



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Friday, 19th September, 2014
at 2.00 pm

MEMBERSHIP

Councillors

P Grahame	J Bentley	R Wood
T Hanley		J L Carter
G Hussain (Chair)		
E Taylor		
J Pryor		
J Cummins		
A McKenna		

**Agenda compiled by:
Governance Services
Civic Hall**

Phil Garnett (0113
39 51632)

A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</p> <p>To consider any appeals in accordance with Procedure Rule 15.2 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 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</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 style="padding-left: 40px;">RESOLVED – 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>LATE ITEMS</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>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</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 13-16 of the Members' Code of Conduct.</p>	
5			<p>APOLOGIES</p> <p>To receive any apologies for absence.</p>	
6			<p>MINUTES - 11TH JULY 2014</p> <p>To receive the minutes of the meeting held on 11th July 2014.</p>	1 - 8
7			<p>INTERNAL AUDIT UPDATE REPORT 1ST APRIL TO 31ST JULY 2014</p> <p>To receive a report of the Chief Officer (Audit & Investment) which provides a summary of internal audit activity for the period 1st April to 31st July 2014 and highlights the incidence of any significant control failings or weaknesses.</p>	9 - 30

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8			<p>REPORT ON THE REVIEW OF CUSTOMER RELATIONS 2013-14 AND LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW LETTER 2013-14</p> <p>To receive a report of the Chief Officer (Customer Access) which summarises the Council's complaints and Ombudsman cases for the period 1 April 2013 to 31 March 2014, provided in Appendix 1. The report discusses the effectiveness of Ombudsman arrangements and LGO Annual Review Letter to the Council, a copy of which can be found in Appendix 2. The report also assesses the overall effectiveness of the council's approach to compliments, complaints and feedback.</p>	31 - 42
9			<p>FINANCIAL PLANNING AND MANAGEMENT ARRANGEMENTS</p> <p>To receive a report of the Deputy Chief Executive. This report outlines: The key systems and procedures which are in place to deliver sound financial management ; New developments and improvements which have been put in place; New risks and issues arising. The report also aims to give members assurance that the systems and procedures in place are fit for purpose, up to date, embedded and being complied with.</p>	43 - 58
10			<p>AUDITED STATEMENT OF ACCOUNTS AND THE VALUE FOR MONEY ASSESSMENT 2013/14</p> <p>To receive a report of the Deputy Chief Executive which requests the Committee to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.</p>	59 - 86
11			<p>ANNUAL GOVERNANCE STATEMENT</p> <p>To receive a report of the City Solicitor which presents the Annual Governance Statement (AGS) to the committee for approval.</p>	87 - 104

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12			<p>WORK PROGRAMME</p> <p>To receive a report of the City Solicitor, which notifies the Committee of the draft work programme.</p> <p>THIRD PARTY RECORDING</p> <p>Third Party Recording</p> <p>Recording of this meeting is allowed to enable those not present to see or hear the proceedings either as they take place (or later) and to enable the reporting of those proceedings. A copy of the recording protocol is available from the contacts named on the front of this agenda.</p> <p>Use of Recordings by Third Parties– code of practice</p> <p>a) Any published recording should be accompanied by a statement of when and where the recording was made, the context of the discussion that took place, and a clear identification of the main speakers and their role or title. Those making recordings must not edit the recording in a way that could lead to misinterpretation or misrepresentation of the proceedings or comments made by attendees. In particular there should be no internal editing of published extracts; recordings may start at any point and end at any point but the material between those points must be complete</p>	105 - 108

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Agenda Item 6

Corporate Governance and Audit Committee

Friday, 11th July, 2014

PRESENT: Councillor G Hussain in the Chair
Councillors P Grahame, T Hanley,
E Taylor, J Bentley, J L Carter, J Pryor,
J Cummins and S McKenna

Apologies Councillors R Wood

1 Appeals Against Refusal of Inspection of Documents

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

2 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

3 Late Items

There were no late items.

4 Declaration of Disclosable Pecuniary and Other Interests'

There were no declarations made.

5 Minutes - 9th April 2014

RESOLVED – the minutes of the meeting held on 9th April 2014 were approved as a correct record.

6 Matters Arising

Minute 52 Update 4 - Shared Service Partnership with Calderdale Metropolitan Borough Council to meet Adult Social Care Technology Requirements

Following an earlier briefing to the Chair of the Committee, and at his request, the Chief Officer (Resources and Strategy) was in attendance to update the Committee on the progress of the Shared Service Partnership with Calderdale Metropolitan Borough Council. It was outlined to members that responding to new duties placed upon local authorities by the recently enacted Care Act had resulted in delays to implementation.

Draft minutes to be approved at the meeting
to be held on Friday, 19th September, 2014

The Committee were informed that the Chief Officer (Resources & Strategy) would continue to update the Chair once a decision had been taken on the final implementation plan by DLT in August.

RESOLVED – The Committee resolved that the Chair continue to liaise with Officers with regards to progress in implementing the system, with any further issues of significance being brought to the attention of the committee members in the event that they might arise.

Minute No 64. Mandatory implementation of the DCLG Code of Recommended Practice for Local Authorities on Data Transparency

The Executive Officer (Information Governance) and the Senior Information Governance Officer were in attendance and provided an update on the implementation of the DCLG Code of recommended Practice on data transparency. Members noted that, whilst the provisions did not yet have statutory enforcement, the Council continued to make good progress to meet the requirements of the code.

7 Office of the Director of Public Health Annual Governance Report

The Director of Public Health presented his report which provided the Committee with an annual update on Public Health's Risk management and Governance arrangements, it reported on progress since the last report was presented to members on 8 November 2013.

Members commented on the importance of Public Health services that are either provided or commissioned by the Council, demonstrating value for money. Members requested that a value for money component be more explicitly evidenced in the Director of Public Health's governance framework.

RESOLVED – The Committee resolved to:

- (a) note the annual Governance report of the Office of the Director of Public Health;
- (b) note the assurance that the Office of the Director of Public Health has robust and fit for purpose risk and governance processes in place;
- (c) note that the Office of the Director of Public Health will continue to develop the work undertaken in respect of Serious Untoward Incidents and National Institute for Health and Care Excellence (NICE) guidance compliance; and
- (d) that a value for money component be more explicitly evidenced in the Director of Public Health's governance framework.

8 Annual Audit Fee 2014/15

The Principal Finance Manager presented a report of the Deputy Chief Executive which informed members of the cost of external audit work relating to the 2014/15 financial year.

Members commented that they were happy about a lower fee for completing the external audit work of the Council.

Members considered the difference in fees over the past few years and were informed that the differences were down to a change in the scope of the audit specifically that there was no longer detailed work completed on the value for money conclusion, the impact of the Audit Commission tendering exercise, the abolition of the Audit Commission, the stopping of work on the CPA and the use of resources assessment.

RESOLVED – The Committee resolved to note the external audit fees for work relating to the 2014/15 financial year, as follows:

- £307,800 for the code of Audit Practice audit fee; and
- £22,140 for the certification of grant claims and returns.

9 KPMG Interim Audit Report

The Principal Finance Manager presented a report in line with the audit plan presented to the Committee in January, the report highlighted the results of KPMG's interim audit work in relation to the 2013/14 financial statements and the initial work undertaken to support their 2013/14 Value for Money conclusion.

John Prentice a director of KPMG was in attendance to present KPMG's report and answer Members' questions.

Members requested that any work completed by the Resources and Council Services Scrutiny Board in relation to sickness pay and overtime payments was not duplicated by KPMG.

RESOLVED – The Committee resolved to note:

- (a) The positive assurances provided by KPMG in respect of the work of Internal Audit and on the systems and controls which underpin the Council's financial statements; and
- (b) That KPMG have undertaken a data analytics exercise, the findings of which will be reported to this Committee in September.

10 Consultation on Auditor appointment from 2015/16

The Chief Officer (Audit & Investment) presented a report of the Deputy Chief Executive which consulted Members on the Audit Commission's proposal to re-appoint KPMG LLP for a further two years from 2015/16.

Members discussed the possibility that in the future authorities within the Combined Authority might work together to appoint external auditors.

RESOLVED – The Committee resolved to agree that they were satisfied with the current external auditors.

11 The Statement of Accounts 2013/14

The Principal Finance Manager presented a report of the Deputy Chief Executive. The report presented to the Committee the 2013/14 Statement of Accounts prior to them being made available for public inspection. The Statement of Accounts was included with the agenda as a separate document for Committee members and is published on the Council's internet site.

The Principal Finance Manager took Members through the accounts and highlighted minor changes that would be made. He also provided comment on the council's debt position and gave assurance that this was manageable.

Also discussed were the level of risk and actuarial assumptions used in determining the pension liability. Members were assured that these assumptions were reviewed for reasonableness and that there was an appropriate level of risk used in calculating the potential liability.

RESOLVED – The Committee resolved to:

- (a) Note the 2013/14 unaudited Statement of Accounts as certified by the Responsible Financial Officer; and
- (b) Agree to release the accounts for public inspection.

12 Annual Assurance Report on Risk & Performance Management

The Principal Risk Management Officer presented a report of the Deputy Chief Executive. The report provided the Committee with assurances on the strength of the Council's risk and performance management arrangements and is an important source of evidence for the Annual Governance Statement due to be considered by the Committee in September. It also enabled the Committee to fulfil its role under the Council's Risk Management Policy and the Committee's own Terms of Reference for reviewing the 'adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management)'.

RESOLVED – The Committee resolved to note the assurances contained within the submitted report which in summary were:

- That the Council's risk and performance management arrangements have been further developed, improved and updated during 2013/14; and
- That compliance with the performance management framework is good with further work planned in 2014/15 to update the Risk Management Policy and supporting arrangements.

13 Decision Making Framework: Annual Assurance Report

The Principal Corporate Governance Officer presented a report of the City Solicitor, Assistant Chief Executive (Citizens and Communities) and Chief Planning Officer. This was the annual report to the committee concerning the Council's decision making arrangements.

The report provided one of the sources of assurance which the Committee will be able to take into account when considering the approval of the Annual Governance Statement.

Members were asked to consider the results of monitoring documented within the body of this report and to note the assurances given by the Head of Governance Services, the Head of Licensing and Registration and the Chief Planning Officer, that the decision making framework in place within Leeds City Council is up to date, fit for purpose, effectively communicated and routinely complied with.

Also in attendance to answer Members' questions were the Head of Planning Services and the Head of Licensing and Registration.

In discussing the report it was confirmed to members that there was no requirement for officers declarations to be made publicly available. Members requested that this be looked into due to the large numbers of delegated powers given to officers.

RESOLVED – The Committee resolved to:

(a) Note the positive assurances provided in this report in relation to executive decision making, licensing, planning and the regulation of investigatory powers. Particularly: In relation to executive decision making:-

- The monitoring which has taken place in relation to publication of agendas and minutes of committee meetings and the publication and call in of Key Decisions;
- the assurances given in relation to the use of special urgency provisions, and
- that there have been no Key Decisions which have not been treated as such; and the steps taken to continue to embed the decision making framework;

(b) In relation to Regulation of Investigatory Powers Act 2000 (RIPA):- note the monitoring and reduction in use of RIPA powers.

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(c) In relation to licensing to note:-

- The monitoring of decisions in relation to entertainment and miscellaneous licensing and the introduction of responsibility under the Scrap Metal Dealers Act 2013;
- The monitoring of taxi and private hire licensing;
- The ongoing review of licensing policy; and
- The introduction of three yearly DBS disclosures for licence holders.

(d) In relation to planning to note:-

- The sub-delegation of planning decisions;
- The assurance from internal audit in relation to the robustness of system in place to determine planning applications;
- The ongoing work in relation to declaration of officer interests;
- The review of the work of plans panels and the protocol in place to guide their Members;
- The Monitoring of planning workloads and performance in relation to statutory timescales including the use of agreed extensions of time;
- The Monitoring of decisions against officer recommendation, appeals and complaints;
- The steps taken to continue to embed the framework for planning matters; and
- The ongoing work to build and develop relationships with partners and customers

(e) request that a report be written exploring the possibility of officers with delegated powers making declarations publicly available;

(f) request that the cost of running the planning service and the fees received for planning applications be circulated to members of the committee

14 Internal Audit Annual Report and Opinion 2013/14

The Chief Officer (Audit and Investment) presented his report which brought to the attention of the Committee the annual Internal Audit opinion and basis of the internal audit assurance for 2013/14.

RESOLVED – The Committee resolved to:

(a) receive the Internal Audit Annual Report for 2013/14 and note the opinion given that on the basis of the audit work undertaken during the 2013/14 financial year. In particular:

- That there are no outstanding significant issues arising from the work undertaken by Internal Audit;
- That on the basis of the audit work undertaken during the 2013/14 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice;
- That the Internal Audit team conforms with the International Standards for the Professional Practice on Internal Auditing.

15 Work Programme

The City Solicitor submitted a report which notified Members of the Committee of the draft work programme.

RESOLVED - The Committee Resolved to note the contents of the work programme.

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Report author: Treena Boothby
Tel: 74497

Report of the Chief Officer (Audit and Investment)

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

Subject: Internal Audit Update Report 1st April to 31st July 2014

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 1st April to 31st July 2014 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 1st April to 31st July 2014 update 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 1st April to 31st July 2014 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

- 2.2 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 1st April to 31st July 2014 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.
- 3.3 Internal Audit will continue to undertake a follow up audit on reports with limited or no assurance or where the impact has been determined as 'Major' to ensure the revised controls are operating well in practice.

4 Corporate Considerations

4.4 Consultation and Engagement

- 4.4.1 This report did not highlight any consultation and engagement considerations.

4.5 Equality and Diversity / Cohesion and Integration

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

4.6 Council policies and City Priorities

- 4.6.1 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.

4.7 Resources and value for money

- 4.7.1 In relation to 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. These will be included in the regular update reports to the Committee.

4.8 Legal Implications, Access to Information and Call In

4.8.1 None.

4.9 Risk Management

4.9.1 The Internal Audit plan has been and will continue to be 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 July 2014 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit April to July 2014 Update Report and note the work undertaken by Internal Audit during the period covered by the report.

7 Background documents

7.1 None

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**Internal Audit Update Report
1st April 2014 to
31st July 2014**

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1. INTRODUCTION

The Reporting Process

Background

Progress against the 2014/15 Operational Plan – High Level

How Internal Control is Reviewed

**Progress against the 2014/15 Operational Plan –
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2. SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

3. AUDIT PERFORMANCE

Section 1

INTRODUCTION

1.1 *The Reporting Process*

1.1.1 This update report provides stakeholders, including the Corporate Governance & Audit Committee, with a summary of internal audit activity for the period 1st April to 31st July 2014.

1.2 *Background*

1.2.1 The changing public sector environment continues to necessitate an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

1.3 *Progress against the 2014/15 Operational Plan – High Level*

1.3.1 The following table shows the progress against the operational plan for the period 1st April to 31st July 2014.

1.3.2 Achievement against the Total Audit Days element of the audit plan is currently at 34%. At this point in the year, the expected level of achievement would be 33%. However, less days than anticipated at this point have been spent on external work. Overall resources during 2014/15 to date have been less than was anticipated when the audit plan was completed, due to factors such as staff absence. Internal Audit will continue to actively manage resources to direct these towards the areas of highest risk to ensure that there is not a negative impact on the ability of the Section to provide the coverage necessary to support the Head of Internal Audit opinion on the authority's control environment.

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 31 st July 2014	% completion at July 2014
Financial Resource Risks			
Spending Money Wisely	680	264	39%
Anti-Fraud and Corruption	694	241	35%
Key Financial Systems	755	118	16%
Grants and Other Head of Audit Assurances	89	27	30%
Compliance	257	168	65%
Procurement	322	147	46%
Risk Based Audits	300	109	36%
ICT	230	99	43%

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 31 st July 2014	% completion at July 2014
Total Financial Resource Risks	3,327	1173	35%
<u>Other Risks</u>			
Compliance	38	39	102%
Public Sector Internal Audit Standards Compliance	60	17	28%
Total Other Risks	98	56	57%
<u>Continuing Development</u>			
Professional Liaison	18	1	0%
Training and CPD	100	48	48%
Quality Assurance and Improvement Program	20	0	0%
Total Continuing Development	138	49	36%
<u>Contingency</u>			
General Contingency	365	71	19%
Total Contingency	365	71	19%
Total Audit Days	3,928	1349	34%

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

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 31 st July 2014	% completion at July 2014
External Contracts (including Housing Leeds)	422	119	28%
Secondments	366	264	72%
Total Days	788	383	49%

1.4 How Internal Control is reviewed

1.4.1 The Head of Internal Audit¹ must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

1.4.2 The Public Sector Internal Audit Standards define control as "any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved". In practice, the main types of controls which may be present are:

- Segregation of duties

¹ The Head of Internal Audit within LCC is the 'Chief Audit Executive' as defined in the Public Sector Internal Audit Standards.

- Organisational
- Authorisation and approval
- Physical
- Supervision
- Personnel
- Arithmetical and accounting
- Management

1.4.3 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.

1.4.4 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.

1.4.5 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.

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

Control Environment Assurance		
Level		Definitions
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.

Compliance Assurance		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.

Compliance Assurance		
Level		Definitions
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.

- 1.4.7 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.

- 1.4.8 Specifically for the compliance reviews undertaken, the following definitions have been used to assess the level of compliance in each individual area reviewed:

Opinion for Compliance Audits – Levels of Compliance		
Level		Definitions
1	HIGH	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
2	MEDIUM	There was general compliance with the agreed policy and/or procedure. Although errors have been identified these are not considered to be material.
3	LOW	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

1.5 Progress against the 2014/15 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 1st June and 17th August 2014. Reports issued between 1st April and 31st May 2014 were included in the Internal Audit Annual Report for 2013/14 submitted to the Corporate Governance and Audit Committee on the 11th July 2014.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Key Financial Systems					
Income Management System Year End Reconciliation	Substantial	Substantial	N/A	Strategy and Resources	06/06/2014
Year End reconciliation of Civica (Sundry Income System) to Financial Management System	Substantial	Substantial	N/A	Strategy and Resources	06/06/2014
Adult Social Care Creditors	Substantial	Good	Minor	Adult Social Care	06/06/2014
Spending Money Wisely					
Essential Car User Allowances	N/A – Spending Money Wisely Review: Opportunities for efficiencies identified			Strategy and Resources	10/07/2014
Spending Money Wisely Challenge – October 2013 transactions	N/A	Low	N/A	Cross Cutting	12/08/2014
Spending Money Wisely Challenge – November 2013 transactions	N/A	Medium	N/A	Cross Cutting	12/08/2014
Spending Money Wisely Challenge – September 2013 transactions	N/A	Low	N/A	Cross Cutting	12/08/2014
Software Licences Follow Up Review	Assessment of progress towards implementation – further recommendations made.			Strategy and Resources	13/08/2014
Risk Based Reviews					
Procurement					
Youth Offer – Targeted Information, Advice and Guidance Contract Review	Substantial	Substantial	Minor	Children’s Services	07/07/2014
Assisted Living Leads (formerly Assistive HUB Technology) Contract Review	Good	Good	Minor	Adult Social Care	24/07/2014

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Policies and Procedures	Travel and Subsistence	Medium	Cross Cutting	19/06/2014
	Pre-Employment Background Checks	High	Cross Cutting	30/06/2014

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Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
	Overtime Payments	Medium	Cross Cutting	10/07/2014
	Compensation Payments	Medium	Legal Services and Democratic Services	07/08/2014
Schools	St Matthews CE Aided Primary School	Low	Children's Services	10/07/2014
	Lawnswood School	Low	Children's Services	17/07/2014
	Pudsey Grangefield School	Medium	Children's Services	21/07/2014
Schools – 6 th Form Funding and Bursary	Allerton High School	Medium	Children's Services	21/07/2014
Unannounced Visits	John Smeaton Leisure Centre	High	City Development	13/08/2014

Report Title	Results/Opinion	Directorate	Date Issued
External Work			
Shakespeare Primary School Voluntary Fund Audit	Certification of Account Balances	Children's Services	01/06/2014
Bramley St Peters School Voluntary Fund Audit	Certification of Account Balances	Children's Services	01/06/2014
Swarcliffe Primary School Voluntary Fund Audit	Certification of Account Balances	Children's Services	09/07/2014
Grants and Other Chief Audit Executive Assurances			
Troubled Families Grant Claim	Audit testing provides good assurance that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness.	Children's Services	01/06/2014
Adoption Reform Grant	Audit testing provides good assurance that the results detailed on the grant claim will satisfy the Department of Education's requirements of reasonableness. The statement of grant usage, in all material respects, fairly presents the eligible expenditure in the period 1/4/13 to 31/3/14 in accordance with the definitions and conditions for this grant.	Children's Services	01/06/2014
Cycling Ambition Grant	Grant conditions complied with	City Development	01/07/2014
Local Transport Capital Block Funding Grant (Integrated Highway and Transport Maintenance)	Grant conditions complied with	City Development	01/07/2014
West Yorkshire Plus Transport Fund	Expenditure incurred meets criteria on schemes specified	City Development	01/07/2014
Bus Operators Grant October 2013 – March 2014	Assurance provided that the service is approximately in-line with the previous grant provision, records used to calculate this figure can be substantiated back to prime records held on site and that there is assurance that the expenditure of the service is covered by the grant.	Civic Enterprise Leeds	07/08/2014

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

Section 2

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

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 Compliance

2.1.1 Schools – St Matthews CE Primary School

An opinion of low compliance was provided for the school audit as a number of issues were identified during the review. These included the following:

- It was not possible to gain assurance on the accuracy of the school voluntary fund account due to the lack of fund record;
- It was not possible to gain full assurance on the accuracy and validity of purchasing card transactions due to the purchasing card being used by various members of staff at the school;
- Non-compliance with Financial Regulations including a lack of evidence – through quotations - that the school considers value for money when making purchases; and orders being raised after invoices have been received. Failure to raise orders for goods/services results in expenditure not being correctly authorised and committed and may result in budget overspends;
- There is no central inventory in place to ensure that all assets at the school are adequately safeguarded.

2.1.2 Schools – Lawnswood School

An opinion of low compliance was provided for the school audit. A number of weaknesses were identified which included the following:

- A high level of payments were identified where orders had not been raised prior to the receipt of the invoice;
- Expenditure occurred in excess of the delegated limit that was not countersigned by the Chair of Governors;
- There is no independent audit of the main school voluntary fund as the audit is undertaken by a relative of the school fund administrator;
- A number of additional unofficial funds were found to have been in existence at the school since 2001. These had not been correctly

notified to Children's Services and have not been independently audited in line with Financial Regulations;

- A number of purchases were made from the school fund accounts that were not considered to meet the definition within school fund guidance as '*purchases which benefit the pupils.*' In addition, as expenditure was paid from the school voluntary fund rather than school budget share, this also resulted in increased costs to the school due to irrecoverable VAT in relation to these transactions.
- Lack of independent imprest bank account reconciliations

Follow up reviews will be undertaken at both schools later in the year to assess progress towards implementation of the recommendations made in the reports.

2.2 *Spending Money Wisely*

Essential Car User Allowances

2.2.1 A spending money wisely review of essential car user allowances was undertaken with the following objectives:

- The Council's car user allowance policy is appropriate and provides value for money;
- Essential and casual car users are correctly identified in line with travel and subsistence policies;
- Car allowances are paid in accordance with the Authority's policies;
- There is regular review and monitoring of compliance with the policy for the designation of car users and levels of business mileage.

2.2.2 The review found that there were opportunities for efficiency savings from a review of the agreements currently in force, from the application of those agreements and by close monitoring of car mileage undertaken by staff. A number of opportunities (with their associated potential efficiency savings) were identified for consideration as potential options for change including:

- Enforcement of mileage as the sole criteria for eligibility for essential car user status;
- Re-assessing the qualifying mileage above which employees are awarded essential car user status;
- Setting a mileage reduction target;
- Introduction of Her Majesty's Revenue and Customs (HMRC) mileage rates;
- Use of alternative methods of transport such as Leeds City Car Club as a more cost effective option for employees with relatively low car usage (in terms of duration) and medium to high levels of mileage.

- 2.2.3 A formal proposal for changes to terms and conditions has been put forward to the trade unions which includes the following changes to transport related allowances:
- Her Majesty's Revenue and Customs (HMRC) mileage rates will be paid to all casual car users, and also to essential car users (ECU) where the current ECU mileage rate is higher than the HMRC rate;
 - The application of a revised eligibility criteria for ECU;
 - Freezing of the current ECU allowance at existing nationally agreed rates.
- 2.2.4 The General Purposes Committee received a report from the Deputy Chief Executive on the 29th July 2014 seeking approval to changes to employment terms and conditions including changes to the Council's existing travel arrangements. The General Purposes Committee agreed to the changes to terms and conditions outlined in the report and noted in the absence of a collective agreement, for current staff the options available to implement the proposals were: to seek individual consent; to give notice of the changes; or to dismiss and immediately re-engage staff on new terms and conditions of employment.
- 2.2.5 The Council has written to all staff in scope giving them 12 weeks' notice of the changes to travel allowances as detailed above. The new travel policy is effective from 7th November 2014.
- 2.2.6 Internal Audit will continue to review a sample of car mileage claims on a quarterly basis to ensure the accuracy of the claim and compliance with policy.

Ideas Service and Spending Money Wisely Graduate Project

- 2.2.7 The Ideas service was re-launched in July 2014 following a project to improve:
- Staff engagement with Spending Money Wisely;
 - The system for managing staff ideas;
 - The processes for assessing and implementing staff ideas.
- 2.2.8 Improvements made have included:
- A new Sharepoint site for staff to submit their ideas;
 - A comprehensive communication plan including a 'call to action' video and regular blog updates;
 - A network of staff across the council (known as Spending Money Wisely Partners) to assist with communication and implementation of ideas;
 - Arrangements for feeding strategic ideas into the budget setting process.

- 2.2.9 Since the re-launch, 78 ideas have been submitted by staff and Internal Audit is in the process of gathering further information and assessing these. Staff will be kept up to date on progress through the Sharepoint site.
- 2.2.10 Further development work on the staff ideas service continues to be carried out, this includes for example a simple on-line game for staff in the form of an 'are you a saver or a spender' quiz, to encourage staff to think about the difference they could make.
- 2.2.11 Support from Corporate Leadership Team is key to encouraging a spending money wisely culture.

Spending Money Wisely Challenge

- 2.2.12 Internal Audit continues to undertake reviews of expenditure on a monthly basis. This process involves selecting a sample of payments from the lists of published payments. Officers who authorise the orders are asked to complete a questionnaire to explain how they have ensured their expenditure provides value for money, incorporating compliance with Contract Procedure Rules (CPRs).
- 2.2.13 As reported to the Committee in the September to November 2013 update report, for the transactions reviewed in the financial year 2012/13, the conclusion reached was that there was sufficient evidence to demonstrate that value for money had been considered and obtained in 80% of cases. For the remaining 20% of transactions, there was scope for improvement in demonstrating that value for money had been considered and achieved through compliance with the council's policies and procedures including Contract Procedure Rules.
- 2.2.14 As detailed in table at 1.5.1, the reviews of transactions for September and October 2013 have resulted in low compliance opinions as for a number of transactions, Contract Procedure Rules had not been complied with and as a result, there was insufficient evidence to demonstrate that value for money had been achieved. Recommendations were made in relation to the specific instances identified to improve compliance.
- 2.2.15 Overall for the transactions covering the period April 2013 to November 2013, the level of compliance has reduced to 67%. The key areas where weaknesses were identified were:
- Services have made direct approaches to single suppliers who have previously been used and provided good quality service without

demonstrating that this approach provides value for money (through a waiver report);

- Insufficient numbers of quotes have been obtained by the procuring officer (excluding the direct approach to only one supplier) in line with Contract Procedure Rules;
- Previous contracts have expired and Services have continued to use the same contractor (without a waiver of Contracts Procedure Rules);
- No response was received from the Service or the procurement information has not been retained to demonstrate how value for money has been achieved.

2.2.16 In order to address this, Internal Audit has made a number of recommendations with the aim of improving the level of compliance. These have been reported to the Chief PPPU and Procurement Officer and the Deputy Chief Executive:

- An e-mail has been drafted for the Deputy Chief Executive with the proposal that this is issued to all staff - reinforcing the importance of the Council's value of spending money wisely;
- The Spending Money Wisely challenge reports (15 transactions per month) will continue to be issued to CLT, PPPU/Procurement and Heads of Finance and will also be copied to the relevant Chief Officer to ensure action is taken to address any issues identified. Findings will also be reported back to individual officers responsible for procuring the goods or services selected in the sample. Recommendations will be agreed with responsible officers for implementation;
- Internal Audit will continue to follow up areas of non-compliance to assess whether recommendations have been implemented and also publish areas of good practice or areas where improvements can be made via the Spending Money Wisely Blog;
- Officers should be reminded of the need to provide appropriate and proportionate challenge before authorising orders to ensure that money is being spent wisely;
- Consideration should be given to PPPU/Procurement facilitating the training of staff where a need for this is identified on the requirements of the Council's Contract Procedure Rules;
- Contract managers should be required to obtain information on the amount of off-contract spend and encouraged to seek the views from service users on whether existing contracts are fit for purpose and why

they are not being used. Appropriate action should be taken before any re-tendering of contracts;

- Consideration should be given to updating CPRs to include a clause that failure to comply with them could be a breach of the employee Code of Conduct and result in disciplinary action.

2.3 Housing Leeds Audit Plan

2.3.1 Agreement has been reached with Environment and Housing on a number of key audits within the audit programme for Housing Leeds. These will commence shortly and include:

- Contract Review
- PFI Gas Servicing
- Direct Works Implementation
- Welfare Reform
- Housing Needs

2.4 Counter Fraud and Corruption

Whistleblowing Arrangements – First 100 Campaign

- 2.4.1 The Whistleblowing Commission has recommended the introduction of a statutory Code of Practice for whistleblowing arrangements to provide practical guidance to employers, workers and their representatives in addressing whistleblowing concerns. The Code of Practice contains 15 recommendations for raising, handling, training and reviewing workplace whistleblowing in order to encourage and embed a more open and transparent working culture.
- 2.4.2 In March 2014, Public Concern at Work (PCAW), the whistleblowing charity and leading authority in the field, launched the First 100 campaign and began appealing to all organisations across all sectors to sign up to the principles of the Code and to be one of the first 100 signatories. Leeds City Council is currently in the process of signing up to the First 100. In doing so, we are demonstrating our commitment to abide by the principles of the Code and to work towards full compliance with it. As a result, Internal Audit is in the process of developing an action plan in accordance with the requirements of the code to act as a reference point in ensuring that we are following all of the principles of best practice in whistleblowing.

Whistleblowing Policy

- 2.4.3 LCC's Whistleblowing and Raising Concerns policies were initially presented to the Corporate Governance and Audit Committee in draft format on 9th April 2014. The committee resolved to note the amendments to the policies, and receive a final version of the Whistleblowing policy following approval. The draft Whistleblowing policy was then presented to the General HR Matters meeting on 15th May 2014 and the attendees, including senior HR and Trade Union representatives, received a briefing on the updates to the policy and were satisfied with the changes made, proposing no further revisions. Following these assurances, the updated Whistleblowing and Raising Concerns Policies have now been approved with no alteration to the versions reviewed by this committee. The policies have now been published on both Insite and the Leeds City Council website.

Reports Issued

- 2.4.4 In accordance with our agreed protocols, a report is issued to the relevant Director and Chief Officer for each investigation conducted by Internal Audit. The reports provide details of the allegations, findings and conclusions as well as value adding recommendations to address any control weaknesses identified during the course of the investigation. Internal Audit has issued 5 such investigation reports during this period.

2.5 Partnership Governance Arrangements

- 2.5.1 The way in which services are provided by the authority continues to develop and evolve with more services being commissioned and delivered in partnership. The report of the Deputy Chief Executive being presented to the Committee on Financial Planning and Management arrangements recognises this and outlines the work that has been undertaken over the year to strengthen financial governance on partnerships and similar arrangements. In particular, a key focus in this area has been the financial governance arrangements for the City Region. Work has also been undertaken to identify all arrangements for which the Council has some financial stewardship requirements and further work is on-going to ensure that the governance arrangements for all such entities are appropriate and effective. The report acknowledges that further work is required on the financial governance framework for partnerships and similar arrangements. The Integrity Forum play a key role in ensuring financial information is both timely and accurate to correctly inform decision-making.
- 2.5.2 The Annual Governance Statement being presented to this Committee acknowledges that as the organisation evolves so the engagement with partners (to deliver services to meet need and improve the well-being of citizens)

becomes more extensive. The report recognises that ensuring the Council's values and good governance are rooted in those arrangements, particularly in how services are commissioned and outcomes monitored, will continue to be a challenge in the years ahead. A partnership governance advisory note for Directors which is available on Insite sets out:

- The steps which Directors should take **before entering into a partnership**; and
- The **minimum governance requirements** each partnership should have.

2.5.3 Internal Audit continues to review audit coverage drawing on key indicators of risk to the organisation to ensure that suitable audit time and resources are devoted to reviewing more significant areas. This includes the whole control environment including partnerships and similar arrangements.

2.5.4 The Public Sector Internal Audit Standards require the internal audit risk based audit plan to include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources. In addition, these require that an assurance mapping exercise has been carried out as part of identifying and determining the approach to using other sources of assurance (including those which relate to partnerships and other similar arrangements.)

2.5.5 Internal Audit is in the process of undertaking an assurance mapping exercise to identify other potential sources of assurance. Part of this work has involved seeking comparative information from the other core cities in relation to how they meet the requirements of the Public Sector Internal Audit Standards in this area.

2.5.6 This work will culminate in a cross cutting report on partnership governance arrangements which will be presented to a future meeting of the Committee.

2.6 *Corporate support*

2.6.1 In order to support corporate priorities, the Section continues to have a number of staff on secondment to various projects and programmes across the authority:

- A member of staff has been providing support on a full time basis to Leeds and Partners since January 2013.
- A member of staff is due to commence a 6 month secondment within the Capital Section during September 2014.

Section 3

AUDIT PERFORMANCE 2014/15

At 31st July 2014

3.1 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Internal Audit continues to monitor compliance with the Public Sector Internal Audit Standards on an on-going basis. The Internal Audit Charter is due to be reviewed and updated where necessary and this will be reported to the next Corporate Governance and Audit Committee.

3.2 ENSURING QUALITY

Internal Audit is committed to delivering a quality product to the highest professional standards that adds value to our customers. We actively monitor our performance in a number of areas and encourage feedback from customers.

All our work is undertaken in accordance with our quality management system; we have now been ISO accredited for over fourteen years.

A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are based on the percentage of those assessments that are 3 (satisfactory) or above. The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.

Results from Customer Satisfaction Questionnaires

Question	2014/15 Actual to date At 31st July 2014 - % Score 3 or above
Notice	100%
Scope	100%
Understanding	100%

Question	2014/15 Actual to date At 31 st July 2014 - % Score 3 or above
Efficiency	100%
Consultation	100%
Professional/Objective	100%
Accuracy of Draft	100%
Opportunity to comment	100%
Final Report - Clarity & Conciseness	100%
Final Report – Prompt	88%
Recommendations	100%
Added Value	100%

The results from the Customer Satisfaction Questionnaires are once again extremely positive. In relation to the prompt issue of the final reports, the Section is undertaking a review of its quality procedures and reporting protocols with Directorates to ensure that these reflect current working practices and also identify any improvements required.

Report of the Chief Officer, Customer Access

Report to the Corporate Governance & Audit Committee

Date: 19 September 2014

Subject: Report on the review of customer relations 2013-14 and Local Government Ombudsman's Annual Review Letter 2013-14

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

Summary of main issues

- 1 This report provides comment and feedback for the committee on the review of customer relations (compliments, complaints and feedback) for 2013-14, including Local Government Ombudsman's (LGO) annual review letter for Leeds, dated 7 July 2014.

- 2 Using an overview of the complaints to the council during 2013/14, this report sets out the council's arrangements for responding to complaints made by the public, the key objectives of which are:
 - 1 to make it easy for people to complain or provide feedback;
 - 2 to try to resolve complaints at an early stage; and
 - 3 to learn lessons from the issues raised through complaints.

- 3 The report shows broadly positive trends against these objectives. The number of complaints received by the council has fallen on the previous year, and the council is responding to more complaints within stated timescales than ever before. The proportion of cases which progress beyond the early stages has also fallen, with comparatively few complaints proceeding to the LGO and Housing Ombudsman Service (HOS), and a comparatively small number and proportion of investigations find fault on the part of the council.

- 4 The report does show that there are, however, some areas where the council needs to improve in learning lessons from compliments, complaints and feedback, and that these are being appropriately addressed.

- 5 Taken together, these developments provide assurance that the council's processes for handling complaints are, on the whole, working effectively.

Recommendations

- 1 Members are asked to consider the issues raised in the report and the supporting contextual information provided in the appendix.
- 2 Members are asked to confirm that the report and supporting information provides external assurance as to the effectiveness of the council's approach to complaints.

1 Purpose of this report

- 1.1 To summarise the council's complaints and Ombudsman cases for the period 1 April 2013 to 31 March 2014.
- 1.2 To discuss the effectiveness of Ombudsman arrangements and LGO Annual Review Letter to the council, a copy of which can be found in **Appendix 1**.
- 1.3 To assess the overall effectiveness of the council's approach to compliments, complaints and feedback.

2 Background information

- 2.1 The council has a compliments and complaints policy and procedure which has been in place for a number of years, co-ordinated by directorate customer relations officers, and accountable to the council's Customer Strategy Board. The arrangements have three aims: i) to make it easy for people to complain to the council; ii) for the council to resolve complaints at the earliest stage possible; and iii) for the council to learn lessons from complaints to prevent them from recurring. In order to make it easy for people to complain to the council, the council uses a range of posters, leaflets, online forms and online supporting information.
- 2.2 The council operates a two stage complaints process. In order to try and resolve the complaint as early as possible, at the first stage, complaints are dealt with by an officer or manager from the service complained about, who investigates the issues raised, looks to resolve them and responds to the customer within the relevant timescale.
- 2.3 Should the customer remain dissatisfied after this stage, they can take their complaint to the second stage of the complaints process. At the second stage, a more senior officer will investigate and respond to the customer's concerns. The officer will look at how the original complaint was dealt with and also respond to any further issues that the customer may have raised with us. Adult Social Care and Children's Social Care have separate statutory procedures.
- 2.4 A customer who progresses to the final stage of our complaints policy is advised in our response of their right to take their complaint to the relevant ombudsman, should

they remain dissatisfied with the outcome, and depending on the Ombudsman's jurisdiction. The LGO and HOS advise customers to go through all stages of an authority's complaints procedure before investigating a complaint.

3 Main issues

3.1 This report covers the following issues relating to the review of 2013-14 and LGO Annual Review Letter:

- Overview of complaints to the council;
- Patterns and trends of LGO enquiries and complaints;
- Implications of changes in roles and jurisdiction; and
- Assessment of the effectiveness of the council's overall approach to compliments, complaints and feedback;

Overview of complaints to the council

3.2 The majority of complaints to the council do not progress beyond the initial stage described in section 2.2. Stage 2 and LGO/HOS complaints continue to be a very small proportion of complaints which are made to the council each year, summarised in the table below. In 2013/14 the council received 4,795 stage one complaints with 329 (7% of all complaints) progressed to the second stage of our complaints process. Of those, 145 people complained to the LGO/HOS, of which 24 found fault.

Year	Stage 1 complaints	Stage 2 complaints	Ombudsman cases	Ombudsman finding fault
2013-14	4795	329	145	24
2012-13	5473	440	146	30

3.3 In June 2014 a report on 2013/14 compliments, complaints and LGO/HOS cases was presented to the council's Customer Strategy Board. As part of the annual report process, all directors are required to provide feedback on any trends in complaints identified over the year and what actions were taken to address them. Particular attention was given to cases where the council has been instructed by the LGO/HOS to make a payment. This accountability process is important in delivering one of our objectives in relation to learning from complaints.

3.4 A trend identified in the report was that complaints had fallen in volume, both at stage 1 (down by around 700) and stage 2 (down by around 90), almost wholly accounted for by a fall in complaints about housing management issues, which had been largely addressed as service enquiries, rather than formal complaints. Complaints had

increased in volume about environmental services (up by around 200). The council also recorded an increase in compliments (1429, up from 1031 the previous year).

- 3.5 A related trend identified was that the council had responded more quickly to complaints than in previous years, an increase from 79% stage 1 complaints to 89% complaints responded within stated timescales. The directorates with the largest improvement in responsiveness were Environment & Housing and Children's Services.
- 3.6 The report also identified areas for improvement, particularly around the early identification and investigation of complaints which have an equalities or alleged discrimination aspect. The council only identified 35 complaints during 2013-14 where the complainant had alleged that discrimination had taken place or that their equality characteristics had not properly been taken into account. These are discussed in section 4.2 below.

Patterns and trends of LGO enquiries and financial settlements

- 3.7 In previous years, the LGO has produced a detailed breakdown of the council's performance, including how many complaints were remedied during the LGO's investigation and the number of cases where the LGO identified only minor injustice. The LGO changed their way of handling complaints during 2012/13 and with housing landlord complaints falling within the remit of the HOS, the LGO no longer writes a detailed report on each council. The HOS does not provide an annual report on each landlord.
- 3.8 During 2013/14, the LGO and HOS issued decisions on 141 complaints (compared to 146 decisions by LGO in 2012/13). The number of decisions includes complaints where the LGO has used their discretion not to investigate or because the issue is outside of their jurisdiction. Of these 141 complaints, the LGO and HOS found fault in 24 of these cases and 36 cases were outside of jurisdiction. The number where fault has been found has improved (17%) a fall from 20% of cases last year. No fault was found in the remaining 81 cases (57% of all decisions received). Although this percentage indicates a fall compared to 72% of cases finding no fault last year, this is due to the high number of cases deemed as outside jurisdiction.
- 3.9 The nature of complaints by service area is broadly similar to previous years. In 2013/14 26% of decisions received related to housing, compared to around a third of cases the previous year. The next highest service area is education and Children's Services, with 18% of decisions (compared to 25% last year).
- 3.10 The total financial settlements agreed by the LGO/HOS for the previous 4 years are set out below:-

10/11 = 47 cases £25,481

11/12 = 35 cases £16,064

12/13 = 17 cases £13,664

13/14 = 16 cases £67,036

- 3.11 This is a major increase on previous years, because of one case where the LGO imposed a settlement of £43,527. The settlement was offered to a foster carer for failing to provide adequate respite provision for a child with complex learning

difficulties over several years between 2004 and 2011. The council apologised for its failings and made payment of £39,027 for the loss of respite provision, 75% of the cost to the council in providing 40 days respite a year over a 7 year period. In addition, the council paid damages (£2000), time and trouble (£500) and distress (£2000).

Implications of changes in LGO/HOS role and jurisdiction

- 3.12 On 1 April 2013, the role and jurisdiction for investigating complaints about the council's function as a landlord passed from the LGO to the HOS, as set out in the Localism Act 2011.
- 3.13 The major change for the council is that in accordance with the Localism Act 2011 complainants have the option to take their case to a 'designated person', to see if the dispute can be resolved, before contacting the HOS. Any UK MP and any Leeds City Council Councillor can currently act as a designated person, and the council is investigating options for tenant panel members to act as designated persons. Member support teams have guidance to provide support to individual members who are contacted in their role as a designated person. Designated persons can decline to consider a complaint or they can choose to refer a complaint on to the HOS. A complainant can also 8 weeks from the date of the council's final response rather than approach a designated person first.
- 3.14 In 2013/14 there were very few referrals to designated persons to try and resolve housing complaints informally. The number of decisions made by the LGO (25) significantly exceeded those by the HOS (3), as the LGO continues to have jurisdiction over the council's wider activities, for example in discharging their statutory duties.

Assessment of the effectiveness of the council's overall approach to compliments, complaints and feedback

- 3.15 The assessment of the effectiveness of the council's overall approach to compliments, complaints and feedback balances positive trends with some areas for improvement.
- 3.16 On the positive side, the council continues to encourage people using a range of channels to let us know how well we have done, and ask that we take action, either to remedy a problem, or to pass on a compliment or thanks to the member(s) of staff. The number of complaints at stages 1 and 2 has fallen, the number of compliments has increased, and the council is responding to complaints more quickly than ever before.
- 3.17 The main area for development is that of the need to identify and address equality and alleged discrimination, particularly at a time when the council is making difficult choices in service design and provision. The perceived under-recording of these types of complaints is being addressed through the teams which administer complaints.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 As this report is providing the committee with information on past performance with regards to compliments, complaints and feedback, and LGO cases, no specific consultation or engagement has been sought.
- 4.1.2 The cross-council group of customer relations officers have, however, drawn on South East Tenant Scrutiny investigation and November 2013 report on complaint handling. The report is broadly very positive and complimentary about how the council handles housing complaints. The Tenant Scrutiny group have made a number of recommendations to Housing Advisory Board in April 2014 (for housing complaints) and to Customer Strategy Board in April 2014 (for cross-council complaints).

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 Section 3.4 highlighted the risk that the council may be under-reporting and potentially not paying appropriate attention to complaints where there is equalities or alleged discrimination aspect. This is a particular concern where the council may be making decisions to reduce services to operate within a lower budget. To check that each customer relations team is working in line with the required arrangements, they have been asked to work with a member of the Equalities team and report back at the next customer relations meeting in September 2014.
- 4.2.2 The LGO has not highlighted any issues regarding Equality, Diversity, Cohesion or integration in the Annual Letter for 2013/14.

4.3 Council policies and City Priorities

- 4.3.1 The review of compliments, complaints and feedback and LGO letter has not raised any issues that would impact on council priorities or city priorities.

4.4 Resources and value for money

- 4.4.1 Our compliments and complaints are free feedback from our customers on what has gone wrong for them, and what we could or should have done differently or better. We are also giving a higher profile than ever before to compliments and feedback, to make sure that expressions of thanks and other comments are used to recognise contribution of council staff. In doing this, we can also identify areas of improvement, to make our services more effective, in particular, more joined up and responsive to people's individual needs and circumstances. Each LGO/HOS investigation and equality/discrimination complaint uses a case conference approach, the aims of which are to ensure that the investigation is i) thorough and timely, and ii) actions are put in place to prevent similar problems from occurring.
- 4.4.2 The earlier faults or mistakes are identified and addressed, the more cost effective the process is. LGO/HOS cases can have resource implications as the council should have resolved the issue earlier, but also have financial implications as the LGO/HOS has the authority to impose financial settlements. All cases of local

settlement are reported to the council's Customer Strategy Board to ensure that lessons are learnt across the council.

4.5 Legal Implications, Access to Information and Call In

4.5.1 As this report is providing an update on past performance relating to compliments, complaints and feedback, and LGO/HOS cases dealt with during 2013/14, it does not have any legal implications. None of the information enclosed is deemed to be sensitive or requesting decision, and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 As this report is providing an update on past performance relating to compliments, complaints and feedback, and LGO/HOS cases dealt with during 2013/14, there are no significant risks identified by this report.

5 Conclusions

5.1 In previous years the Annual Review Letter has provided the council with valuable feedback as to the LGO's view on our performance during the previous year. The letter this year does not comment on the effectiveness of our arrangements, so this report has focused in more detail about the broader pattern and trend of compliments, complaints and feedback to the council.

5.2 This report has described the general arrangements in place for responding to complaints made by the public. It has also described how in practice the council has a balancing act, to make it easy for people to complain to the council, to resolve customer complaints at an early stage and to learn lessons from the issues raised through complaints. It has described that while complaints are being responded to in shorter timescales, there are plans to make sure that the council is not overlooking complaints with an equality or discrimination aspect.

5.3 The report has drawn on the overview of 2013-14 to show that the council is continuing to inform people of their right to complain to us. The report has also shown that the trend in complaints is downward, and that the majority of complaints continue to be resolved at the first stage. It has also shown that good practice is in place, particularly for LGO/HOS complaints, to ensure that lessons are learnt from complaints. The information detailed in this report enables us to give assurance that the current system is fit for purpose in this respect, and this provides assurance that complaints are operating as intended.

6 Recommendations

6.1 Members are asked to consider the issues raised in the year end complaints results and LGO Annual Review Letter.

6.2 Members are asked to confirm that the information provides external assurance as to the effectiveness of the council's approach to complaints.

7 Background documents

Appendix 1 LGO Annual Review Letter 7 July 2014

7 July 2014

By email

Mr Tom Riordan
Chief Executive
Leeds City Council

Dear Mr Tom Riordan

Annual Review Letter 2014

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

Developments at the Local Government Ombudsman

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.


Future for local accountability

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

Local authority report – Leeds City Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Leeds City C	31	23	16	42	34	8	38	26	218

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Decisions made

Local authority	<u>Detailed investigations carried out</u>		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Leeds City C	29	42	21	65	5	70	232

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Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

Subject: Financial Planning and Management Arrangements

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. Given the significant financial challenge the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial planning and management is perhaps more critical than ever before.
2. The Council's Responsible Financial Officer has established appropriate overarching controls for the financial management of the Council's affairs.
3. These controls are subject to a number of independent assessments. In particular Internal Audit has reviewed and given substantial assurance on the Council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.
4. External Audit also gives independent assurance on the accounts and accounting practice; the Authority arrangements to ensure value for money and the controls on the Authority's key financial systems.
5. Over the last year a number of improvements have been made to these systems and processes, most notably the updating of the Council's financial regulations, improvements to the budget monitoring of staffing costs and the strengthening of the financial governance on partnerships and similar arrangements.
6. The systems and processes for delivering sound financial management are being continually assessed and reviewed to ensure they are fit for purpose. This will continue and any issues and developments will be reported back to this Committee.

Recommendations

7. Members of the Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

1 Purpose of this report

1.1 Given the significant financial challenge that the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial management and planning is perhaps more critical than ever before. This report outlines:

- The key systems and procedures which are in place to deliver such arrangements;
- New developments and improvements which have been put in place;
- New risks and issues arising.

1.2 The report aims to give members assurance that the systems and procedures in place are fit for purpose, up to date, embedded and being complied with.

2 Background information

2.1 This is the third year of reporting to this Committee on the financial planning and management arrangements of the Council. Previous reports have outlined the following arrangements:

- Overarching Controls :
 - The strategic role within the Council of the Responsible Financial Officer;
 - Professionally qualified and accountable staff;
 - Financial Regulations;
 - The monitoring of the Integrity of financial systems;
 - A statutory Code of Practice for Treasury Management arrangements.
- Main financial processes:
 - Budget preparation and setting.
 - In year budget monitoring.
 - Closure of accounts and reporting.

Reports to this Committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. Rather than just report the main processes and arrangements again, this report seeks to highlight progress on addressing weaknesses identified in the systems and any new developments or risks that have come to light over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A attached to this report.

2.2 Financial procedures and controls put in place by the Responsible Financial Officer form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2011.

3 Main issues

3.1 Assurances that the overarching controls and main financial processes are effective

3.1.1 Whilst this report concentrates on the new issues and developments in the financial management arrangements, it is important that the Committee is informed of the key assurances provided that these processes are still fit for purpose and being complied with. Members should therefore note the following assurances:

- The Council has tried and trusted arrangements for **treasury management** which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report on the robustness of these arrangements on the 8th November 2013.
- In response to the Government's deficit reduction plans and subsequent cuts in the grants which we receive from government, by the end of 2014/15 the Council will have had to deliver savings of over £200m. The establishment of robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes is effective. KPMG have provided independent assurance that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular they state that "the Council has been able to deliver its savings plans and has a robust budget and budget monitoring processes in place to mitigate the significant risks presented by the current financial challenges".
- The 2013/14 accounts have been compiled and audited within statutory timetables. KPMG have indicated that they will provide a clean audit certificate.
- The Internal Audit Annual Report and Opinion received by this Committee on the 11th July 2014 provided assurance to members that all key financial systems and processes had been audited and all received either a substantial or good audit opinion.

3.2 Addressing the key issues and developments raised in the 2013/14 Financial Management report

3.2.1 Last year's report recognised that whilst budget monitoring arrangements remain effective there are areas which need to be improved. Staffing costs remain the biggest area of budget spend for the Council and need to be effectively monitored. In particular it was noted that the monitoring of staffing within Children's Services was an area for improvement. Children's Services have now implemented changes to the Directorate's systems to ensure more consistent monitoring and forecasting on this key area of expenditure. These changes link the in-year budget monitoring processes to the assumptions that are built into the budget strategy and also recognise the predominantly internal recruitment market. As a result, the forecast year-end variations against the staffing budgets have been more robust and more consistent throughout the financial year.

In addition, for 2014/15 a one page staffing dashboard has been introduced for each Directorate. These dashboards bring together FTEs and spend for pay, agency overtime and sickness and monitors against the budget each month.

There is a commentary box which Human Resources and Finance complete together and this goes to Corporate Leadership Team on a monthly basis. The dashboards are produced at chief officer level and are sent to these officers on a monthly basis.

There have also been a number of developments and improvements to the Staffing Cost Report system, used by budget holders to monitor staffing budgets.

3.2.2 Last year it was reported that Financial Services had used the CIPFA's review model for assessing compliance with good practice in respect of the role of the Responsible Financial Officer in Local Government. This model covers all aspects of the role of the Responsible Financial Officer including:

- The quality of systems and processes for financial administration and control;
- The adequacy of Medium term financial planning process;
- Timely, accurate and appropriate provision of financial information and advise;
- Effective stewardship of public monies;
- Effective working relationship with internal and external audit;
- Compliance with CIPFA codes on the Prudential Framework for Capital finance and Treasury Management;
- Members understanding of their financial roles and responsibilities and the access to financial skills and training in order to discharge these responsibilities.

A full and comprehensive assessment of the Council's financial arrangements using this model was undertaken by the Responsible Financial Officer in 2011. The assessment found that the Council had substantial levels of assurance on its financial arrangements. It did however identify a number of areas for improvement. Most notably was the requirement to update the Council's Financial Regulations and the need to improve the financial governance arrangements for partnership and similar arrangements. A second review using this model has now been undertaken and has concentrated on the developments made to address these areas requiring improvement. The results of this review are as follows:

3.2.2.1 **Financial Regulations** - The Deputy Chief Executive has reviewed and updated the Council's Financial Regulations in order to ensure they are fit for purpose. This review has focused on the key areas of financial risk and resulted in a substantial reduction in the number and length of the regulations. The Responsible Financial Officer approved the new regulations on the 9th June 2014. Supporting these regulations is a comprehensive set of Toolkits which provide detailed guidance and outlines the required process in order to aid compliance.

3.2.2.2 **Financial Governance arrangements for partnership and other such arrangements** - The last few years has seen a shift in the way the Government has looked at funding local government initiatives. In particular significant amounts of money are now been given to city regions rather than to individual local authorities. In addition decision making is now often being made in conjunction with local businesses and other partners via company and other arrangements. The legal, accounting and taxation arrangements for these entities and partnership are a new challenge facing the Council and

Financial Services are working closely with our partners to ensure proper financial governance arrangements are put in place for each separate arrangement.

3.2.2.3 Given the significant amount of funds involved, a key focus in this area for 2013/14 has been the financial governance arrangements for the City Region. A full review was undertaken of the financial arrangements and reporting of all the entities and arrangements covered by the City Region. The results of the review were reported to the Leeds City Region Leadership Board. The report identified the Board and the governing bodies of the Revolving Investment Fund LLP and General Partner are subject to statutory requirements to produce annually audited accounts and to satisfy themselves of the sound financial running of the bodies that they are responsible for. This involves those charged with governance receiving regular reports on financial performance. Specifically:

- Budget setting
- Budget monitoring;
- Final accounts and related external audit reports.

3.2.2.4 Good practice also requires that similar arrangements are in place for the separate partnership agreements. Whilst such bodies do not require final audited accounts, each governing body will receive a final year end position statement. Frequency of reporting for each individual body and partnership may vary, but budget monitoring reports should in most cases be available for each meeting of the governing body.

There is also a need for regular financial reports to be available on the overall picture of financial activity for the region and to enable the individual authority members to monitor their own level of financial involvement in the region.

The Leaders Board and the LEP Board should receive reports at each of their meetings on the overall picture of financial activity which supports the delivery of the Strategy Economic Plan. In the case of the Leaders Board, this should distinguish between the financial position of the joint committee itself (for which the Board is statutorily responsible), and information on other bodies and partnerships.

The above arrangements are now being implemented and draft 2013/14 accounts produced for all the Leeds City Region entities. The Deputy Chief Executive will ensure appropriate arrangements are in place so that those charged with Governance can discharge their duties.

3.2.2.5 In addition to the above, work has also been undertaken to identify all arrangements for which the Council has some financial stewardship requirements. Work is ongoing to ensure that the governance arrangements for all such entities are appropriate and effective.

3.2.2.6 In addition the new financial regulations also highlight a number of key rules in this area, including:

- Appropriate financial reporting to those charged with governance; and
- The adoption of the Council's financial regulations unless where otherwise agreed by the Deputy Chief Executive.

3.3 Additional Developments undertaken

3.3.1 As part of the Manager Challenge programme, workshops on financial management for managers have been developed. The workshops aim to give managers an introduction to financial management in the council as well as learning about the budget management processes involved in setting, monitoring and controlling budgets. By the end of the workshop managers will be able to:

- Understand the nature and purpose of financial management within local government
- Recognise the financial issues affecting the council
- Describe the budget setting process and your role within it
- Understand why monitoring and controlling your budget is important
- Control your own budget effectively
- Be more creative and resourceful in managing your budgets

Take up on these workshops has been good and they are fully booked for the next four months.

3.3.2 In order to provide greater clarity on the role and responsibility of Budget Holders a budget holder accountability framework has been developed. The framework defines the budget holder role and key responsibilities. Subject to CLT approval this framework will then be implemented via the Financial Regulations toolkit.

3.3.3 In the previous report to this Committee it was recognised that as staff numbers reduce, the service needs to be redesigned, in order to continue to be effective. The Financial Services Management Team has established a number of actions contained within the Service Plan for providing a holistic approach to the delivery of effective financial management with fewer resources. The proposed actions were:

- To review service delivery in consultation with stakeholders and in the context of the vision;
- To develop and implement a new service offer which continues to deliver key service and Council priorities within a substantial reduced resource envelope with a reduction in cost of the order of 30% over the next 3/4 years;
- Development training in order to ensure our colleagues have the right skills to deliver the redesigned service;
- Succession planning to deal with the loss of experienced staff and reduce the impact on service delivery.

3.3.3.1 To progress these issues a new generic service offer, outlining how the service will change, has been developed and is being consulted on at each Directorate Leadership Team.

3.3.3.2 In addition a customer survey of finance users has been undertaken covering budget setting, budget management and finance support. On a response rate of over 36% the following percentage of respondents were either satisfied or very satisfied with the service in these areas:

Service provided	Very satisfied	Satisfied	Either satisfied or very satisfied
Overall	44	44	88
Budget Setting	15	40	55
Budget Management	43	45	88
Finance Support	60	30	90

In response to the level of satisfaction for budget setting, work is ongoing to improve the service by consulting with as many senior managers as early as possible within the budget setting cycle and by training managers as to their roles and responsibilities in the process.

3.3.3.3 Training developments of Finance staff in order to deliver the new redesigned service is still an ongoing development and remains a priority in the service plan. Also as part of the Council's graduate training programme, the services has appointed three new trainee accountants.

3.3.3.4 Loss of experienced staff remains a significant issue, but there is a clear vision as to the structural shape of the service, and, as the service moves forward, resources will be realigned and this will provide opportunities for promotion and development.

3.4 Future Challenges

3.4.1 Despite the considerable budget savings already achieved, it is recognised that the Council still faces a significant financial challenge. Along with the requirement to meet the continuing budget reductions there are also a number of new areas of risk which will require carefully budget monitoring. Specifically these are the financial implications of the Better Care Fund; the Care Act and Health Integration along with the impact of the changing rules in respect of Council Tax and National Non Domestic Rates (NNDR).

3.4.2 The Better Care Fund (BCF) combines £3.8bn nationally into a pooled fund aimed at transforming health and social care services, effective from 1st April 2015. Leeds has submitted a plan in accordance with Department of Health requirements for a BCF totalling £55m in 2015/16.

To facilitate an early start on the transformation of the health and social care system in Leeds a Council earmarked reserve of £5m was created at the end of 2013/14. Together with provision of £2.8m within the 2014/15 Adult Social Care revenue budget this will provide £7.8m in 2014/15 to provide "pump-priming" investment so that savings to be delivered through the BCF can be released as early as possible.

One of the Department of Health requirements for the BCF is that it ensures the financial sustainability of social care services. Across health partners in Leeds this is being equated to funding demography and the additional requirements of the Care Act.

Within the last few months further changes to the BCF have been announced, which effectively ring-fence £1bn of the £3.8bn nationally to support the acute sector. The implications of this are not yet entirely clear, although a number of commentators believe that this will limit any potential transfer to Social Care to offset Council funding reductions.

The main implications of the Care Act relate to new duties to provide advice and information, assessment of and support to carers, changes to financial assessments and the introduction of the cap on care costs, which will in itself lead to further assessment requirements. The main changes that will affect care assessments come into effect in April 2015, but the financial assessment and care cap changes take effect in April 2016.

Work on health integration has been ongoing in Leeds for some time and co-located teams are now operational across the city. This integration involves Adult Social Care and Leeds Community Healthcare staff.

3.4.3 The following risks arise from the changing rules in respect of Council Tax and NNDR:

- The introduction from April 2013 of a scheme of council tax discounts does raise additional risks as to collection. Overall, the assumed collection rate for Council Tax has been reduced from 99.2% to 99% to reflect this additional risk, but there is still the potential for further losses. However, it should be noted that should there be a higher level of loss than assumed, that this would materialise within the collection fund, and as such would not impact upon the current year's budget.
- Under the new business rates retention scheme, the Council's local share of business rates is exposed to risks from both collection and reductions in rateable values. Although in setting the 2014/15 budget, an assumption has been included as to potential scale of losses due to backdated appeals, this is still considered to be a significant risk. However, as in the case of Council Tax, any losses greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current year.

3.4.4 These issues are being closely monitored and reported to Finance Performance Group on a monthly basis and any significant issues will be reported to the Executive Board in the monthly financial health reports.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2014/15 report to Full Council on the 26th February 2014. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 26th February 2014 as part of the Revenue Budget and Council Tax 2014/15. This report has no direct equality and diversity / cohesion issues.

4.3 Council policies and City Priorities

- 4.3.1 As expressed within the Council Business Plan 2011 – 2015, spending money wisely is one of the Council's values, with the priority being for directorates to keep within their budgets. Ensuring that the Council has appropriate financial management systems and procedures in place is clearly a key aspect and as such this report does provide some assurances, albeit not comprehensive, assurance that money is being spent wisely.
- 4.3.2 The terms of reference of the Corporate Governance & Audit Committee require the Committee to consider the adequacy of the Council's policies and practices to ensure compliance with statutory guidance and the adequacy of the Council's Corporate Governance arrangements.

4.4 Resources and value for money

- 4.4.1 This report deals with the Council's financial management arrangements and is aimed at providing assurance to members as to their fitness for purpose.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The statutory responsibilities of the Council's responsible financial officer are defined under the Local Government Act 2007 and Accounts & Audit Regulations 2011. The report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 A full risk register of all budget risks in accordance with current practice is maintained and subject to quarterly review. Any significant and new risks are contained in the budget monitoring reports submitted to each meeting of the Executive Board, together with any slippage on savings.
- 4.6.2 The Council's external auditors provide a risk assessment on the Council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.
- 4.6.3 In addition to the above, there are a number of risks which are monitored through the Corporate and the directorate risk registers, these being:

Corporate Risk Register

- Council's financial position goes into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy;
- Failure to address medium-term financial pressures in a sustainable way.

Resources Directorate Risk Register

- Failure to comply with statutory deadlines (e.g. Statement of Accounts / Budget / RO and RA forms);
- Risk of provision of poor financial advice that results in poor financial decisions across the authority. This could lead to the financial ledger being inaccurate or out of date.

5 Conclusions

5.1 The Responsible Financial Officer has established a framework of financial management controls and processes which, in his opinion, discharge his statutory responsibilities. It can be concluded that the framework of controls and developments outlined in this report are fit for purpose, up to date, embedded and regularly complied with. Members can also take assurance from a number of rigorous reviews and assessments undertaken, including:

- External Audit have provided the following assurances:
 - That in their opinion, the accounts reflect a true and fair view of the Council's financial position and that they comply with proper practice.
 - That the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Council has been able to deliver its savings plans and has a robust budget and budget monitoring processes in place to mitigate the significant risks presented by the current financial challenges.
 - That the controls on the Authority's key financial systems are sufficient to produce materially reliable figures for inclusion in the financial statements.
- Internal audit assessed all major financial systems and controls and given either good or substantial assurance on the financial controls in place.
- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget meets the Council's priorities. In addition the Corporate Governance & Audit Committee approve the Council's accounts.
- Officer review of the budget and budget monitoring processes through Finance Performance Group, Directorates leadership teams and the Corporate Leadership Team.

5.2 Whilst the above arrangements should provide members with substantial assurance that the Council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept under review, and the report identified a number of issues that need to be addressed. In particular further work is required on the financial governance framework for partnerships and similar arrangements; improvements in the engagement of officers in the budget setting process and further work is needed on the training developments of Finance staff in order to deliver the new redesigned service.

6 Recommendations

6.1 Members of the Corporate Governance and Audit committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

Appendix A

1.0 Overarching Controls

1.1 In order for the Council's statutory Responsible Financial Officer to discharge their duties a number of overarching arrangements and controls have been established:

1.1.1 **Responsible Financial Officer Role (RFO)** - The Deputy Chief Executive, in the role of the Council's RFO, undertakes a strategic role on the Corporate Leadership Team and has established appropriate arrangements to discharge his responsibilities in line with CIPFA's recommended practice.

1.1.2 **Professionally Qualified and Accountable Staff** - Financial management, within the Council, both corporately and within directorates is delivered by colleagues who are managerially responsible to the Deputy Chief Executive. Many of the senior colleagues within the financial management services are professionally qualified with many years of experience, and are themselves personally and professionally responsible for their actions and advice. This is reinforced through an appraisal scheme which incorporates identification of key skills for finance staff, programmes of continuing professional development and peer review forums to ensure integrity as to the accounts and budget monitoring processes.

1.1.3 **Capital and Treasury Management Arrangements** - As outlined in a report to this Committee on the 22nd April 2013, changes were made to the Capital Approvals framework to strengthen accountability for capital decisions and streamline the decision making process. This work is now progressing to the second stage with the focus on an enabling approach allied to transparency of decision making. The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis. Quarterly updates are presented to Executive Board. Proposals for new capital schemes must be accompanied by robust business cases and ensure that they are aligned to the Councils best plan objectives.

The cost and affordability of the borrowing required to fund the capital programme is managed within the debt budget. The affordability of new borrowing and existing borrowing is reported on a monthly basis as part of the revenue updates to Executive Board, with specific treasury strategy reports presented to Executive board at least three times a year. A further report to ensure compliance with the prudential code, treasury management code of practice and internal audit compliance is presented to Corporate Governance and Audit Committee on an annual basis.

1.1.4 **Financial Regulations** - The Council has a number of overarching Financial Regulations contained within the Council's constitution. Each regulation is accompanied by a toolkit to provide appropriate guidance.

1.1.5 **Integrity of Accounts** - The integrity of all financial data is of fundamental importance in ensuring financial information is both timely and accurate in order to correctly inform decision making. This is a key role of the Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

1.1.6 **Framework for the Council's Treasury Management arrangements** - The Council also has tried and trusted arrangements for treasury management based on CIPFA's Code of Practice on Treasury Management and the Prudential Code.

2.0 Main Financial Processes

2.1 The above arrangements are intrinsic to all the financial procedures and processes undertaken by the Council but are perhaps best illustrated in practice through the main financial cycle which covers:

- Budget preparation and setting.
- In year budget monitoring.
- Closure of accounts and reporting.

2.1.1 Budget Preparation and Setting

2.1.1.1 Local authorities are under a statutory duty to set a budget each year. Whilst this can simply be seen as an annual exercise, there is a recognition that this needs to be set within a context of a medium term financial strategy. The scale of the challenge presented by Spending Review 2010 has however meant that the Council has had to respond very quickly to significant reductions in its level of government grants. Taking account of reductions in government grants to the Council and other spending pressures, by the end of the current year, the Council will have had to deliver savings and other reductions in the order of £250m, and faces further cuts in its government grants in excess of £46m.

2.1.1.2 As yet Departmental Expenditure Limits have not been set beyond 2015/16 which makes financial planning beyond 2015/16 problematic although the direction of travel is clear. The Economic and Fiscal Outlook, published by the Office for Budget Responsibility alongside the budget in March 2014, did include tentative projections for public sector expenditure as a whole, which if applied to local government would suggest funding cuts averaging 8.8% for 2016/17 and the years beyond, and it is this percentage that has been used for initial financial planning for 2016/17 as outlined later in this report. More robust estimates are unlikely to be available until after the 2015 General Election.

2.1.1.3 The Medium Term Financial Strategy does not attempt to provide a detailed budget for the next two years but it does set out the main financial pressures facing the Council and sets out a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy will be updated annually via reports to the Executive Board.

2.1.1.4 The budget as well as a financial expression of the Council's policies and priorities, is also a means of controlling spending to the available resources. The budget process is led by the Deputy Chief Executive and involves a wide range of officers and members across the Council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves a whole set of assumptions including government grant, Council Tax base, inflation, trends, interest rates and new or developing spending pressures. This part of the process will be led by Corporate Finance staff, but will involve financial and non-financial staff based in directorates. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.

- 2.1.1.5 Directorates start to prepare and input detailed estimates into the budget module of the Council's Financial Management System (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.
- 2.1.1.6 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the Council's policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio Members at appropriate points in the process.
- 2.1.1.7 Following consultation, the Councils constitution determines that initial budget proposals are submitted to Scrutiny 8 weeks prior to the Council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board.
- 2.1.1.8 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just planning but also engagement with Councillors and Senior Management.
- 2.1.1.9 The budget is in many ways an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a budget risk register which attempts to identify and assess the risks built into the budget estimates. It is important to appreciate that the time frame of the budget risk register is just one budget year. The budget risk register not only assists in assessing the robustness of the estimates but also acts as a means of assessing the adequacy of reserves in that it provides an assessment of what may go wrong in year.
- 2.1.1.10 Reaching a view of the robustness of the estimates and the adequacy of resources not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial control.
- 2.1.1.11 Along with member scrutiny, the budget process is subject to Internal Audit review. In addition external audit, as part of their assessment of financial resilience, provided assurances as to the robustness of the budget itself.

2.1.2 In Year Budget Monitoring

- 2.1.2.1 Budget monitoring is a continuous process which operates at a variety of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to around 600 budget holders within the Council. Every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.
- 2.1.2.2 Financial Monitoring in the Council is facilitated by the Council's Financial Management System. The system holds information as to approved budgets, actual spend and income and commitments. On a monthly basis budget holders review their spend to date, against the approved estimates and against profiled

estimates. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate finance staff, and clearly does involve a degree of judgement. In practice some budgets are more difficult to control and project than others. There are also instances where spending is controlled on systems other than the Council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS.

- 2.1.2.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget holders are aggregated upwards to be reviewed by Chief Officers, and Directors. The projections for each directorate are submitted to the Deputy Chief Executive and are reviewed and challenged by the Finance Performance Group (FPG). This Group is made up of senior finance staff and chaired by the Chief Officer - Financial Services. The projections are then reported monthly to the Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring reports on the capital programme and Treasury strategy are considered during the year by Executive Board.
- 2.1.2.4 In line with the Council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. In year, any decision to amend budgets is undertaken within the virement rules agreed annually by full Council as part of the budget setting process. All such decisions are recorded as part of the delegated decision making process.
- 2.1.2.5 It is also important to appreciate that external audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of Accounts

- 2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board. This report compares the budget to the final outturn for each Directorate and provides an explanation as to the reason for any variance, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the technical accounting team to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
- 2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in Corporate Financial Management. All finance officers and relevant directorate officers are informed of the implications of any

changes. The application of appropriate accounting practice is assessed by the Council's external auditors and reported back to members of this committee.

- 2.1.3.4 The Chief Officer Financial Services oversees the closedown process and the Deputy Chief Executive reviews both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

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Report author: Chris Blythe
Tel: x74287

Report of the Deputy Chief executive

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

Subject: Audited Statement of Accounts and the Value for Money Assessment 2013/14

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

Summary of main issues

1. KPMG have issued their audit report to this Committee (see attached). The report provides:
 - an unqualified opinion on the 2013/14 Statement of Accounts;
 - There are no unadjusted audit differences affecting the main financial statements;
 - a view that the Annual Governance Statement is not misleading or inconsistent with information they are aware of from their audit of the financial statements;
 - a value for money conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
2. To date the Council has not identified any post balance sheet event requiring amendment to the accounts.
3. The accounts have been certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31st March 2014.

Recommendations

4. Members are asked to receive the report of the Council's external auditors on the 2013/14 accounts and to note that there are no audit amendments required to the Accounts.

5. Members are asked to approve the final audited 2013/14 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
6. On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
7. Note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

1 Purpose of this report

- 1.1 This Committee agreed to release the unaudited 2013/14 Statement of Accounts for public inspection on the 11th July 2014. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

2 Background information

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

3 Main issues

3.1 Key External Audit Findings

3.1.1 Audit Opinion

KPMG have determined that the 2013/14 accounts give a true and fair view of the Council's financial position and they are therefore proposing to issue an unqualified audit opinion.

3.1.2 Audit Differences

On conclusion of the audit, KPMG identified no significant audit difference which required amendment to the accounts.

3.1.3 Audit Risks

KPMG's Financial Statements Audit Plan, as reported to this Committee on the 21st January 2014, identified one main area of risk in compiling the financial statements for 2013/14, Namely the Council's level of contingent liabilities and the risk that a significant amount should be classified as a provision and so impact on the Council's bottom line. KPMG have now audited this area and have not identified any issues which would indicate that these contingent liabilities have been incorrectly classified. The disclosed contingent assets and liabilities will remain under review until the accounts are approved and any significant changes will be verbally reported to Committee.

3.1.4 Audit recommendations

The audit report identifies two recommendations (see Appendix 1 of KPMG's report). Both are low priority issues and officers have outlined their response and the timetables for action within the appropriate part of the appendix. There are no outstanding recommendations from previous years which require further Council action.

3.1.5 Use of Resources

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

KPMG have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

3.2 Post Balance Sheet Events

3.2.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If such events have occurred then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit certificate.

3.2.2 As at the 20th September there have been no such events which would require the accounts to be amended.

3.2.3 As outlined in para 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. As such a verbal update will be provided at Committee to confirm the final position.

3.3 Public Inspection Queries

3.3.1 Under the statutory timescales for public inspection of the accounts, the Council has had a number of enquiries requesting information in respect of PFI schemes; and Kirkgate Market. Under statute, stakeholders have the right to question the auditors and request either an amendment to the accounts or the issuing of a public inspection report. As at the writing of this report, no questions have been raised to the auditors on these or any other issues.

3.4 Management Representation letter

3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give audit

such assurances. In respect of the 2013/14 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Deputy Chief Executive has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

- 3.4.2 The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and City Priorities

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

4.4 Resources and value for money

- 4.4.1 KPMG's report includes an audit opinion on whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The Accounts and Audit (England) Regulations 2011 require the audited Statement of Accounts to be published before the 30th September. Under this Committees terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.
- 4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

4.6 Risk Management

- 4.6.1 External Audit did not identify any significant risks in their recommendations.

5 Conclusions

- 5.1 The external audit report provides the following assurances to members:
- An unqualified opinion on the 2013/14 Statement of accounts.
 - A value for money conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
 - Confirmation that in the auditor's opinion the Council's Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.
- 5.2 There are no high priority recommendations raised by External Audit.

- 5.3 As at the writing of this report there have been no significant post balance sheet events identified.
- 5.4 To date there are no public inspection queries which have require amendments to the accounts.

6 Recommendations

- 6.1 Members are asked to receive the report of the Council's external auditors on the 2013/14 accounts and to note that there are no audit amendments required to the Accounts.
- 6.2 Members are asked to approve the final audited 2013/14 Statement of Accounts and the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
- 6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
- 6.4 Note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

7 Background documents¹

- 7.1 None.

¹ 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.

Appendix A

(Letterhead of Client)

Mr J Prentice
KPMG LLP
5th Floor - Public Sector Audit
1 The Embankment
Neville Street
Leeds LS1 4DW

19 September 2014

Dear John

Leeds City Council – Audit of Accounts 2013-14

This representations letter is provided in connection with your audit of the financial statements of Leeds City Council (“the Authority”) for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority’s and the Group’s expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14; and
 - iii. The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representations letter.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions*,

Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

The financial statements disclose all of the uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

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

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

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

Additional representations to address specific circumstances of the client:

13. All revaluations carried out by the in-house valuer as at 31 March 2014 that have a material effect, either individually or in aggregate, on the carrying value of Property, Plant and Equipment have been reflected in the financial statements.

14. Information provided to and used by the in-house valuer for determining the value of items of Property, Plant and Equipment, for example future cash flow assumptions, are consistent with the Authority's management information and with the requirements of IAS 36 and IFRS 13.

15. In respect of the NNDR appeals provision:

- Management has based the estimate on all available information at the balance sheet date; and
- There are no material subsequent events which would require any adjustment to the accounting estimates and disclosures included in the financial statements.

This letter was tabled and agreed at the meeting of the Corporate Governance and Audit Committee on 19 September 2014.

Yours Sincerely

Chair, Corporate Governance and Audit Committee

Deputy Chief Executive

Appendix to the Representations Letter of Leeds Cty Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

A housing authority must present:

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

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

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

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

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

Error

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

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

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

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

Management

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

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

The contacts at KPMG in connection with this report are:

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Report sections

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■ VFM conclusion	9

Appendices

1. Key issues and recommendations	11
2. Declaration of independence and objectivity	12

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.

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 John Prentice, 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, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This document summarises:

- the key issues identified during our audit of the Authority's financial statements for the year ended 31 March 2014; and
- our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- our audit work at Leeds City Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our *Interim Audit Report 2013/14* issued in June 2014.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2014.

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

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work. We have now completed the work to support our 2013/14 VFM conclusion. This included:

- reviewing the performance against the 2013/14 budget;
- assessing the Authority's financial resilience in the short and medium term; and
- carrying out additional risk-based work, where necessary.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also completed our review of whether all prior-year recommendations have been implemented and this is commented upon on page 7.

Acknowledgements

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

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>
Audit adjustments	<p>We are pleased to report there are no unadjusted audit misstatements.</p>
Key financial statements audit risks	<p>We highlighted audit focus areas around provisions and contingent liabilities and the Authority's financial standing in our External Audit Plan. However, following work carried out throughout the audit process we concluded that none of these areas resulted in a significant risk to our opinion on the accounts or VFM.</p> <p>Following our review of the draft financial statements, we identified three significant risks:</p> <ul style="list-style-type: none"> ■ The valuation of property, plant and equipment (PPE); ■ The valuation of the local government pension fund liability; and ■ The completeness of disclosures in relation to PFI schemes. <p>Significant risks are areas of the accounts that require special audit consideration. The Balance Sheet valuations of PPE (£3.3bn) and the pension liability (£918m) both involve the use of an expert by management; the in-house property valuer and pension scheme actuaries apply judgement in arriving at their valuation. Review of the draft financial statements showed significant movements from 2012/13. We assessed the reliability of the experts and the accuracy of the disclosures in the financial statements and concluded that the balances were reasonable.</p> <p>There were two new PFI liabilities in 2013/14 – Holt Park and Little London, Holbeck and Beeston – which were disclosed in the financial statements. Whilst we did not consider the recognition of these new schemes to present a significant risk due to the values involved, we did consider compliance with the disclosure requirements to be a risk.</p> <p>The Code of Practice on Local Authority Accounting in the UK 2013/14 (“the Code”) requires various disclosures in relation to PFI schemes, including the estimated future revenue and capital costs, which are material. We found that the service cost element of all PFI contracts were not disclosed in the draft financial statements, but have now been included in the final version..</p>

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

<p>Accounts production and audit process</p>	<p>The draft financial statements were produced by the 30 June deadline and officers dealt with audit queries in a timely manner. In general, we noticed an improvement in the timeliness of working papers, although there were still some occasions where we had to delay carrying out the work on a particular area because working papers were not ready, for example cash flow, HRA and Whole of Government Accounts (“WGA”).</p> <p>As officers reported to Governance and Audit Committee in July, several changes were made from the original draft financial statements to the version that went on deposit, mainly to incorporate PPE valuations that were received late in the process.</p> <p>The Authority did not achieve the deadline for submission of the WGA return to the Department for Communities and Local Government (DCLG) and auditors by 30 June. This was submitted on 15 August. The Authority made the decision to delay completing the return due to other competing pressures such as completing the draft financial statements.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Checking of the group accounts and related disclosures; ■ Review of the letter of assurance from the West Yorkshire Pension Fund auditors Mazars; ■ Carrying out the final checks on the financial statements; and ■ Review of possible post-balance sheet events, in particular around potential contingent liabilities and provisions. <p>Before we can issue our opinion we require a signed management representations letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s financial statements.</p>
<p>VFM conclusion and risk areas</p>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.</p>

Following receipt of the draft financial statements we identified three risk areas – the valuation of Property, Plant and Equipment, the valuation of the Local Government Pension Scheme liability and the disclosures in relation to PFI scheme assets and liabilities.


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Following receipt of the draft financial statements we identified three risk areas. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
	<p>After preparing the first draft of the financial statements the Authority made some changes to the version put on deposit for inspection by the public, mainly to incorporate PPE revaluations not available in time for the first draft. Subsequent to this we were made aware of more revaluations that will be reflected in the final version of the financial statements.</p> <p>In addition to this, we identified some large impairments recognised in the Comprehensive Income & Expenditure Statement (CIES) relating to a small amount assets.</p> <p>We therefore identified a risk over the valuation of PPE due to the incompleteness of valuation information and errors in reflecting valuations in the financial statements.</p>	<p>Our work in this area involved sample testing assets revalued in year to confirm the asset register values reflected the latest valuation certificate, including the large impairments identified in the CIES.</p> <p>We agreed the PPE disclosure note to the asset register to ensure the completeness of the financial statements.</p> <p>We also assessed the reliability of the in-house valuer as management's expert and concluded we could rely on their work.</p> <p>We concluded that the property, plant and equipment balance is not materially misstated.</p> <p>We have requested specific representations from management over the completeness and accuracy of valuations in the asset register.</p>

The pension liability has a large degree of estimation uncertainty attached to it. We reviewed the reliability of the scheme actuary and the data and assumptions used in the liability calculation and concluded it is not materially misstated.

There are specific disclosure requirements set out in the Code for PFI schemes. We found that the Authority did not fully comply with these requirements in relation to disclosure of estimated future revenue costs.

Key audit risk	Issue	Findings
	<p>The Authority's share of the Local Government Pension Scheme liability was £818m at 31 March 2014, a reduction of £368m from the previous year. This is determined by the Scheme's actuary, based on several key assumptions which are judgemental in nature. We therefore identified a risk of material misstatement in this balance.</p>	<p>We reviewed the accounts disclosures to the Authority's IAS19 report. We reviewed the key inputs to the valuation, including the information supplied by the Authority to the actuary, including the contributions figures.</p> <p>We assessed the reasonableness of the assumptions used in the calculation and the scheme's actuary AON Hewitt's qualifications as management's expert.</p> <p>We concluded the estimation of the liability was reasonable.</p>
	<p>Two new PFI schemes were completed in 2013/14 – Holt Park and Little London, Beeston and Holbeck – at which point the Authority recognised the related assets and liabilities on the Balance Sheet.</p> <p>The Code, recognising the accounting complexities and sensitive nature of the schemes, requires several disclosures to be included in the financial statements.</p>	<p>We identified that the Authority had not fully disclosed the full contractual commitment over the life of the schemes; in addition to the liability and interest costs paid over the life of the scheme, the Code also requires the service charge element to be disclosed, which is a significant part of the contract.</p> <p>This has been added to the final version of the financial statements.</p>

The Authority produced their draft financial statements by the 30 June deadline.

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

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Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has once again produced draft financial statements of a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	<p>We received a complete set of draft accounts on 30 June. The Authority made a number of amendments to capital accounting transactions after this date but prior to the start of the audit. Further changes are expected for the final audited version.</p> <p>There is scope to improve the accounts process by ensuring all information is received in time to incorporate it into the draft version prepared by 30 June.</p>
Response to audit queries	<p>Officers resolved the majority of audit queries in a reasonable time and we appreciate their efforts in dealing with these.</p> <p>We did experience some delays in receiving responses back for our PPE revaluation sample.</p>

Element	Commentary
Quality and timeliness of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued in January 2014, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was variable but met the standards specified in our <i>Accounts Audit Protocol</i>. We will work with the finance team to address any specific areas where improvements can be made.</p> <p>There is scope to improve the timeliness of working papers by providing these in advance of when we plan to start the task per our work plan.</p> <p>This did not have a significant impact on our progress, as we were able to work around this by bringing forward other audit work.</p>

As a result of the above we have raised a recommendation in respect of the Authority's working papers which is included in Appendix 1.

Follow up of prior year recommendations in respect of the IT control environment

We reported in our *Interim Audit Report 2013/14* that we were yet to complete our testing of IT controls and therefore would report back on the Authority's progress in addressing all prior year recommendations.

We completed our testing of changes to the FMS system during the final accounts audit and concluded that controls are now in place. All prior year recommendation have been addressed.

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Leeds City Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template for presentation to the Corporate Governance and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We are seeking specific representations on the completeness and accuracy of PPE revaluations in the financial statements, and the provision for NNDR appeals.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;

- other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party transactions, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

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

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

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

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

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

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

Work completed

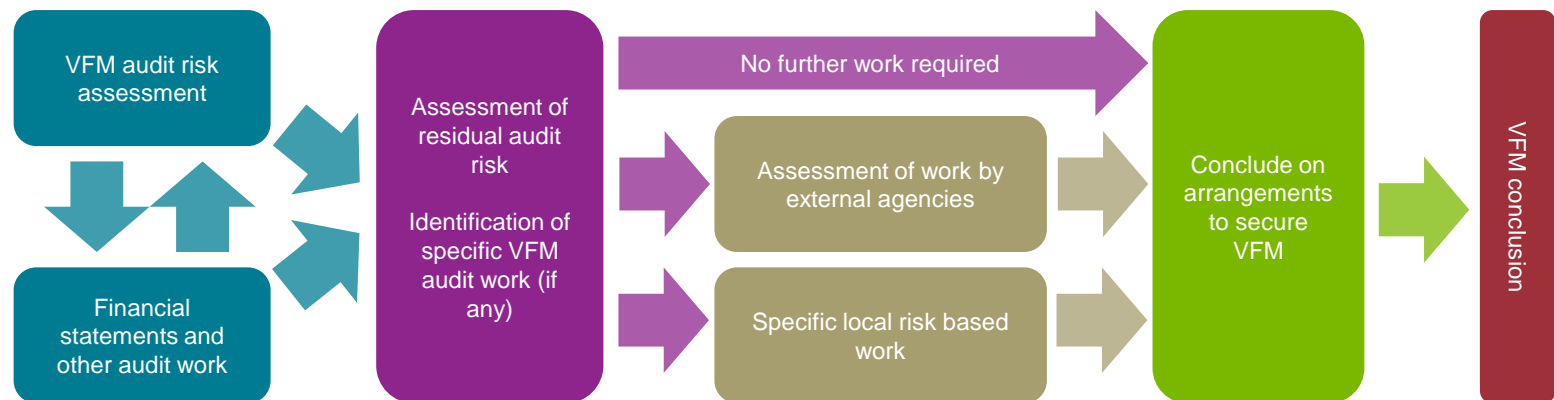
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We identified one focus area in our External Audit Plan 2013/14, on the Authority's savings plan, which we have monitored throughout the year. We have included an update on this on the next page.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this focus area is adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings on our focus area as set out in our *External Audit Plan*. We concluded that we did not need to carry out any further risk based work because the Authority has demonstrated that it was able to meet its savings plans in 2013/14.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority set a budget for 2013/14 with a requirement to make further savings of £51 million due to reduced funding and continued cost pressures. This includes a net reduction in staffing equivalent to 388 full-time equivalent posts by the end of 2013/14.</p> <p>The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2013/14 financial statements as appropriate.</p>	<p>In our Interim Audit Report, issued in June 2014, we reported that the Authority's performance against its budget at month 10 was on track, with a forecast underspend of £3.5m reported at that stage. We therefore did not identify a risk to the VFM conclusion.</p> <p>The outturn position re-enforced this view; a £2.3m underspend was reported after transfers to earmarked reserves totalling £7.2m. We reconciled this figure to the financial statements during our audit to confirm the reliability of this figure.</p> <p>Specific risk based work required: None</p>

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	3	<p>WGA submission</p> <p>The Authority did not comply with the 30 June deadline for the submission of the WGA return to DCLG and auditors, submitting on 15 August due to other competing deadlines.</p> <p>Recommendation</p> <p>For future WGA deadlines, the Authority should decide whether it will comply with DCLG's deadlines.</p>	<p>Management response</p> <p>The late change to the government's WGA deadline for 2013/14 left the council with insufficient time to reallocate the additional resources that would have been needed to meet it. The council will consult with other authorities and consider its approach to future WGA returns.</p> <p>Responsible officer</p> <p>Principal Accountant – Financial Management - Corporate</p> <p>Due date</p> <p>2014/15 accounts process</p>
2	3	<p>Availability of working papers</p> <p>During the course of the audit we were delayed in starting our testing in certain areas due to the unavailability of working papers, for example HRA and WGA.</p> <p>Recommendation</p> <p>Working papers should be available in advance of the date we plan to start the work as set out in the work plan.</p>	<p>Management response</p> <p>The council will continue to work with KPMG to agree the timing of audit work in advance of the audit, and to provide working papers in line with the agreed timetable.</p> <p>Responsible officer</p> <p>Principal Accountant – Financial Management - Corporate</p> <p>Due date</p> <p>2014/15 accounts process</p>

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

Requirements

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

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

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

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

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Leeds City Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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Report author: A.Hodson

Tel: 0113 224 3208

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

Subject: Annual Governance Statement

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

Summary of main issues

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

Recommendations

4. Corporate Governance and Audit Committee is asked to;
 - i. approve the attached Annual Governance Statement and authorise the chair to sign the statement on behalf of the committee;
 - ii. note the intention of the Leader of Council, the Chief Executive, the Deputy Chief Executive and City Solicitor to also sign the statement.

1 Purpose of this report

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

2 Background information

- 2.1 The Annual Governance Statement is a public statement on the adequacy of the Council's governance arrangements, and, as directed by the Accounts and Audit (England) Regulations 2011, must accompany the statement of accounts.
- 2.2 The Regulations, specifically Regulation 4(3), requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with 'proper practices'¹. These proper practices have been used as the basis for preparing the AGS which appears at Appendix 1.

3 Main issues

- 3.1 Members may recall that last year, in light of the current financial climate, and the drive to reduce unnecessary bureaucracy, the Head of Governance Services further refined and streamlined the drafting process for the AGS.
- 3.2 This year, as last, the review of effectiveness has been undertaken on an ongoing basis including internal and external audit of our internal control processes, and matters that have been the subject of reports to Corporate Governance and Audit Committee, the Executive Board and other member forums. In addition Directors have reviewed the attached statement and have confirmed that, to the best of their knowledge and belief, all matters of significance have been disclosed.
- 3.3 Members will note that Section 5 of the AGS, the section dealing with significant governance issues, again links to areas for improvement identified in the Best Council Business Plan 2013 - 17. This reflects the extent to which governance issues have been embedded into corporate planning and performance management processes and provides a streamlined and sustainable structure to monitor identified areas for improvement.
- 3.4 KPMG, having reviewed the Annual Governance Statement, are of the opinion that the wording of the Annual Governance Statement accords with their understanding of our arrangements.
- 3.5 Corporate Governance and Audit Committee is asked to approve the attached Annual Governance Statement; and recommend that the Leader of Council, Chair of Corporate Governance and Audit Committee, Chief Executive, Deputy Chief Executive, and City Solicitor sign the document on behalf of the Council.

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

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

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

4.4 Resources and Value for Money

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

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

- 4.6.1 The Accounts and Audit (England) Regulations 2011, specifically Regulation 4(3), requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with proper practices. The system of internal control, including arrangements for the management of risk, assists the Council in effectively exercising its functions.
- 4.6.2 In addition the committee and the Executive Board have received regular reports which demonstrate that there is an on-going process for identifying, evaluating and managing risks.

5 Conclusions

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

6 Recommendations

- 6.1 Corporate Governance and Audit Committee is asked to;
- i. approve the attached Annual Governance Statement and authorise the chair to sign the statement on behalf of the committee;
 - ii. note the intention of the Leader of Council, the Chief Executive, the Deputy Chief Executive and City Solicitor to also sign the statement.

7 Background documents

- 7.1 None



Annual Governance Statement 2014

1. SCOPE OF RESPONSIBILITY

- 1.1 Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities like Leeds this also includes how we relate to the communities that we serve.
- 1.2 We must conduct a review, at least once a year, of the effectiveness of our system of internal control and report our findings in an annual governance statement. The statement must be prepared in accordance with proper practices and be reported to a committee of Councillors. This document comprises our annual governance statement for 2014.
- 1.3 The statement should be read alongside our planning, performance management and accountability arrangements described in;

The Vision for Leeds 2011-2030

Our City Priority Plan 2011-2015

Our Best Council Plan 2013–2017 (updated 2014)

Our Financial Strategy (2013-17) and annual budget

Our People Plan (updated 2014)

Context

- 1.4 Our ambition is to be at the forefront of those local authorities that are able to demonstrate that they have the necessary corporate governance to excel in the public sector. We aspire to be the best local authority in UK, in the best City.
- 1.5 The changing needs of our citizens and communities, significant reductions in resources and central government reforms continue to present a challenge to all councils. In addressing these challenges we must ensure that governance arrangements support the effective delivery of services and management of risk.
- 1.6 By applying the principles in our Code of Corporate Governance (summarised below) and applying our local codes of conduct for Members and employees, we commit to devising and delivering services to the citizens of Leeds in a way that demonstrates accountability, transparency, effectiveness, integrity, and inclusivity.
- 1.7 Our Code of Corporate Governance outlines our governance principles:
- Focussing on the Council's purpose and community needs;
 - Having clear responsibilities and arrangements for accountability;
 - Good conduct and behaviour;
 - Taking informed and transparent decisions which are subject to effective scrutiny and risk management;
 - Developing the capacity and capability of members and officers to be effective;
 - Engaging with local people and other stakeholders.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 Our governance arrangements are designed to ensure that we take an appropriate and proportionate approach to managing risk. The arrangements are not designed to eliminate all risks but rather provide a reasonable degree of assurance of our effectiveness.
- 2.2 The governance framework has been in place for the year to the date of approval of this annual governance statement.

3. THE GOVERNANCE FRAMEWORK

- 3.1 Our governance framework in Leeds comprises the systems and processes, and culture and values that allow us to achieve our strategic objectives and provide services in an appropriate and cost effective way.
- 3.2 These can be summarised as:
- Our vision; that is our shared priorities and intended outcomes for citizens and service users documented in the Vision for Leeds, Best Council Plan and other documents contained in our Budget and Policy Framework;
 - The committees, boards and panels we have established to ensure democratic engagement and accountability is central to our key and other important decisions;
 - Our arrangements for the oversight and scrutiny of decisions and policy development by councillors;
 - Delegation and sub delegation arrangements which document the roles and responsibilities of executive and non-executive councillors and our statutory (and other senior) officer functions;
 - Our risk, performance and accountability arrangements that measure the quality of services; ensuring they are delivered in accordance with our objectives and that they represent the best use of resources;
 - Our People Plan, Member Development Strategy, Values and codes of conduct which underpin how Members and employees work;
 - Our arrangements for consultation and engagement with the community, particularly focussed to help ensure inclusivity;
 - Our arrangements to safeguard our most vulnerable citizens including fully embracing the role of independent chairs of safeguarding boards for children and adults;
 - A high performing and independent Internal Audit service that is well regarded by our External Auditors;
 - Independent oversight and challenge provided by our External Auditors, Government Inspectorates and the Local Government Ombudsman;
 - Our procedure rules and internal management processes for:
 - Financial management
 - Procurement
 - Information governance and data security
 - Health and safety
 - Decision making
 - Whistleblowing and complaints handling
 - Anti-fraud & corruption

4. REVIEW OF EFFECTIVENESS

- 4.1 We have a statutory responsibility for conducting, at least annually, a review of the effectiveness of our governance arrangements to ensure there is a sound system of governance and that those arrangements help enable us to secure continuous improvement in the way in which our functions are carried out. As part of this review, we consider a combination of economy, efficiency and effectiveness factors – with the aim being to ensure that we secure continuous improvement in the way we carry out our duties to the citizens of Leeds.
- 4.2 Our review considers decisions taken and matters considered by Full Council and committees appointed by Full Council, the Executive Board, Corporate Leadership Team (and, via consideration of this statement by our Corporate Leadership Team, Directors' knowledge of the operation of governance arrangements within their directorates), the work of the Corporate Governance and Audit Committee, internal auditors, service managers, work undertaken by external auditors and inspectorates and the opinion of the Local Government Ombudsman.

A self-assessment of our effectiveness

Effective planning, risk and performance management framework

- 4.3 Our planning, risk and performance management framework has enabled members and senior management to **Focus effectively on the Council's purpose and community** needs. The Corporate Governance and Audit Committee has received positive assurances about the operation of these arrangements.
- 4.4 The Risk and Performance Board provides a check and challenge on risk and performance management information, escalating to our Corporate Leadership any issues of concern. Scrutiny Boards receive regular reports on performance and we continue to make this information publicly available on our website. Reports on the most significant risks to the Council (for example, Safeguarding, the Care Act, the budget) are presented to appropriate boards for consideration, such as the Executive Board, Full Council, Children's Trust Board and Health & Wellbeing Board, among others. Our risk management arrangements have been enhanced in 2013/14 through the rollout of dedicated software which has facilitated monitoring, reporting and thereby management of risk. The corporate risk register itself is being updated to align with the refreshed Best Council Plan and will then be reported to Executive Board.
- 4.5 In November 2013, our Corporate Leadership endorsed proposals for a new cross-council intelligence function to incorporate risk management, performance management, engagement, research and intelligence. The drivers for this consolidated approach are a stronger service and improved efficiency and accountability. A new team drawn from across the council has now been established to work with directorates and services in designing and rolling out the new service.

- 4.6 Our Annual Council meeting approved changes to how our area based committees operate. The newly named **community committees** will strengthen local democracy and increase community engagement and involvement in local issues and local decision making.
- 4.7 The changes include new ways of working that are aimed at getting services and partners to think more locally, for more decision making to be devolved to the local level and for budgets to be locally provided. Ultimately the vision is to change the relationship between the citizen and the state, and in so doing rebuild the trust in public services and ensure the delivery of local integrated and responsive services for local people.

Effective financial planning and management

- 4.8 Despite the 2013/14 budget including some difficult and challenging decisions – effective financial management resulted in the final position on the General Fund was a surplus of £2.9m. The Section 151 Officer has ensured that effective budget monitoring and reporting arrangements (involving the Executive Board and Scrutiny) have been put in place. Budget holders have also been made more clearly accountable for keeping expenditure within budget and simplified Financial Regulations have been introduced that establish principles and rules relating to our systems of financial control.
- 4.9 The Corporate Governance and Audit Committee reviewed these arrangements in September 2014, noting that there were appropriate systems and procedures in place to ensure sound financial planning and management and that the authority's financial management arrangements conforms with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 4.10 In addition the Corporate Governance and Audit Committee undertook an assessment of the Treasury Management arrangements (November 2013) – the committee being assured that the arrangements complied with updated CIPFA guidance notes for practitioners contained within the Prudential Code for Capital Finance in Local Authorities (updated in 2013).

Effective arrangements for accountability

- 4.11 Our Constitution, including the delegation scheme for Council and Executive responsibilities, has been regularly reviewed and updated to reflect various legislative and organisational changes. Sub delegation arrangements are in place and provide a clear description of decision-making responsibilities below director level. The way in which services are delivered continues to evolve with more services being commissioned and delivered in partnership.
- 4.12 Functions transferred from the NHS to the authority relating to Public Health have been integrated within the authority during the past year. The Director of Public Health's Annual Report to the Executive Board provided assurance on activities dealing with infectious diseases, air quality, infant mortality and the protection of children's health.

- 4.13 Our Health and Wellbeing Board has completed its first year of work and has provided an open and transparent forum through which joint work on improving health and wellbeing is progressed.
- 4.14 Our Corporate Governance and Audit Committee has also considered two reports from the Director of Public Health (November 2013 and July 2014) concerning governance arrangements in Public Health. The Committee has been particularly keen to receive assurances that arrangements to deal with serious untoward incidents are working as intended. Our Public Health Governance Group is undertaking further work to ensure that service providers are clearly aware of the procedure for reporting incidents and that there is access to Serious Untoward Incident data.
- 4.15 As we reported last year, we concluded that the previous Arms-Length Housing Management Organisational (ALMO) model was no longer fit for purpose. This year we have introduced arrangements whereby all our housing services are integrated within direct council management. Alongside these arrangements we have enhanced tenant involvement – both through membership of a newly established **Housing Advisory Board** and through a bolstered **Tenant Scrutiny** role – supported by our dedicated Scrutiny team.
- 4.16 The City Deal, agreed with Government in 2012, secured devolution of powers from Whitehall and investment to support economic growth. As part of that agreement, West Yorkshire authorities undertook to ensure that the most effective governance arrangements be put in place for the new powers and investment funds. The form of those governance arrangements, the **West Yorkshire Combined Authority**, was created on 1st April 2014.
- 4.17 Our Executive Board has commenced a review of the financial position of the **Leeds Grand Theatre and Opera House Trust Ltd** – as part of this review further consideration is being given to the extent to which the current operating model is best placed to manage and govern the organisation in the long-term.
- 4.18 Revisions have been made to our **Whistleblowing Policy** to ensure that our arrangements are compliant with recent updates to the Public Interest Disclosure legislation.
- 4.19 We have, through our General Purposes Committee, undertaken a review of our polling districts and polling places to ensure that these continue to meet community needs. We have also completed, in accordance with statutory requirements, a Community Governance Review of our Parish and Town Councils.
- 4.20 Of vital importance to us is ensuring that we have arrangements in place to ensure our critical services can recover quickly from serious untoward incidents. Our Corporate Governance and Audit Committee have led a concerted effort to ensure **that business continuity** plans are in place for all our critical services. The committee continues to keep a watching brief on progress in ensuring that services, identified as non-critical, but which would impact on human welfare, the environment or security in the event of disruption, have robust business continuity arrangements in place.

- 4.21 We have worked closely with the Information Commissioner's Office (ICO) and, during October 2013, participated in a consensual audit of our practise and procedure for processing personal data. The ICO concluded that the council is providing a reasonable level¹ of assurance that processes and procedures are in place and are delivering data protection compliance. We have been proactive in making data available for re-use by publishing datasets onto the city's data platform, the Leeds Data Mill. We have fully embraced the Code of Recommended Practice for Local Authorities on Data Transparency and expect to be publishing all required data by January 2015.

Effective Conduct Arrangements

- 4.22 Registers of Interest for Elected Members and Employees have been maintained and arrangements are in place for the declaration of appropriate interests when decisions are taken.
- 4.23 The Standards and Conduct Committee has operated in accordance with the terms of reference approved by full Council and reported on its activities by way of an annual report in March 2014. No Leeds City Councillor, nor any Parish or Town Councillor (in the Leeds area), has been found to have failed to comply with the Code of Conduct adopted. Arrangements are also in place for councillors and officers to register interests and resolve any conflicts of interest that might arise.

Effective decision making arrangements

- 4.24 Our decision-making arrangements are one of our key governance controls, linking to all the governance principles that are set out in our Code of Corporate Governance.
- 4.25 Our Corporate Governance and Audit Committee has received assurances from the Head of Governance Services, the Head of Licensing and Registration and the Chief Planning Officer that the systems and processes that form the Council's decision making arrangements are up-to date, fit for purpose and are functioning well.
- 4.26 In addition the Scrutiny Officer has reported to full council (July 2014) in relation to the Council's Overview and Scrutiny arrangements. The Council sees Scrutiny as a key performance tool in ensuring that the Council meets its best city ambitions. The increased proportion of work undertaken by Scrutiny Boards that relates to pre-decision Scrutiny and the development of new policy is testament to the trust placed upon Scrutiny Boards by the Executive to help inform what are often high profile and sensitive decisions to be made. Scrutiny Boards have also continued to demonstrate their unique strength in bringing together a wide range of sectors and service users to identify solutions in addressing complex and cross cutting issues.

¹ The 'reasonable' assurance rating is the second highest ranking out of four the ICO use to assess organisations.

Effectively developing skills and capacity

- 4.27 Our Best Council Plan sets out our ambitions in becoming a more efficient and enterprising council. We are progressing this by improving our organisational design, developing our people and working with partners to effect change. Key strands of our work are to simplify, standardise and share our support services and review the design of the organisation to remove duplication and inconsistency.
- 4.28 We have recognised that this programme of change can only be delivered with colleagues and so we have invested in a number of initiatives, such as the Manager Challenge and Leadership Development programmes, to help create the flexibility, capacity and skills necessary to continue to meet our statutory responsibilities and front line services in a time of significant budget restraint.
- 4.29 We also recognise the importance of undertaking 'quality' appraisals with colleagues. Last year we reported that 98% of staff had received an annual appraisal – this year that figure is 99.6%.
- 4.30 As community leaders, it is vital that our Councillors are supported to be as effective as possible. A variety of learning programmes is in place and is continually monitored and evaluated. Where needed new learning programmes are needed they are implemented quickly and effectively.

Effective Engagement

- 4.31 Our Best Council Plan recognises the importance of taking account of consultation considerations in the decisions that we take. Our performance in respect of reports that provide clear evidence of consultation – has remain consistent with that from last year².
- 4.32 Our Best Council Plan also recognises the importance of taking account of equality considerations in the decisions we take. The reports that provide clear evidence of equality has remained constant at 87%.
- 4.33 The council has a well-established equality impact assessment process, designed to ensure that the council is both compliant with the legal requirement to show 'due regard' to equality and that we live up to the council's own ambitions to achieve equality. This being evidenced by an assessment undertaken by our Corporate Leadership Team that concluded the arrangements;
- are easily and effectively applied to decisions relating to existing and/or proposed functions, services, employment, policies, practices and strategies;
 - facilitate full consideration including all protected equality characteristics;

² Reported as 85% in 2013. Monitoring has moved to a sampling method in 2014 with an indicative result of 89% - a comparison is not though felt to be statistically reliable due to this change.

- enable communities and interested groups to be involved appropriately in considering the impact of any proposals, and;
 - provide flexibility to apply the methodology to different types of decisions at different scales.
- 4.34 We have also further strengthened these areas to align with the council's wider priorities:
- Poverty, inequality and deprivation
 - Locality working
 - New communities and changing demographics
- 4.36 Our Scrutiny Board (Resources and Council Services) has also undertaken its own assessment of the equality impact assessment process. Scrutiny concluded the council has a well-established and effective equality impact assessment process both in its design and application. One of the key recommendations being that the Equality Team reports, by exception, those cases where an Executive Board Member has been advised that due regard has not been adequately considered during the decision making process.
- 4.37 In May 2011 Leeds City Council successfully achieved Excellence of the Equality Framework through external Peer Diversity Challenge. Preparations are in place to apply for reaccreditation in 2015. This will provide the organisation with an opportunity to reflect on our approach to equality and diversity and achieving outcomes.
- 4.38 There has been increased effort in using digital channels to reach audiences with an improved website and a greater use of social media by a growing number of colleagues. Work is on-going to ensure that there are sufficient policy and technological safeguards to protect both employees and the council's reputation as social media use continues to grow.
- 4.39 We have embraced these new opportunities by webcasting our full council meetings and opening up meetings of our committees, boards and panels by enabling third party recording.
- 4.40 It is vital that we understand the views of our workforce and are sensitive to the views expressed. Over 10,000 staff (60% of total workforce) were asked to complete an on-line engagement survey in May 2014, and our response rate was 51%. Paper based surveys are being given to the other 40% of our workforce over the next few months and the total analysis from the full engagement survey will be reported in December 2014. Headlines from the on-line survey show a 7.11 score out of 10 (with 10 being the best), for the new measure on how staff feel about working for Leeds City Council.

Internal Audit Opinion

- 4.41 The annual report, from the Chief Officer (Audit & Investment), objectively examined, evaluated and reported on the control environment within the council and provided an opinion about the adequacy of the systems and processes in place.
- 4.42 Of significance for this statement the Chief Officer (Audit & Investment) concluded that the internal control environment, including the key financial systems, is well established and continues to generally operate well in practice.

An Independent opinion of effectiveness

- 4.43 The local authority has roles as provider, commissioner and sector leader. Inspection outcomes, both through the Office for Standards in Education and the Care Quality Commission have been routinely monitored and appropriate action/intervention measures put in place. During 2013/14, whilst some inspection findings fell below our expectations, the findings have not highlighted any significant issues of local authority governance or, in overall terms, cause issues of concern relative to the national context.
- 4.44 The Committee was advised of KPMG's opinion in July 2014: -

"In April 2014, when internal audit's work on the fundamental systems was substantially complete, we reviewed all files to identify any control weaknesses or other issues that could impact on our planning. Their findings provide substantial comfort that the Council is operating a sound control environment.

We did not identify any risks through this process. As in the previous year, internal audit's work covered all of the key financial systems, and we did not identify any issues over the quality of this work.."

- 4.45 The external auditor's annual report to those charged with governance states that KPMG are of the opinion that the wording of this Annual Governance Statement accords with their understanding of our arrangements.

5. SIGNIFICANT GOVERNANCE ISSUES

- 5.1 The independent opinion from our External Auditors provides considerable assurance in respect of the Council's governance arrangements. The External Auditor's recent Interim Audit assessed our organisational control environment as effective overall, with no significant issues or areas for improvement.
- 5.2 The wider context for local government remains challenging with the toughest financial settlement for decades; the uneven road to economic recovery; major policy reforms in welfare, education and health; a growing city and increasing demands for services.
- 5.3 We have a clear vision based on civic enterprise, an ambitious and positive vision of the future of local democracy, with ward councillors at its heart as community champions.
- 5.4 The Commission on the Future of Local Government sees three key roles for councils: a new social contract between councils and citizens around service provision, an economic role to help stimulate jobs and an environmental role to build new 21st century infrastructure - from superfast broadband to public green spaces. It is also recognised that there is a need to continue to seek more powers from Whitehall to enable us to shape our own destiny, both through our own authority and the collective voice of the West Yorkshire Combined Authority.
- 5.5 Despite this challenging environment we have outcome-focused plans which set out our ambitions that Leeds will become the best city in the UK by 2030.

The Best Council Plan sets out our outcomes that will drive our priorities over the next four years:

- Improve the quality of life for our residents, particularly for those who are vulnerable or in poverty;
 - Make it easier for people to do business with us; and
 - Achieve the savings and efficiencies required to continue to deliver frontline services.
- 5.6 These will be delivered through our revised best council objectives for the period 2013-17 which give more detail on how we will achieve our outcomes:
 - Supporting communities and tackling poverty
 - Promoting sustainable and inclusive economic growth
 - Building a child-friendly city
 - Delivering the Better Lives programme
 - Dealing effectively with the city's waste
 - Becoming a more efficient and enterprising council

- 5.7 Our values will continue to underpin how we work: Working as a team for Leeds; being Open, honest and trusted; Working with communities; Treating people fairly & Spending money wisely. Action plans have been drawn up to address recommendations arising from external and internal audit reports, findings from inspectorates and issues identified and reported by the Local Government Ombudsman.
- 5.8 As our organisation evolves so our engagement with partners (to deliver services to meet need and improve the well-being of our citizens) becomes more extensive. Ensuring that our values and good governance are rooted in those arrangements, particularly in how we commission services and monitor outcomes, will continue to be a challenge in the years ahead.
- 5.9 Perhaps the most demanding aspect relates to the challenges and opportunities presented by The Care Act (2014). This represents a generational change in adult social care services and re-defines the relationship between the state, local authorities, the citizen, service users and carers. It will challenge the Council and everyone who works in the sector and service users and carers to think differently about care services.
- 5.10 The singly unifying purpose around which Adult Social Care Services is organised will be wellbeing. The themes in respect of prevention, personalisation and independence which are aligned with the Better Lives Programme will become statutory duties.
- 5.11 Whilst the reforms set out in the Act are welcomed, the new burdens and responsibilities present significant challenges and risks as well as opportunities for the Council. They consist of financial risks, the scale and pace of the implementation and additional demand through new carers and assessment responsibilities.
- 5.12 This means that that the implementation will be highly sensitive and dynamic. In order for Adult Social Care Services successfully to implement these reforms, to the timescale set by the Government, we and our partners in the health and social care sectors, will need to be closely involved in planning and delivery of the new statutory duties.
- 5.13 We will continue to use 'Health Act Flexibilities' to commission care using a budget pooled between ourselves and the NHS. This has served us well for the past 12 years, however we will carefully consider how best to make further progress using these arrangements in relation to the 'Better Care Fund' agenda.
- 5.14 The Children and Families Act became law in March 2014. The law brings changes to a number of areas including family justice, care and in particular children and young people with special educational needs and disabilities (SEND). The special educational needs and disabilities changes are the most significant in 30 years and include a requirement for Leeds City Council to produce a 'local offer' of services for children, young people and their families. Our 'Leeds Local Offer' will clearly set out the services that are available locally, for those 0-25 with special educational needs and disabilities, and how to citizens can access the services.

6. ASSURANCE SUMMARY

- 6.1 Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making - collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance councils will struggle to improve services.
- 6.2 From the review, assessment and on-going monitoring work undertaken and supported by the ongoing work of Internal Audit, we have reached the opinion that, overall, key systems are operating soundly and that there are no fundamental control weaknesses.
- 6.3 We can confirm, to the best of our knowledge and belief, and there having been appropriate enquiries made, that this statement provides an accurate and fair view.

Signed

Signed

Date

Date

Councillor Keith Wakefield
Leader of the Council

Tom Riordan
Chief Executive

Signed

Signed

Date

Date

Councillor Ghulam Hussain
Chair, Corporate Governance and
Audit Committee

Alan Gay
Deputy Chief Executive and
Section 151 Officer

Signed

Date

Catherine Witham
City Solicitor & Monitoring Officer

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Report author: P Garnett
Tel: (0113) 395 1632

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

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

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 the work programme attached at Appendix 1 and determine whether:

- any additional items need to be added to the work programme;
- given the business currently scheduled for November, this meeting should be removed from the cycle of meetings.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report consults seeks Members views on the content of the work programme of the Committee, so that it might meet the responsibilities set out in the committee's terms of reference.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

4.3 Council Policies and City Priorities

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

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 requested to consider the work programme attached at Appendix 1 and determine whether:

- any additional items need to be added to the work programme;
- given the business currently scheduled for November, this meeting should be removed from the cycle of meetings.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE
WORK PROGRAMME**

7th November 2014		
Internal Audit Update Report	To receive the Internal Audit update report	Chief Officer (Audit and Investment) Tim Pouncey
28th January 2015		
KPMG – Annual Audit Letter – including opinion	To receive a report certifying grants and returns and to consider the Audit Fee letter.	Chief Officer (Financial Management) Doug Meeson
KPMG – Certification of Grant Claims and Returns	To receive a report certifying grants and returns and to consider the Audit Fee letter.	Chief Officer (Financial Management) Doug Meeson
KPMG – Approval of External Audit Plan	To receive a report requesting approval of the external audit plan	Chief Officer (Financial Management) Doug Meeson
Internal Audit Update Report	To receive the Internal Audit quarterly report	Chief Officer (Audit and Investment) Tim Pouncey
Calderdale Shared Services	To receive a report updating the Committee on the implementation of the Calderdale Shared Services system for Adult Social Care	Chief Officer (Resources and Strategy) Steve Hume

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Chief Officer (Audit and Investment) Tim Pouncey
20th March 2015		
Internal Audit Plan	To receive a report informing the Committee of the Internal Audit Plan for 2013/14	Chief Officer (Audit and Investment) Tim Pouncey
Internal Audit Update Report	To receive the Internal Audit quarterly report	Chief Officer (Audit and Investment) Tim Pouncey
Information Security Annual Report	To receive a report on the Council's Information Security arrangements.	Chief Corporate Support Officer Mariana Pexton
Annual Business Continuity Report	To receive the annual report reviewing the Councils Business Continuity planning.	Chief Corporate Support Officer Mariana Pexton
Annual Report of the Committee	To receive the Annual report of the Committee reviewing the work completed over the last year	Head of Governance Services Andy Hodson
Unscheduled Items		