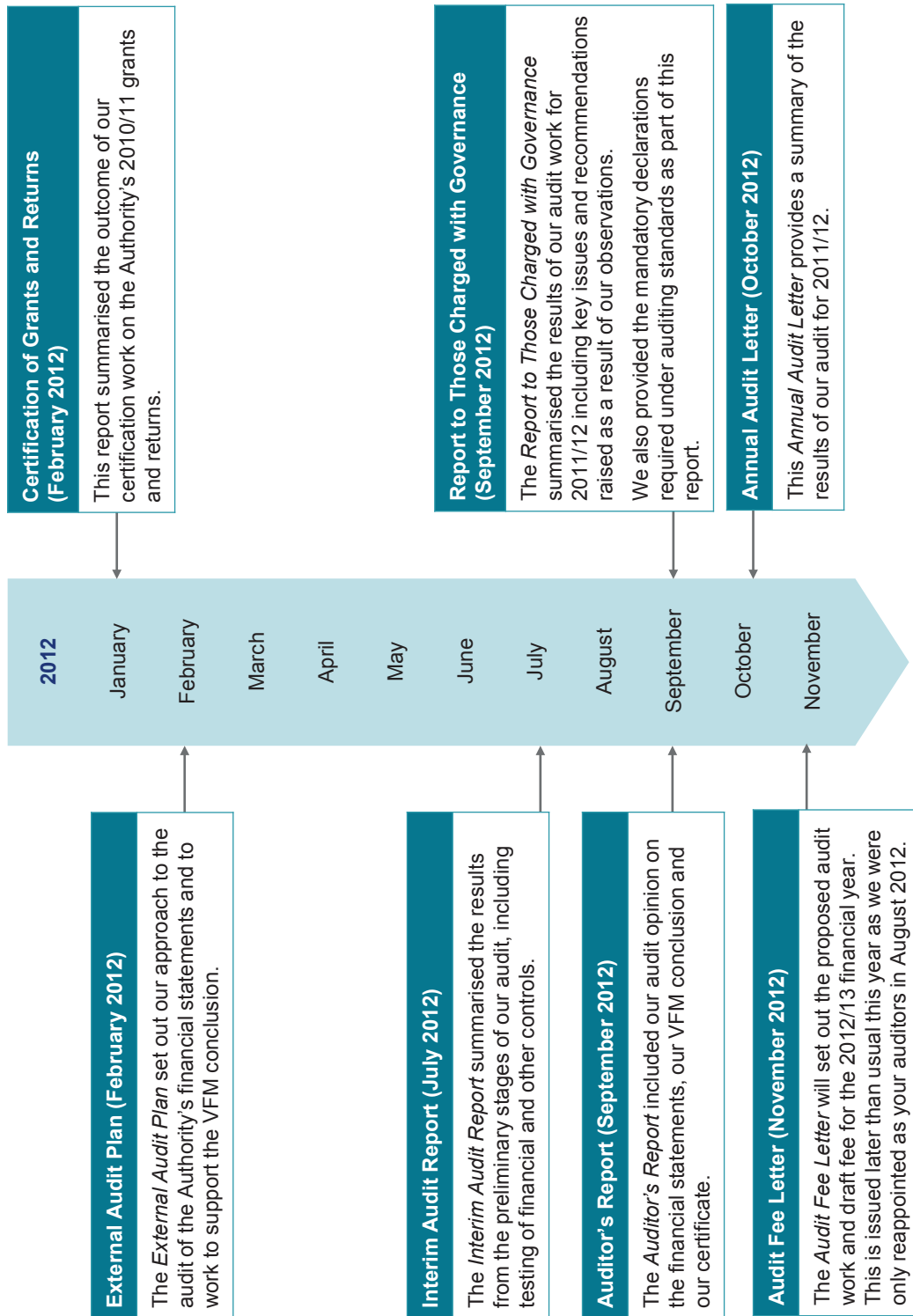
<p><b>VFM conclusion</b></p>	<p>We issued an unqualified value for money ('VFM') conclusion for 2011/12 on 28 September 2012. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p><b>VFM risk areas</b></p>	<p>We identified two key risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified:</p> <ul style="list-style-type: none"> <li>■ From April 2013 the Authority will acquire the responsibility for public health services. This transfer of services presents a number of operational and financial risks for the Authority. Adequate plans have been put in place to manage this transition.</li> <li>■ The Authority was required to deliver a savings plans totalling £90 million in order to deliver a balanced budget. This was a key risk in relation to securing the Authority's ongoing financial standing, in light of the additional £47 million of savings required in 2012/13. The Authority out-performed against its original budget for 2011/12, delivering a £1.5 million surplus. Additional contributions were also made to earmarked reserves to mitigate emerging risks.</li> </ul>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on your financial statements on 28 September 2012. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and a number of subsidiaries, including the three Arms Length Management Organisations.</p>
<p><b>Financial statements audit</b></p>	<p>Our audit of the financial statements resulted in the following key findings:</p> <ul style="list-style-type: none"> <li>■ One audit adjustment with a value of £16.6 million was identified in relation to a disposal of a school which was accounted for in the incorrect accounting period. This did not have an impact on the General Fund balance.</li> <li>■ The three critical accounting matters of financial standing, component accounting and changes to the Code in relation to Heritage Assets were satisfactorily addressed by the Authority.</li> </ul> <p>The quality of the Authority's working papers remains high.</p>

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We identified no high priority recommendations during 2011/12. We did, however, raise three low priority recommendation and one medium priority recommendation in our Interim and Final audit reports.
Certificate	We issued our certificate on 3 October 2012. The certificate confirms that we have concluded the audit for 2011/12 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2011/12 was £513,000, excluding VAT. This is consistent with our original planned fee. Further detail is contained in Appendix 2.

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2011/12.

To make sure that there is openness between us and the Corporate Governance and Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2011/12 planned external audit fee.

**External audit**

Our final fee for the 2011/12 audit Leeds City Council was £513,000. This is an overall reduction of 10% percent on the comparative total fee for 2010/11 of £570,000.

Our final fee for the 2011/12 audit was in line with the planned fee.

**Certification of grants an returns**

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2011/12* which we are due to issue in February 2013.



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**Report of Chief Officer Financial Development**

**Report to Corporate Governance and Audit Committee**

**Date: 9<sup>th</sup> November 2012**

**Subject: Treasury Management Governance Report**

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 checked="" type="checkbox"/> Yes	<input 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 annual report provides assurance that the Treasury Management function is operating within its governance framework. Treasury management has adopted and incorporated changes to the CIPFA Code of Practice and guidance notes and the Prudential Code. It has also updated its treasury management policy statement.
2. TM operates within the governance framework and also uses additional market intelligence and information gathered from a variety of sources. These sources have been integral in protecting the authority from undue risk in the financial and money markets.
3. Treasury Management is operating within its scheme of delegation and internal audit have provided substantial assurance on the control environment and compliance.

**Recommendations**

4. Note the delegations in respect to treasury management as outlined in Appendix A
5. Note that there is assurance that Treasury Management has adopted and is complying with the revised CIPFA Code of Practice and guidance notes and the Prudential Code.
6. Note that the Treasury Management Policy Statement has been updated.

## **1 Purpose of this report**

- 1.1 This annual report outlines the governance framework for the management of the Council's Treasury Management (TM) function. This report also reviews compliance with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and guidance notes and a revised prudential code. These were issued in November 2009 and revised 2011.

## **2 Background information**

- 2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular: The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators.
- Any in year revision of these limits must be set by Council.
  - Policy statements are prepared for approval by the Council at least two times a year.
- 2.2 TM is responsible for the Housing Revenue Account and General Fund long term debt in the region of £1.5bn and investments that currently stand at around £25m. It also manages the cash flow requirements of the Council.
- 2.3 Following the collapse of the Icelandic banks Corporate Governance and Audit Committee (CGA) were presented with a report on 12<sup>th</sup> November 2009 on the recommendations of three reports prepared by the Communities and Local Government Select Committee, the Audit Commission and CIPFA. Following these reports CIPFA issued a revised Treasury Management Code of Practice and guidance notes and a revised Prudential Code in 2009.
- 2.4 A further report was presented on 13<sup>th</sup> December 2011 to CGA and the committee noted that the requirements of the revised CIPFA Code of Practice and Guidance Notes have been incorporated into Treasury Management practices and policies and that the Prudential Code has been adopted.

## **3 Main issues**

- 3.1 Treasury management operates under a scheme of delegation and is shown in Appendix A
- 3.2 The role of the CGA Committee is to ensure that Treasury Management is adhering to and operating within its governance framework. This involves compliance with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and guidance notes and a revised prudential code (2009 and 2011).
- 3.3 The revisions to these codes were reported in the Treasury Management Strategy 2012/13 Report to Executive Board on 10<sup>th</sup> February 2012. That report also confirmed that revisions were adopted by the Council. The changes are shown in Appendix B.



- 3.4 Executive Board also approved the update of the Treasury management policy to reflect that local authorities now have the power to use derivatives for interest rate risk management. These instruments will only be used after a review of their appropriateness for interest rate risk management is undertaken. These changes are reflected in section 6.3 of the treasury management policy (Please see appendix C). The criteria for counter party investment has also been updated to reflect amended investment durations in Section 7.5 of Appendix C.
- 3.5 The operation of TM within its governance framework is also complimented by additional market intelligence and information gathered from a variety of sources. For example when the Icelandic crisis unfolded the Council had already reduced its investments in a number of banks, despite the rating agencies indicating that they were sound investments. These tools involve:
- The use of real time market information on the financial and money markets in the UK, Europe, US and other major economies;
  - Discussions with market participants and brokers;
  - Use of treasury advisors to test market views;
  - Networking and sharing of information with Core Cities and West Yorkshire districts;
  - Attending market seminars providing technical and economic updates;
  - Daily market updates from financial institutions and brokers; and
  - Thorough review of new financial products and how they fit within the governance structure.
- 3.6 TM will continue to use these additional measures and influence the national governance framework by providing responses to consultations. TM will also continue to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk.
- 3.7 Internal Audit has undertaken and concluded its annual review of the TM function. This involved a risk based system audit of TM to evaluate and validate key systems controls. Key controls for a sample of investments, loans and interest payments from 2011/12 were reviewed. Internal Audit provided two opinions:
- Control Environment - Substantial Assurance (highest level). This provides assurances that there are minimal control weaknesses that present very low risk to the control environment.
  - Compliance with the Control environment - Substantial Assurance (highest level). This level indicates that the control environment has substantially operated as intended although some minor errors have been detected in the sample tested.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 CIPFA have consulted with all local authorities prior to the issue of the revised codes and the Council has participated in this consultation. There has been no further consultation in relation to this report

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

4.2.1 This report does not have any direct equality and diversity/cohesion and integration issues.

4.2.2 An equality screening document is attached at Appendix D.

### **4.3 Council policies and City Priorities**

4.3.1 The execution of treasury strategy enables cash funding to be raised and managed in the most efficient manner and this supports revenue and capital spend in line with City Priority Plans and the Council Business Plan.

### **4.4 Resources and value for money**

4.4.2 Execution of treasury strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 10<sup>th</sup> February 2012.

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

4.5.1 The legislative framework which governs treasury management is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury management code of practice and guidance notes and the prudential code.

4.5.2 The main changes to the revised CIPFA Treasury Management Code of Practice and guidance notes are highlighted in section 3 and have been adopted.

4.5.3 CIPFA have also issued a revised Prudential Code which primarily covers borrowing and prudential indicators. The revised code has also been adopted by the Council.

4.5.4 There are no legal or access to information issues arising from this report. The report is subject to call in.

### **4.6 Risk Management**

4.6.1 As set out in the treasury management policy statement, treasury management activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.

4.6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice and the Prudential Code, assurance is given that arrangements are in place to manage risks effectively.

## **5 Conclusions**

- 5.1 A revised CIPFA Treasury Management Code of Practice and Prudential Code have been formally adopted by the Council. This report confirms that the Council is complying within the revised codes and the internal audit of the function provides substantial assurance on control and compliance. The Treasury Management Policy Statement has also been updated to reflect the use of financial instruments including derivatives and the criteria for counter party investment has been updated to reflect amended investment durations.

## **6 Recommendations**

- 6.1 Note the delegations in respect to treasury management as outlined in Appendix A
- 6.2 Note that there is assurance that Treasury Management has adopted and is complying with the revised CIPFA Code of Practice and guidance notes and the Prudential Code.
- 6.3 Note that the Treasury Management Policy Statement has been updated.



## **7 Background documents<sup>1</sup>**

- 7.1 CIPFA Prudential Code 2011 Edition (hard copies available on the TM Team)
- 7.2 CIPFA Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition (hard copies available on the TM Team).

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## DELEGATIONS IN RELATION TO TREASURY MANAGEMENT

<b>FULL COUNCIL</b>	<b>EXECUTIVE BOARD</b>	<b>CORPORATE GOVERNANCE &amp; AUDIT COMMITTEE</b>	<b>RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD</b>
Borrowing limits	Treasury Management Strategy	Adequacy of treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
 <b>DELEGATIONS TO OFFICERS</b>			
<b>DELEGATION SCHEME</b>	<b>TO WHOM</b>	<b>FUNCTION DELEGATED</b>	
Officer delegation scheme (Executive Functions) (p186)	Director of Resources	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p21 App1 Corporate & S151 responsibilities)	Discharged through Chief Officers	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p24 executive Functions)	To Chief Officers in relation to areas within their remit	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p53 Financial Procedure Rules – Treasury Management)	Function discharged by Chief Officer Financial Development	Treasury Management function	
 <b>OPERATIONAL AUTHORITY OF OFFICERS</b>			
<b>POLICY DOCUMENT</b>	<b>TO WHOM</b>	<b>OPERATIONAL AUTHORITY</b>	
Treasury Management Policy (section 10) – execution of treasury strategy	Chief Officer Financial Development Principal Financial Manager Treasury Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations	

## Appendix B

### The Treasury Management Code of Practice and Cross -Sectoral Guidance notes in the Public Services

#### Purposes

Ref	Sub Heading	Notes	Action
3	Transparency	"To provide transparency for TM decisions including the use of counterparties and financial instruments that individual public Service organisations intend to use for the prudent management of their financial affairs"	Implemented

#### Key Principles

Ref	Sub Heading	Notes	Action
2.	Risk	Addition to statement "...Including the use of financial instruments for the management of those risks"	Implemented

#### The Treasury management policy statement (TMPS)

Ref	Sub Heading	Notes	Action
2.	None	Addition of words "...and any financial instruments entered not to manage these risks"	Implemented
End	New section	Addition of sentence. "The policy statement should include the organisation's high level policies for borrowing and investment"	Implemented

#### Treasury management practices (TMP's)

Ref	Sub Heading	Notes	Action
Gen	None	TMP's should be the subject of scrutiny after recommendation by CFO.	Implemented
Tmp1	[3] Interest rate risk	New statement added "It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy".	Implemented
Tmp4	None	New paragraph added "Where this organisation intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The org will seek proper advice and will consider that advice when entering into	Implemented

		arrangements to use such products to ensure that it fully understands those products.”	
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## Cross-Sectoral Guidance Notes

Ref	Sub Heading	Notes	Action
1.1	Risk Management	Additional Sentence 2 <sup>nd</sup> Para “Some public service organisations may use derivatives for the management of risk; where this is the case PSO’s should satisfy themselves that they understand fully how underlying risks are affected and any additional risks that may result.”	Implemented
	5.	Replacement of words “Credit Limit” with “acceptable credit quality” “the main rating agencies” with “the published credit ratings (where available)”	Implemented
	6.	Replacement of Words “on the basis of the lowest rating” with “based on all ratings”	Implemented
	7	Replacement of words “..and the credit ratings of that Gov support” with “..., including the ability and willingness of the relevant government to provide adequate support”	Implemented
	17.	New Para “Where an org seeks to manage its exposures to interest rate or exchange rate fluctuations by use of specific financial instruments such as derivatives, it should be clear about its policies in its annual strategy. It should only use such instruments for the prudent management of its financial affairs and should fully understand the instruments and risks it is managing.”	Implemented
	26.	Addition of words “..., derivatives”	Implemented
1.3	Decision Making and Analysis		
	1.	Regular review by board members/Councillors and executive/scrutiny functions	Implemented
	4.	Last sentence “ ...and, if relevant, the opportunities for foreign currency funding” This is specifically excluded under the 2003 Act in that no foreign currency borrowing can be undertaken unless at the direction of the secretary of state.	Implemented
1.4	Approved method instruments and techniques		
	6.	CIPFA requirement to review approved lists and to ensure skills/resources are present to use all entries on the list	Implemented
1.11	Use of External Service Providers		
	3.	Deletion of the Sentence “And it is not uncommon for their services to be subject of a competitive tendering process every few years”	Implemented
	7.	Deletion of Sentence “Organisations should be clear that the services provided meet their needs and these, too, should be	

		the subject of regular competitive tendering in accordance with Standing Orders."	Implemented
	9.	New Sentence "Other external providers may include software providers, Investments Banks and Credit rating agencies"	Implemented
	10.	Deletion of Sentence. (See 12) "The overall responsibility for Treasury Management must always remain with the Organisation." Addition of new sentence " Services should be subject to regular competition which would usually be via a competitive tendering process."	Implemented
	11.	New Section "Organisations should be mindful of the requirements of the Bribery Act 2010 in their Dealings with external providers"	Implemented
	12.	New section (See 10) "The overall responsibility for Treasury Management must always remain with the Organisation."	Implemented

### **Suggested Schedules to Accompany and organisations statement of its Treasury Management Practices (TMP's)**

Ref	Sub Heading	Notes	Action
6	RM-Interest Rate	Addition of Statement " Policies concerning the use of Financial Derivatives for interest rate risk management"	Implemented

## **The Prudential Code for Capital Finance in Local Authorities**

### **Matters required to be taken into account when setting up or revising Prudential Indicators**

Ref	Sub Heading	Notes	Action
13	Affordability and prudence	Inserted "and the Local Government Finance Act (Northern Ireland) 2011" in 1st sentence Inserted " (...and Northern Ireland)" in 1st sentence Inserted new 2nd sentence "For England, Wales and northern Ireland, the legislation requires authorities to consider credit arrangements in this calculation and for Scotland, the affordability calculation encompasses both the borrowing of money and other long term liabilities arising from capital investment."	Implemented

### **Prudential indicators for capital expenditure, external debt and treasury management**

Ref	Sub Heading	Notes	Action
51	Need to borrow	Change of words from "...to borrow" to "...to finance capital expenditure by borrowing or other long term liability arrangements."	Implemented

## Definitions

Ref	Sub Heading	Notes	Action
68	Debt	<p>Change from</p> <p>"It should be noted that the term borrowing used within the LGA 2003 includes both borrowing as defined for the balance sheet and other long term liabilities defined as credit arrangements through legislation. This means that the definition of 'debt' for the purposes of the pru Code is the same as the definition of 'borrowing' under the LGA 2003"</p> <p>And replaced by</p> <p>"It should be noted for authorities in England, Wales and Northern Ireland that the LGA 2003 and the LGF (NI) Act 2011 require credit arrangements to be treated as borrowing of money for the purposes of determining the affordable borrowing limit and the imposition of borrowing limits. In Scotland..."</p> <p>Newly added statement</p> <p>"net debt is debt which is net of investments (Para70)"</p>	Implemented
69	Financing Costs	<p>New aggregate added</p> <p>"Amount payable or receivable in respect of financial derivatives"</p> <p>Last point on MRP and depreciation /impairment split in 2 as follows</p> <p>MRP</p> <p>"Any amounts required for the statutory provision for the repayment of debt, currently MRP (eng and Wales), loans fund repayments and repayments of other long term liabilities - PFI and finance leases (Scotland) and general fund charges for loan principal(NI), plus and additional voluntary contributions."</p> <p>Depreciation/Impairment</p> <p>"any amounts for depreciation/impairment that are charged to the amount to be met from government grants and local tax payers."</p>	Implemented
73	Other Long Term Liabilities	<p>New 1st Paragraph added</p> <p>" 'Other long term liabilities' in this code relate to the liabilities which are outstanding under credit arrangements (as defined by statute for authorities in England, Wales and NI). the objective is to identify liabilities outstanding (Other than borrowing) in relation to the financing of capital expenditure."</p>	Implemented

## Local authorities with housing functions

Ref	Sub Heading	Notes	Action
76	Scope of HRA	<p>New sentence added</p> <p>"Such authorities should also have regard to the ' Treasury Management Implications of the Housing Self-Financing Reform' section of CIPFA's TM Code of Practice (2011 edition)</p>	Implemented
86	HRA Limit on indebtedness	<p>New Section. <b>****New Indicator****</b></p> <p>Where relevant, the local authority will report the level of the limit imposed(or subsequently amended) at the time of implementation of self financing by the</p>	Implemented



		department for communities and Local government. It is the HRACFR which will be compared to this limit.	
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## Appendix 1 CFR

Ref	Sub Heading	Notes	Action
Introduction			
90	Revbals & OLTL	Addition of final sentence "It includes other long-term liabilities associated with credit arrangements, such as PFI and finance leases."	Implemented
91	Borrowing CFR	Replace "In contrast, The CFR will reflect the local Authority's underlying need to borrow for a capital purpose" With "The CFR will reflect the local authority's underlying need to finance Cap exp by borrowing or OLTL arrangements"	Implemented
92	Drivers of CFR	Addition of new clause "The CFR will increase when a new other long term liability is entered into" Note this will not be the borrowing CFR however	Implemented
Calculation of CFR			
93	Requirement of Prudential Code	Change to definition of long term debtors and any amounts carried as investments that were treated as capital expenditure. Addition of clauses "Where applicable" & "as applicable"	Implemented

## Treasury Management Policy Statement

### Introduction

- 1.1 The following document sets out the Treasury Management Policy Statement (TMPS) for the Authority, which fully complies with the requirements of the Prudential Code.

### Background

- 1.2 CIPFA first published its Code of Practice on Treasury Management in May 1992. There have been subsequent revisions over the years culminating in the latest version of the code, the fully revised Third edition 2011, which recommends that all public service organisations adopt, as part of their standing orders and financial procedures, the following four clauses.
- a) This Authority adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice* (the Code), as described in Section 4 of that Code.
  - b) Accordingly, this Authority will create and maintain, as the cornerstones of effective treasury management:
    - A TMPS, stating the policies and objectives of its treasury management activities
    - Suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  - c) The Executive Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a half year update and an annual report after its close, in the form prescribed in its TMP's.
  - d) This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Board, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the organisation's TMPS and Treasury Management Practices and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*.
- 1.3 CIPFA recommends that an organisation's TMPS adopts the following forms of words to define the policies and objectives of its treasury management activities:
- This organisation defines its treasury management activities as: "The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
  - This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the

analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

- This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

- 1.4 These key recommendations and form of words as specified above were adopted by the Executive Board on the 12<sup>th</sup> March 2003.
- 1.5 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- 1.6 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators. Any in year revision of these limits must similarly be set by Council.
- 1.7 The requirements of the Prudential Code are set out within the Council's Financial Procedures.

## **Objectives of Treasury Management**

- 1.8 The primary objective is to reduce the cost of debt management with which the other objectives are deemed to be consistent. Varying degrees of emphasis will be placed upon the "secondary objectives" at different times contingent upon prevailing market conditions.
- 1.9 The objectives are identified as follows:
  - a) To reduce the cost of debt management;
  - b) To ensure that the management of the HRA and general fund is treated equally and new accounting principles are examined to provide benefits where possible;
  - c) To effect funding at the lowest point of the interest rate cycle;
  - d) To maintain a flexible approach regarding any financial matters that may effect the Authority;
  - e) To keep under constant review advice on investment/repayment of debt policy;
  - f) To maintain a prudent level of volatility dependant upon interest rates;
  - g) To set upper and lower limits for the maturity structure of its borrowings and to maintain a reasonable debt maturity profile;
  - h) To specifically ensure that Leeds City Council does not breach Prudential Limits passed by the Council;
  - i) To ensure that the TMPS is fully adhered to in every aspect.

## **Approved Activities of the Treasury Management Operation**

- 1.10 The approved activities of the Treasury Management operation cover:
  - a. borrowing;

- b. lending;
  - c. debt repayment and rescheduling;
  - d. financial instruments new to the authority (including financial derivatives);
  - e. risk exposure; and
  - f. cash flow.
- 1.11 It is the Council's responsibility to approve the TMPS. The Executive Board will receive and consider as a minimum:
- a) an annual treasury management strategy before the commencement of the new financial year (which sets out the likely operations for the forthcoming year);
  - b) a mid year update on treasury strategy;
  - c) an annual report on the treasury management activity after the end of the year to which it relates.
- 1.12 The Director of Resources will:
- a) implement and monitor the TMPS, revising and resubmitting it for consideration to the Board and the Council, periodically if changes are required;
  - b) draft and submit a Treasury Management Strategy to the Board, in advance of each financial year;
  - c) draft and submit an update report on treasury management activity to the Board
  - d) draft and submit an annual report on treasury management activity to the Board; and
  - e) implement and monitor the Strategy, reporting to the Board any material divergence or necessary revisions as and when required;

## **Formulation of Treasury Management Strategy**

- 1.13 Whilst this TMPS outlines the procedures and considerations for the treasury function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Executive Board for approval before the commencement of each financial year.
- 1.14 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates (for instance, the Council may postpone borrowing if fixed interest rates are falling).
- 1.15 The Treasury Management Strategy is also concerned with the following elements:
- a) the prospects for interest rates;
  - b) the limits placed by Council on treasury activities (per this TMPS);
  - c) the expected borrowing strategy;

- d) the temporary investment strategy;
  - e) the expectations for debt rescheduling.
- 1.16 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts where applicable), and highlight sensitivities to different scenarios.

## Approved Methods and Sources of Raising Capital Finance

- 1.17 Under the Local Government Act 2003 a local authority may borrow money for:
- a) for any purpose relevant to its functions under any enactment, or
  - b) for the purposes of the prudent management of its financial affairs.

A local authority may not, without the consent of the Treasury, borrow otherwise than in sterling.

- 1.18 Local authorities have in the past only been able to raise finance in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

		Fixed	Variable
	Public Works Loans Board (PWLB)	•	•
	European Investment Bank (EIB)	•	•
*	Stock Issues	•	•
	Market Long-Term	•	•
	Market Temporary	•	•
	Local Temporary	•	•
*	Local Bonds	•	
	Overdraft		•
*	Negotiable Bonds	•	•
	Internal (capital receipts & revenue balances)	•	•
*	Commercial Paper	•	
*	Medium Term Notes	•	
	Finance Leases	•	•

\* (Not used at present by this Council)

- 1.19 The revised treasury management code of practice (2011), through the Localism Act 2011, gave local authorities the power to use derivatives for interest rate risk Management. These instruments will only be used after a review of their appropriateness for interest rate risk management is undertaken.

## Approved Instruments and Organisations for Investments

- 1.20 With effect from the 1<sup>st</sup> April 2004, to coincide with the introduction of the prudential code, new legislation has been issued to deal with the issue of Local Government Investments. This legislation lifts the restrictions on Councils with external debt to not hold investments for more than 364 days. Further freedoms are also provided which

will give Councils greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the new prudential framework.

- 1.21 The Council will have regard to the CLG Guidance on Local Government Investments (second Edition) issued in March 2010 and CIPFAs Treasury Management in Public Services Code of Practice and Cross Sectorial Guide. The Council's investment priorities are:
- a) The security of capital
  - b) The liquidity of investments
  - c) and finally, the yield of the investment
- 1.22 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council does not have the authority to undertake borrowing purely to invest or lend and make a return as this is unlawful and as such will not engage in such activity.
- 1.23 The Director of Resources will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type and specific counterparty limits. This criteria is outlined below. Should any revisions occur to the criteria, they will be submitted to the Executive Board for approval. Where individual counterparties newly obtain the required criteria, they will be added to the list. Similarly, those ceasing to meet the criteria will be immediately deleted. The criteria uses ratings from the three rating agencies and those relating to Fitch are explained in Annexe A.
- 1.24 The Council's approved Treasury Policy is to use the recommended lending list provided by Sector, the Council's treasury advisers. The Sector list is compiled on a matrix approach using data from recognised international credit rating agencies as well as information on individual counterparties drawn from Credit Default Swap (CDS) levels, which provide ratings of institutions across four categories. The Sector list had in the past ranked institutions as 'excellent' (or 'purple', 'red' and 'Orange'), 'good' (or 'green'), or no ranking (i.e. not advised to lend to). Sector has now further split the rankings of institutions regarded as excellent into five colours (red, orange, blue, purple and yellow) to reflect the length of time over six months that amounts can be placed with them and to reflect the explicit support level given to UK part nationalised banks (Blue), and the special category for investment in UK gilts, supranationals and collateralised deposits (Yellow). Sector continues to provide regular updates to this list, as institutions' credit ratings change. The use of the Sector list was introduced and reported to Executive Board in the Treasury Strategy and Policy report of February 2002.

The following investment limits are applied by the Council's Treasury policy:

<b>Sector Ranking</b>	<b>Meaning</b>	<b>Limit on Amount Lent</b>	<b>Current Limits on Duration</b>
<b>General Bank</b>			
<b>Green</b>	Good	£5m	3 Months
<b>Red</b>	Excellent	£15m	6 Months
<b>Orange</b>	Excellent	£15m	1 Year
<b>Purple</b>	Excellent	£15m	2 Years
<b>Other</b>			
<b>Blue</b>	Excellent	£15m	1 Year
<b>Yellow</b>	Excellent	£15m	5 Years

The CDS subjective overlay is then applied to the General banks and further reduces the suggested limits of duration as shown in the following table:

Initial Duration (Months)	Suggested Duration (watch/outlook)	CDS Status	Suggested Adjusted Colour	Adjusted Duration (Months)
0	N/C	In Range	N/C	0
0	N/C	Monitoring	N/C	0
0	N/C	Out of Range	N/C	0
3	G	In Range	G	3
3	G	Monitoring	N/C	0
3	G	Out of Range	N/C	0
6	R	In Range	R	6
6	R	Monitoring	G	3
6	R	Out of Range	N/C	0
12	O	In Range	O	12
12	O	Monitoring	R	6
12	O	Out of Range	N/C	0
24	P	In Range	P	24
24	P	Monitoring	O	12
24	P	Out of Range	N/C	0

1.25 The Council will lend up to £15 million to an institution ranked as 'excellent' and up to £5 million for up to 3 months to an institution ranked as 'good'. A number of these institutions exist within the same group of companies as parents or subsidiaries. A limit to the risk exposure of the council for groups of banks borrowing limit has also been set of £30m. These limits do not apply to the Councils' Banker where we have an unlimited deposit facility as part of our banking arrangements. The Council's banking arrangements are the subject of a separate contract, and as such volumes and levels of transactions are not subject to the counterparty ratings and limits that

are in place on external investments. Other local authorities are classified with an excellent rating and as such attract a £15m investment limit.

1.26 Within the investment limits outlined above the Council has access to a number of investment instruments. These are listed below as specified and non specified investment categories. Specified investments are defined as “minimal procedural formalities” under the March 2004 ODPM guidance revised 2010 under DCLG.

a) **Specified Investments**

(All such investments will be sterling denominated, with **maturities of any period meeting** the minimum ‘high’ rating criteria where applicable)

<b>Fixed Term Deposits with fixed rates</b>	<b>Use</b>
Debt Management Agency Deposit Facility	In-house
Term deposits – local authorities	In-house
Term deposits – banks and building societies	In-house and fund managers

In the following table the determination as to whether the following are specified or non specified is at the discretion of the Authority depending on the element of the return that is fixed, **provided that the maturity of the investment falls within 1 year.**

<b>Fixed term deposits with variable rate and variable maturities: -</b>	
1. Callable deposits	In-house and fund managers
2. Range trade	In-house and fund managers
3. Snowballs	In-house and fund managers
Certificates of deposits issued by banks and building societies	In-house buy and hold and fund managers
UK Government Gilts	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	In-house on a ‘buy-and-hold’ basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a ‘buy-and-hold’ basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	In house on a ‘buy and hold basis’ and Fund Managers
Treasury Bills	Fund Managers
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):</b>	
1. Money Market Funds	In-house and fund managers
2. Enhanced cash funds	In-house and fund managers
3. Short term funds	In-house and fund managers
4. Bond Funds	In-house and Fund Managers
5. Gilt Funds	In-house and Fund Managers

Note: If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.



b) **Non-Specified Investments:**

Non-specified investments are those where the return is uncertain.

**Maturities of ANY period.**

	<b>Use</b>
Corporate Bonds : <i>the use of these investments would constitute capital expenditure</i>	In house on a 'buy and hold basis' and Fund Managers
Floating Rate Notes : <i>the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i>	Fund managers

All the investments in the following table are non-specified as returns could be uncertain and **the maturity of the investment is greater than 1 year.**

<b>Fixed term deposits with variable rate and variable maturities</b>	
1. Callable deposits	In-house and fund managers
2. Range trade	In-house and fund managers
3. Snowballs	In-house and fund managers
Certificates of deposits issued by banks and building societies	In house on a 'buy and hold basis' and Fund managers
UK Government Gilts	In house on a 'buy and hold basis' and Fund Managers
Bonds issued by multilateral development banks	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	In house on a 'buy and hold basis' and Fund Managers
Collateralised deposits	In house and fund managers
Property fund: <i>the use of these investments would constitute capital expenditure</i>	Fund manager
1. Bond Funds	In-house and Fund Managers
2. Gilt Funds	In-house and Fund Managers
<b>Collective Investment Schemes structured as Open Ended Investment Schemes</b>	
Bond Funds	In-house and Fund Managers
Gilt Funds	In-house and Fund Managers

1.27 The Director of Resources will continue to monitor the range of investment instruments available and make changes to the list as appropriate.

## **Policy on Interest Rate Exposure**

- 1.28 As required by the Prudential Code, the Council must approve before the beginning of each financial year the following treasury limits:
- a) the overall borrowing limit;
  - b) the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;
  - c) the maximum proportion of interest on borrowing which is subject to variable rate interest.
- 1.29 The Director of Resources is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Resources shall submit the changes for approval to the Executive Board before submission to the full Council for approval.

## **Policy on External Managers**

- 1.30 The Council has taken the view that the appointment of external fund managers would not provide an enhanced return over what could be achieved by managing investment in house.
- 1.31 However, the fact that a fund manager's expertise allows for a wider investment portfolio than would be operated by Council officers may give opportunities for capital gains to supplement interest earned on investment of revenue balances.
- 1.32 It is felt appropriate therefore that the Policy allows for the use of external fund managers and although none are being used at present, this situation will be kept under review. Appointment of a fund manager would take place following a tender exercise and submissions on target performance.

## **Policy on Delegation and Review Requirements and Reporting Arrangements**

- 1.33 The Council is responsible for determining the borrowing limits detailed in section 8 above. Other responsibilities and duties are delegated as follows.
- 1.34 The Executive Board has responsibility for determining and reviewing treasury strategy and performance. (See section 5 above).
- 1.35 The Director of Resources and through him/her to his/her staff has delegated powers for all borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Director of Resources and staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities.
- 1.36 Delegation within the Department of Resources operates on the following basis and is summarised in Annexe B:
- a) The practical organisation within the Resources Department is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group attended by the Director of Resources and Chief Officer (Financial Development). Quarterly, treasury strategy

review meetings take place with the Principal Finance Manager and Treasury Manager.

- b) Implementation of decisions at such meetings and the day to day management of the Treasury Operations are delegated without limit to the Chief Officer (Financial Development) and through him/her, or in his/her absence, to either the Principal Finance Manager or the Treasury Manager and on occasions the Assistant Finance Manager.
- c) Consultations will be made by the Director of Resources on Treasury Management matters with:
  - The Chief Executive: so that he/she can ensure proper Treasury systems are in place and are properly resourced.
  - External Treasury Advisers : so that they can advise and monitor the process of fixing strategy and policy on Treasury Matters and advise on the economic outlook, prospects for interest rates and credit worthiness

## FITCH CREDIT RATING DEFINITIONS

Source: Fitch Ratings

### International Short-Term Credit Ratings

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for US public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

**FI Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

**F2 Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

**F3 Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

**B Speculative.** Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

**C High default risk.** Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

**D Default.** Denotes actual or imminent payment default. "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' long-term rating category, to categories below 'CCC', or to short-term ratings other than 'FI'.

### International Long-Term Credit Ratings Investment Grade

**AAA Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

**AA Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

**A High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

**BBB Good credit quality.** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

### Speculative Grade

**BB Speculative.** 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial

alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

**B Highly speculative.** 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

**CCC, CC High default risk.** Default is a real possibility. Capacity for meeting and C financial commitments is solely reliant upon sustained, favourable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

**DDD, DD Default.** The ratings of obligations in this category are based on and D their prospects for achieving partial or full recovery in a reorganisation or liquidation of the obligor. 'DDD' designates the highest potential for recovery of amounts outstanding on any securities involved. 'DD' indicates expected recovery of 50% - 90% of such out standings, and 'D' the lowest recovery potential, i.e. below 50%.

### Individual Ratings

Fitch's Individual Ratings attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk and thus represents Fitch's view on the likelihood that it would run into significant difficulties such that it would require support.

**A** A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment, or prospects.

**B** A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

**C** An adequate bank which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

**D** A bank which has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects .

**E** A bank with very serious problems which either requires or is likely to require external support.

*Note: In addition, FITCH uses gradations among these five ratings, i.e AIB, BIC, CID, and DIE.*

### Support Ratings

Support/Legal Ratings do not assess the quality of a bank. Rather, they are Fitch's assessment of whether it would receive support in the event of difficulties. Fitch emphasises that these ratings constitute their opinions alone - although they may discuss the principles underlying them with the supervisory authorities, the ratings given to banks are Fitch's own and are not submitted to the authorities for their comment or endorsement.

**1** A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support

the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

**2** A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

**3** A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

**4** A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

**5** A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

It must be emphasised that in the Support rating Fitch is not analysing how "good" or "bad" a bank is, but merely whether in Fitch's opinion it would receive support if it ran into difficulties.

## Report of Director of Resources

## Report to Corporate Governance and Audit Committee

**Date: 9<sup>th</sup> November 2012**

**Subject: Local Public Audit; an update**

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. DCLG have published a draft Local Public Audit Bill. The main provisions of the Bill are in line with the proposals upon which DCLG consulted and the Council responded.
2. The Bill requires councils to establish independent audit appointment panels upon which elected Members will be in the minority. The panel will make a recommendation to full Council on the appointment of external auditors.
3. The Audit Commission have reappointed KPMG as the Council's external auditors for a period of 5 years starting with the audit of the 2012/13 accounts.
4. The proposed audit fee for the 2012/13 accounts represents a significant reduction of the previous year's fee.

## Recommendations

5. Members are requested to note the update on the progress of the Local Audit Bill.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to provide Members with a progress report on the Local Public Audit Bill.

## **2 Background information**

- 2.1 Members have previously received reports and updates on the programme to disband the Audit Commission and allow the Council to appoint its own external auditors. Members had a significant input to the Council's response to the consultation exercise undertaken by the Department of Communities and Local Government (DCLG)..

## **3 Main issues**

- 3.1 DCLG have now published a draft Local Audit Bill. The Bill is broadly in line with the proposals upon which DCLG consulted. Key features of the Bill are that councils will be able to appoint their own auditors from an open and competitive market. The proposals require councils to establish an independent audit appointment panel. The proposals require the panel to have a majority of independent members and for the panel to make a recommendation to full council on the appointment of the external auditors. The Council will have the power to appoint auditors other than those recommended by the independent appointment panel but, if this is the case, my publish their reasons for so doing.
- 3.2 The Bill provides for oversight by the National Audit Office, the Financial Reporting Council and the professional accountancy bodies to help ensure that high standards of auditing continue. The National Audit Office will assume responsibility for setting the standards for external audit; the Code of Audit Practice.
- 3.3 Other key features of the Bill include the legislation necessary to abolish the Audit Commission and transfer its assets, liabilities and continuing functions to other bodies.
- 3.4 Until such time as the Bill passes to an Act, the Audit Commission still has the responsibility to appoint councils' external auditors. The Audit Commission have recently concluded an exercise to tender audit services. DCLG required the tender exercise to ask for submissions based on 3 year contracts and 5 year contracts. Depending on the price differentials for the 3 and 5 year contracts DCLG would determine the length of those contracts and therefore when councils would be in a position to appoint their own auditors.
- 3.5 The prices for 5 year contracts were sufficiently competitive to make appointments on that basis and push back the date on which councils can appoint external auditors. The Audit Commission have confirmed that KPMG have been reappointed as the Council's external auditors to audit the accounts for 5 years from 2012/13. At the last meeting of the Corporate Governance and Audit Committee it was reported that the audit fee had reduced to £307,000 from approximately £470,000.



## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 DCLG have undertaken a consultation exercise on their proposals and the Council responded. A Bill has now been published for consultation and pre-legislative scrutiny.

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

4.2.1 There are no specific equality and diversity and cohesion and integration issues related to this update report and the publication of a Bill.

### **4.3 Council policies and City Priorities**

4.3.1 There are no specific Council policies affected by the Local Public Audit Bill

### **4.4 Resources and value for money**

4.4.1 The consultation stage impact assessment estimated that the full programme of DCLG reforms would save £650m nationally in the first five years. The proposed fee for the 2012/13 audit represents a decrease in line with the national impact assessment, resulting in savings to the Council of approximately £163k from the 2011/12 audit fee.

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

4.5.1 There are no legal implications of this report and, as the report provides Members with an update to note, there is no decision to call in.

### **4.6 Risk Management**

4.6.1 There are no specific risk management implications associated with this report.

## **5 Conclusions**

5.1 The published Local Audit Bill is in line with the proposals upon which DCLG consulted. The Council made representation that independent audit appointment panels would not be necessary as this role could be undertaken by democratically elected Members of Council. DCLG were not minded to change the provisions in this regard and have published a Bill requiring councils to establish independent audit appointment panels.

## **6 Recommendations**

6.1 Members are requested to note the update on the progress of the Local Audit Bill.

## **7 Background documents<sup>1</sup>**

7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

**Report of Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 9 November 2012**

**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>21<sup>st</sup> January 2013</b>		
Transformation Procurement of	To receive report updating the Committee on the transformation of procurement	Chief Officer Public Private Partnership Unit and Procurement Dave Outram
KPMG – Audit Plan	To receive a report seeking Approval of the Audit Plan	Chief Officer (Financial Management) Doug Meeson
Internal Audit quarterly report	To receive the Internal Audit quarterly report	Chief Officer (Audit and Risk) Tim Pouncey
<b>27<sup>th</sup> March 2013</b>		
Leeds City Region – Local Enterprise Partnership Governance	To receive a report updating the Committee on the Governance arrangements surrounding the Leeds City Region	Chief Officer (Localities and Partnerships)
Annual Financial Management Report	To receive the annual report reviewing the Financial Planning and Management Arrangements at the Council	Chief Officer (Financial Management) Doug Meeson
KPMG Certification of Grants and Returns	To receive a report certifying grants and returns	Chief Officer (Financial Management) Doug Meeson
Capital Programme Approvals	To receive a report updating the Committee with regards to the implementation of the new capital programme approvals framework (report added to the work programme on 23 <sup>rd</sup> January 2012)	Chief Officer (Financial Development) Maureen Taylor
<b>22<sup>nd</sup> April 2013</b>		

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Annual Report of the Committee	To receive the draft Annual Report	Chief Officer (Audit and Risk) Tim Pouncey
Internal Audit quarterly report	To receive the Internal Audit quarterly report	Chief Officer (Audit and Risk) Tim Pouncey
<b>Un-scheduled items for 2012/13</b>		
Assurances of the process by Which Planning Decisions Are Taken	To receive the Annual report providing Assurance of the process by Which Planning Decisions Are Taken	Phil Crabtree (Chief Planning Officer)
Calderdale Shared Service Agreement	To receive a report updating the Committee on the latest position with regards to the establishment of a Social Care System in partnership with Calderdale MBC	Steve Hume Chief Officer (Resources and Strategy)