



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Wednesday, 28th January, 2015
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>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 - 19TH SEPTEMBER 2014</p> <p>To receive the minutes of the meeting held on 19th September 2014.</p>	1 - 6
7			<p>UPDATE - SHARED SERVICE PARTNERSHIP WITH CALDERDALE METROPOLITAN BOROUGH COUNCIL TO MEET ADULT SOCIAL CARE TECHNOLOGY REQUIREMENTS</p> <p>To receive a report of the Director of Adult Social Services which has been written to provide an update on the progress of the Shared Service Partnership with Calderdale Metropolitan Borough Council and the implementation of the new social care system. It provides assurance to the Committee members that the challenges that are being faced are being resolved appropriately to enable the project to stay on track to provide the required technology solution within Adult Social Care.</p>	7 - 10

Item No	Ward	Item Not Open		Page No
8			<p>TREASURY MANAGEMENT GOVERNANCE REPORT 2014</p> <p>To receive a report of the Chief Officer (Financial Services) The annual report outlines the governance framework for the management of the Council's TM function. This report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2013.</p>	11 - 16
9			<p>INTERNAL AUDIT UPDATE REPORT</p> <p>To receive a report of the Acting Head of Internal Audit which provides a summary of internal audit activity for the period 1st August to 30th November 2014 and highlights the incidence of any significant control failings or weaknesses.</p>	17 - 38
10			<p>KPMG REPORT - ANNUAL AUDIT LETTER 2013/14</p> <p>To receive a report of the Director of Resources which provides a summary of the key external audit findings in respect of the 2013/14 financial year.</p>	39 - 48
11			<p>KPMG CERTIFICATION OF GRANTS AND RETURNS 2013/14</p> <p>To receive a report of the Director of Resources informing the Committee on the result of the work of auditors in respect of work carried out on the certification of grant claims in 2013/14.</p>	49 - 58
12			<p>KPMG EXTERNAL AUDIT PLAN 2014/15</p> <p>To receive a report of the Director of Resources informing the Committee of KPMG's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2014/15.</p>	59 - 88

Item No	Ward	Item Not Open		Page No
13			<p>WORK PROGRAMME</p> <p>To receive a report of the City Solicitor notifying Members of the Committee of the draft work programme.</p>	89 - 92
14			<p>DATE AND TIME OF NEXT MEETING</p> <p>2pm, Friday, 20th March 2015</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.</p> <p>b) 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>	

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Agenda Item 6

Corporate Governance and Audit Committee

Friday, 19th September, 2014

PRESENT: Councillor G Hussain in the Chair
Councillors P Grahame, T Hanley,
R Wood, E Taylor, J Bentley, J L Carter
and A McKenna

Apologies Councillors J Pryor and J Cummins

16 Appeals Against Refusal of Inspection of Documents

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

17 Councillor A McKenna

The Chair welcomed Cllr A McKenna to the Committee following her replacement of Cllr S McKenna.

18 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

19 Late Items

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

20 Declaration of Disclosable Pecuniary and Other Interests'

No declarations were made.

21 Apologies

Apologies for absence were received from Councillors J Cummins and J Pryor.

22 Minutes - 11th July 2014

RESOLVED – That the minutes of the meeting held on 11th July 2014 be approved as a correct record.

23 Matters Arising

Minute No.13 Decision Making Framework: Annual Assurance Report – Resolution (e)

Members noted receipt of financial information relating to the planning service which had been circulated earlier in the day.

RESOLVED –The Committee resolved to:

- (a) note the information received and asked that more notice be provided of additional information in future; and
- (b) Request the Chair write to the planning service requesting more detailed financial information prior to the next meeting for the Committee.

Minute No.13 Decision Making Framework: Annual Assurance Report – Resolution (f)

The Head of HR explained to Members the circumstances where an officer of Leeds City Council would be required to register an interest and the arrangements whereby business interests of senior officers are published on the Council's website.

RESOLVED – The Committee resolved to request that the Scrutiny Board (Resources and Council Services), seek assurances around the implementation of that Board's recommendations to the Executive on officer interests.

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

The Chief Officer (Audit and Investment) presented his report which provided a summary of Internal Audit activity for the period 1st April to 31st July 2014

Members discussed the proportion of time allocated to the different aspects of audit work set out in the audit plan.

Members also discussed the outcomes from audit activity that had been highlighted in the report and acknowledged that there are no weaknesses in control that require direct intervention from the committee at this time.

RESOLVED – The Committee resolved to:

- (a) 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.
- (b) request that the next update report includes an update on St Matthews and Lawnswood schools.

(c) request that further information on matters in respect of essential car user allowances be circulated to the Committee.

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

The Executive Officer (Client and Customer Relations) presented a report of the Chief Officer, Customer Access which summarised the Council's complaints and Ombudsman cases for the period 1 April 2013 to 31 March 2014.

Members discussed the Local Government Ombudsman's Annual Review Letter to the Council. Members also discussed the overall effectiveness of the Council's approach to compliments and complaints and requested a further report setting out the overall framework for complaints operating in the Council.

RESOLVED – The Committee resolved to:

- (a) Note the report; and
- (b) Receive a further report to further explain the framework for complaints and compliments within Leeds City Council.

26 Financial Planning and Management Arrangements

The Principal Finance Manager presented a report of the Deputy Chief Executive. The report highlighted the continuing significant financial challenge that the Council is facing, and the importance of ensuring that appropriate arrangements are in place to manage the Council's financial resources, Members discussed:

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

Members also considered the Deputy Chief Executive's assurances that the systems and procedures in place are fit for purpose, up to date, embedded and being complied with.

Members also discussed the value of the Council's assets against debt held and what this meant for the Council. Members were informed that all borrowing is made in line with the Prudential Framework for Capital Finance in

Local Authorities. This provides that the Council can finance some capital expenditure by borrowing, provided this is at a level that is prudent and affordable in revenue terms.

RESOLVED – The Committee resolved 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.

(At 3:25pm during discussion of this item Councillor P Grahame left the meeting)

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

The Principal Finance Manager presented a report of the Deputy Chief Executive which required the Committee to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

John Prentice (Director) and Chris Hall (Assistant Manager) from KPMG were in attendance to discuss the report and answer Members' questions.

Members asked officers how the pension deficit on the balance sheet equated to their understanding as to the financial health of the West Yorkshire Pension Scheme. It was explained to members that the accounting rules, unlike the actuarial review, take no account of future growth in pension fund assets. It was confirmed that, based on the actuaries assessment of the pension scheme, the scheme was considered amongst the highest performing in the country with the scheme being 96% funded.

Members gave consideration to the ratio of debts to assets and rules about what the Council could borrow to fund. It was explained to Members that our debt to asset ratio was around 57% but this did not take into account the fact that many of the Council's assets were valued at social value or historic cost rather than market value. Members were also informed that there are strict accounting rules about what costs could be funded from borrowing.

Members noted that the external auditors had provided an unqualified statement on the accounts and that the Deputy Chief Executive had concluded that there were no material issues.

RESOLVED –

- (a) That the Committee receive the report of the Council's external auditors on the 2013/14 accounts and note that there are no audit amendments required to the Accounts;
- (b) That the final audited 2013/14 Statement of Accounts be approved and that the Chair acknowledge the approval on behalf of the Committee by

signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts;

(c) That 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; and

(d) That KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources be noted.

28 Annual Governance Statement

The City Solicitor submitted a report presenting the Annual Governance Statement.

The Head of Governance Services was in attendance to present the report and answer Members' questions.

Members considered the review of effectiveness of the council's governance arrangements and the assurances received from lead officers.

Members stressed that all partnership arrangements entered into by the authority must demonstrate governance arrangements that are fit for purpose.

RESOLVED – The Committee resolved:

(a) That the Annual Governance Statement be approved; and

(b) To note that the Leader of Council, Chair of Corporate Governance and Audit Committee, City Solicitor, Chief Executive and Deputy Chief Executive intended to sign the document on behalf of the Council.

29 Work Programme

The City Solicitor submitted a report notifying Members of the work programme.

The Committee reviewed its forthcoming work programme.

RESOLVED - The Committee resolved to;

(a) Note the forthcoming reports; and

(b) Not proceed with November's meeting on the proviso that in the Chair's view no urgent matters arise.

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Report author: Dennis Holmes
Tel: 2478647

Report of Director of Adult Social Services

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

Subject: Update - Shared Service Partnership with Calderdale Metropolitan Borough Council to meet Adult Social Care Technology Requirements

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:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

- 1 The work on the implementation is progressing well to deliver the system and required changes in line to support the introduction of the first phase of the Care Act in April 2015. Alongside this the system will also need to support a number of other changes Adult Social Care (ASC) are introducing to improve the efficiency of contacts and referrals into the service and also continuing to improve integrated working with health.
- 2 The system will have been developed to meet the new requirements by April 2015 and Leeds will be compliant with the first phase of the Care Act requirements. Plans are being prepared to carefully manage the roll out of the system alongside the other significant changes from April onwards.
- 3 There have been some challenges along the way. The most significant have been resource pressures in Calderdale, primarily because of an impending Ofsted review of their Children’s Services directorate and also because of the unexpected retirement due to ‘ill health’ of the senior Calderdale IT sponsor. Despite the resourcing issues encountered by Calderdale the implementation of the Leeds system remains on track. Through the governance and risk management channels that have been put in place, Leeds has been able to respond and put contingencies in place to keep the project on track and within the agreed budget. Steps are also being taken, by the new management team within Calderdale, to address concerns regarding resources and provision of appropriate support in future.

Recommendations

It is recommended that the Corporate Governance and Audit Committee review the position outlined in this report and note the progress that has been made, as well as the challenges that have been encountered. Corporate Governance and Audit Committee members are invited to make comments and raise any concerns to support the successful implementation of the programme.

It is recommended that the Corporate Governance and Audit Committee agree to receive a further report on the progress of the programme following the successful implementation. However, if any further issues are encountered that affect the quality, cost or timescales of the implementation, it is recommended that these are raised with the Chair of the Committee and brought back to the full committee if deemed appropriate.

1 Purpose of this report

This report has been written to provide an update on the progress of the Shared Service Partnership with Calderdale Metropolitan Borough Council and implementation of the new social care system. It will provide assurance to the Corporate Governance and Audit Committee members that the challenges that are being faced are being resolved appropriately to enable the project to stay on track to provide the required technology solution within Adult Social Care.

2 Background information

- 2.1 In August 2014 Adult Social Care made a decision to defer the implementation of the replacement social care system to April 2015 to coincide with the introduction of new Care Act regulations. Confirmation of this decision and reason behind it was presented in a letter to members from the Chair of CGA, Cllr Hussain, in September 2014.
- 2.2 Work has progressed to develop the full solution for Leeds and at the time of writing this report the CIS system and integrated document management system is undergoing rigorous testing, prior to any changes being made in support of the Care Act.

3 Main Issues and Progress To Date

- 3.1 Development of the system to ensure it meets the specific needs of Leeds has progressed well. At the time of writing this report the full solution (CIS with document management system) is undergoing full end to end testing. This testing has involved frontline practitioners using life like case scenarios to ensure it is fully fit for purpose to support good social work practice in Leeds.

The aim will be to fully test the system prior to making any further changes to meet the Care Act requirements.

- 3.2** Work is also progressing to gather and agree the detailed business requirements for the revised Gateway to Services, Care Act and integrated working across Health and Social Care. Development and testing of the changes will start in the New Year.
- 3.3** Not unexpectedly, there have been some challenges along the way on both sides. The most significant have been resource pressures in Calderdale, primarily because of an impending Ofsted review of their Children's Services directorate and also because of the unexpected retirement due to 'ill health' of the senior Calderdale IT sponsor.
- 4** The Ofsted inspection in particular has placed significant pressures on Calderdale development resources. To mitigate any risks resulting from this, Leeds is now committed, by mutual agreement, to going live with minimal support from Calderdale. However the Leeds project team is confident that it can achieve this first critical milestone. Recent discussions with the new IT leadership team at Calderdale, in terms of how development resources can be freed up going forward and provide appropriate levels of support have been positive but there is still more work to do.
- 3.4** Despite the challenges, created by the resource conflicts within Calderdale, Leeds has been able to revise its approach and keep the development and data migration work on track alongside the implementation work on the system.
- 3.5** Significant work has also been carried out to develop training strategies to provide on-line and classroom based training and training materials for all users of the new solution. Work is continuing with this to integrate the system training with practice and the new ways of working being introduced as part of the Care Act, Health integration and Gateway changes.
- 3.6** For all work-streams the programme continues to be delivered within the budget allocated.
- 3.7** Another challenging area is the commissioning of joint business requirements which will form the ongoing foundation for a common shared CIS system. The first significant stage of this joint working was the introduction of the Care Act. However Leeds is re-designing a more efficient "Gateway to Services" which will also incorporate many of the Care Act changes as well as other changes to improve the service and experience of customers at the front door. Leeds is also moving on a pace with its integration agenda with health. To this end a more pragmatic approach has needed to be taken to ensure a version of the system is provided to Leeds that best meets its requirements in the timescales required. It will then be the aim to consolidate any differences back into one version at a later date.
- 3.8** The challenges in introducing the level of change required in ASC are significant and a lot of consideration is being given to ensure that staff are fully prepared and the roll out of the changes is done in a way that doesn't detract from the level of service provided to citizens.

4 Conclusions

- 4.1 Progress continues to be made on all areas of the programme including the development and testing of Leeds CIS, preparation of our data for migration; integration and development of document management; development and testing of the reporting and business intelligence solution and establishing business readiness and preparation for business change.
- 4.2 Although the position in Calderdale has caused issues and significant concern, Leeds has been able to revise its approach and keep the implementation that have been encountered have been resolved. Action taken to re-schedule some of the work and the impact of this on timescales has been carefully considered. The re-planned timescales enable ASC to minimise any impact on frontline services whilst not compromising on the level of quality expected from the solution.
- 4.3 There are still significant challenges ahead in introducing such a major change in the way people work and the systems to support this. The approach and phasing of the implementation will be critical and based on considerations to ensure services are not adversely affected.
- 4.4 The Corporate Governance and Audit Committee can be reassured that the established governance arrangements continue to effectively manage the risk and challenges posed by the unique nature of the partnership.

5 Recommendations

- 5.1 It is recommended that the Corporate Governance and Audit Committee review the position outlined in this report and note the progress that has been made, as well as the challenges that have been resolved. Corporate Governance and Audit Committee members are invited to make comments and raise any concerns to support the successful implementation of the programme.
- 5.2 It is recommended that the Corporate Governance and Audit Committee agree to receive a further report on the progress of the programme following the successful implementation. However, if any further issues are encountered that affect the quality, cost or timescales of the implementation, it is recommended that these are raised with the Chair of the Committee and brought back to the full committee if deemed appropriate.

Report of Chief Officer - Financial Services

Report to Corporate Governance and Audit Committee

Date: 26th January 2015

Subject: Treasury Management Governance Report 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. This annual report provides assurance that the Treasury Management (TM) function is operating within its governance framework.
2. TM fully complies with the current CIPFA Code of Practice, the Prudential Code and the revised guidance notes for practitioners issued in 2013.
3. During the year all borrowings and investments undertaken have been accordance with the approved governance framework.
4. TM operates within the governance framework and also uses additional market intelligence and information gathered from a variety of sources. These sources have been integral to protecting the authority from undue risk in the financial and money markets.
5. Internal Audit has provided substantial assurance on the control environment and compliance in their 2013/14 audit report.

Recommendations

6. Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Code and revised CIPFA guidance notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

1 Purpose of this report

- 1.1 This annual report outlines the governance framework for the management of the Council's TM function. This report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2013.

2 Background information

- 2.1 The operation of the TM function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011) in particular: The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators.

- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

- 2.2 TM is responsible for managing the Housing Revenue Account and General Fund long term debt which is in the region of £1.5bn and investments that currently stand at around £50m. It also manages the cash flow requirements of the Council.

3 Main issues

- 3.1 The role of the Corporate Governance and Audit Committee is to ensure that TM is adhering to and operating within its governance framework, as shown in Appendix A.
- 3.2 During the year TM has continued to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and guidance notes and its Prudential Code (2011). As such a strategy report was presented to Executive Board in February together with an update in November. A further outturn report for the previous financial year was presented in July.
- 3.3 During the year all borrowings and investments undertaken have been in accordance with the approved governance framework and are in line with the Treasury Management Policies and Practices.
- 3.4 TM continues to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk. The Strategy updates to Executive Board include an update on prudential indicators. TM is complying with all of CIPFA's prudential indicators.
- 3.5 The operation of TM within its governance framework is also complimented by additional market intelligence and information gathered from a variety of sources. For example when the Icelandic banking crisis unfolded the Council had already reduced its investments in a number of banks, despite the rating agencies indicating that they were sound investments. These tools involve:

- The use of real time market information on the financial and money markets in the UK, Europe, US and other major economies;

- Discussions with market participants and brokers;
 - Use of treasury advisors to test market views;
 - Networking and sharing of information with Core Cities and West Yorkshire districts;
 - Attending market seminars providing technical and economic updates;
 - Daily market updates from financial institutions and brokers;
 - Thorough review of new financial products and how they fit within the governance structure; and
 - Undertaking continuing professional development and ensuring that appropriate training is undertaken.
- 3.6 Furthermore TM undertakes to respond to all treasury management consultations and influence the national governance framework, through attendance at regular core city meetings
- 3.7 Internal Audit has completed its annual review of the TM function. This involved a risk based system audit of TM to evaluate and validate key systems controls. Key controls for a sample of investments, loans and interest payments for 2013/14 were reviewed. Internal Audit report issued 11th March 2014 provided two opinions:
- Control Environment - Substantial Assurance (highest level). This provides assurances that there are minimal control weaknesses that present very low risk to the control environment.
 - Compliance with the Control environment - Substantial Assurance (highest level). This level indicates that the control environment has substantially operated as intended although some minor errors have been detected in the sample tested.

The outcome of the 2014/15 internal audit will be reported as part of the Financial Planning and Management Arrangements 2015 report to Committee in July.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There has been no consultation in relation to this report

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and City Priorities

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

4.4 Resources and value for money

4.4.1 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 14th February 2014.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The legislative framework which governs TM is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury Management Code of Practice, the prudential code and revised guidance notes issued in 2013.
- 4.5.2 There are no legal or access to information issues arising from this report.

4.6 Risk Management

- 4.6.1 As set out in the Treasury Management Policy Statement, TM activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.
- 4.6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.

5 Conclusions

- 5.1 This report confirms that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2013/14 internal audit report gave TM substantial assurance on both control and compliance.

6 Recommendations

- 6.1 Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Code and revised guidance notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

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.

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
↓ DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Officer delegation scheme (Executive Functions)	Deputy Chief Executive	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme of Deputy Chief Executive (a) S151 responsibilities Page 12	Discharged through Chief Officers	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme of Deputy Chief Executive (b) treasury management Page 12	To Chief Officers in relation to areas within their remit	The provision of financial services specifically Treasury Management (including the making payment and borrowing of loans)	
Sub delegation scheme of Deputy Chief Executive 73 Page 42 -Rule 16.3 Financial Procedure Rules – Treasury Management)	Function discharged by Chief Officer Audit and Investment	All money in the hands of the Council shall be under the control of the Deputy Chief Executive. Employees of the Council must not invest Council monies without The prior approval of the Director of Resources.	
Sub delegation scheme of Deputy Chief Executive 74 Page 43 -Rule 16.4 Financial Procedure Rules – Treasury Management)	Function discharged by Chief Officer Audit and Investment	All executive decisions on borrowing, investment or financing shall be delegated to the Deputy Chief Executive.	

↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK

POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy (section 10) – execution of treasury strategy	Chief Off. Audit & Investment Principal Financial Manager Treasury Manager Assistant Finance Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code Guidance Notes	Principal Financial Manager Treasury Manager	Ensure compliance and that any changes are reflected in the operating framework.



Report author: Sonya McDonald
Tel: 74214

Report of the Acting Head of Internal Audit

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

Subject: Internal Audit Update Report 1st August to 30th November 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 August to 30th November 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 August to 30th November 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 August to 30th November 2014 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

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

3 Main issues

- 3.1 The report details the work undertaken by the Internal Audit Section. The report also contains a summary of completed reviews along with their individual audit opinions.
- 3.2 There are no issues identified by Internal Audit in the 1st August to 30th November 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 August to November 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 August to November 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 August 2014 to
30th November 2014**

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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 August to 30th November 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 August to 30th November 2014.

1.3.2 Achievement against the Total Audit Days element of the audit plan is currently at 68%. At this point in the year, the expected level of achievement would be 67%. 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 and more time than anticipated has been spent on staff secondments. 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 30 th Nov 2014	% completion at November 2014
<u>Financial Resource Risks</u>			
Spending Money Wisely	680	483	71%
Anti-Fraud and Corruption	694	480	69%
Key Financial Systems	755	372	49%
Grants and Other Head of Audit Assurances	89	48	54%
Compliance	257	229	89%
Procurement	322	232	72%
Risk Based Audits	300	251	84%

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 30 th Nov 2014	% completion at November 2014
ICT	230	164	71%
Total Financial Resource Risks	3,327	2259	68%
<u>Other Risks</u>			
Compliance	38	44	116%
Public Sector Internal Audit Standards Compliance	60	21	35%
Total Other Risks	98	65	67%
<u>Continuing Development</u>			
Professional Liaison	18	5	30%
Training and CPD	100	77	77%
Quality Assurance and Improvement Program	20	3	15%
Total Continuing Development	138	85	62%
<u>Contingency</u>			
General Contingency	365	247	68%
Total Contingency	365	247	68%
Total Audit Days	3,928	2656	68%

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

Assurance Block	Total Days per Audit Plan 2014/15	Days spent at 30 th Nov 2014	% completion at November 2014
External Contracts (including Housing Leeds)	422	323	77%
Secondments	366	429	117%
Total Days	788	753	96%

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:

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

- Segregation of duties
- 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.
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 Corporate Leadership Team along with the relevant 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 18th August and 30th November 2014. Reports issued between 1st April and 17th August 2014 have been included in previous update reports to Corporate Governance and Audit Committee.

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Key Financial Systems					
Council Tax Year End Reconciliation	Substantial		N/A	Citizens and Communities	02/09/2014
Business Rates Year End Reconciliation	Substantial		N/A	Citizens and Communities	02/09/2014
Reconciliation of Creditors Module Financial Management System (FMS) to Ledger Module (FMS)	Substantial		N/A	Strategy and Resources	15/09/2014
Housing Rents Year End Reconciliation	Substantial		N/A	Environment and Housing	24/10/2014
Year End Reconciliation of Housing Benefit and Council Tax Benefit	Substantial		N/A	Strategy and Resources	05/11/2014
Payroll Year End Reconciliation	Substantial		N/A	Strategy and Resources	19/11/2014
Bank Reconciliation and Cash Book	Substantial	N/A	Minor	Strategy and Resources	21/11/2014
Spending Money Wisely					
Published Payments and Redactions	Good	Good	Moderate	Strategy and Resources	08/10/2014
Adult Social Care Transport	Series of recommendations made with the aim of ensuring that local authority transport is only provided for clients with recorded eligible needs in line with the policy.			Adult Social Care	24/10/2014
Spending Money Wisely Challenge – December 2013 to March 2014	N/A	Medium	N/A	Cross Cutting	19/11/2014
Risk Based Reviews					
Former Aire Valley Homes Leeds - Contractor Data Integrity	Limited	Acceptable	Moderate	Environment and Housing	20/08/2014
Former East North East Homes Leeds – Managed Stores	Limited	Acceptable	Minor	Environment and Housing	25/09/2014

Internal Audit Update Report - 1st August to 30th November 2014

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment Assurance	Compliance Assurance	Organisational Impact		
Former West North West Homes Leeds – Gas Data Accuracy	Acceptable	Good	Moderate	Environment and Housing	08/10/2014
Former East North East Homes Leeds – Direct Labour Organisation	Limited	Acceptable	Minor	Environment and Housing	30/10/2014
Wellbeing Fund – Inner North West Area	Substantial	Substantial	Minor	Citizens and Communities	06/11/2014
Wellbeing Fund – Inner East Area	Substantial	Good	Minor	Citizens and Communities	06/11/2014
Procurement					
Bio Diesel Contract Review	Acceptable	Good	Minor	Civic Enterprise Leeds	04/09/2014
Prevention of Procurement Challenge	Good	N/A	Minor	Strategy and Resources	08/10/2014
Approved Framework Contracts	Substantial	N/A	Minor	Strategy and Resources	08/10/2014
Contract Extensions	N/A	Medium	N/A	Strategy and Resources	06/11/2014
Procurement – Follow Up Review	Good	N/A	Minor	Strategy and Resources	06/11/2014
Housing Leeds Assurance Framework					
Belle Isle Tenant Management Organisation Business Continuity	Substantial	N/A	Minor	Environment and Housing	09/09/2014

Compliance Area	Report Title	Level of Compliance Assurance	Directorate	Date Issued
Compliance Reviews				
Unannounced Visits	Knowle Manor Home for Older Persons	Medium	Adult Social Care	20/08/2014
	Spring Gardens Home for Older Persons	Medium	Adult Social Care	28/08/2014
	Leeds Visitor Centre	High – Banking and Cash/Medium – Stock Controls	City Development	15/09/2014
	Tropical World	High	Environment and Housing	23/09/2014
	Aireborough Leisure Centre	Low	City Development	02/10/2014
	Morley Leisure Centre	High	City Development	05/11/2014
Policies and Procedures	Managing Attendance	Medium	Citizens and Communities	01/10/2014
	Managing Attendance	Medium	Children’s Services	08/10/2014
Schools	Allerton Grange School	High	Children’s Services	19/11/2014

Report Title	Results/Opinion	Directorate	Date Issued
External Work			
Whitecote Primary School Voluntary Fund	Certification of account balances	Children’s Services	07/11/2014

Report Title	Results/Opinion			Directorate	Date Issued
Holy Name Primary School Voluntary Fund	Certification of account balances			Children's Services	18/11/2014
Boston Spa School Voluntary Fund	Certification of account balances			Children's Services	19/11/2014
St Matthews C of E Primary School Voluntary Fund	Certification of account balances			Children's Services	21/11/2014
Leeds Grand Theatre – Budgetary Control	Acceptable	N/A	N/A	External	01/09/2014
Leeds Grand Theatre - Creditors	Acceptable	Acceptable	N/A	External	01/09/2014
Leeds Grand Theatre – Key Policies	Acceptable	N/A	N/A	External	01/09/2014
Grants and Other Chief Audit Executive Assurances					
Troubled Families Grant Claim	Good Assurance that the results detailed on grant claim will satisfy the DCLG requirements of reasonableness			Children's Services	19/08/2014
Building Hope Charity	Independent examination of the Accounts			Strategy and Resources	30/10/2014
Troubled Families Grant Claim	Good Assurance that the results detailed on grant claim will satisfy the DCLG requirements of reasonableness			Children's Services	18/11/2014

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 Unannounced Visits – Aireborough Leisure Centre

Management at Aireborough Leisure Centre requested an Internal Audit review of the controls in place for cash and banking. The cash up undertaken by Internal Audit was satisfactory and no issues were found in relation to the banking records. However, the audit resulted in an opinion of low level compliance mainly due to issues and working practices relating to the computerised system which is used for processing transactions on the tills (the XN system):

- The system currently allows amendments during the cash up process with no record of these amendments being retained by the system;
- The system does not comply with the Council's Managing Passwords policy in that passwords are not required to be changed at all;
- It appeared that passwords to the XN system had been shared or for duty officers to log onto the system to allow other staff to use their login to authorise cancellations and refunds for operational reasons.

The recommendations made to address the weakness in respect of the password sharing issue have now been implemented.

Internal Audit is currently working with the administrator to address the XN system weaknesses. The improved controls will then be rolled out to each of the establishments that use this system.

2.1.2 Schools – Follow Up Reviews

At the previous Corporate Governance and Audit Committee meeting, following the inclusion of findings relating to St Matthews and Lawnswood Schools, members requested that the next update report include an update on both schools. The findings reports were issued during July 2014 and a period of time has been allowed to enable the recommendations to be implemented and embedded within the schools. The follow up reviews are planned to be

undertaken during January 2015, after which an update on progress towards implementation of the recommendations made will be provided to the Committee.

2.2 Risk Based Audits

2.2.1 Former Aire Valley Homes Leeds – Contractor Data Integrity

A review was undertaken of the integrity of data between the key systems owned and maintained by the former Aire Valley Homes and the systems and documentation maintained by the contractor. Limited assurance was provided on the control environment as there are significant control weaknesses for the voids and gas servicing processes that present a high risk to the control environment. The following key controls were not in place:

- Reconciliations to identify anomalies in the key performance indicator data for voids;
- Assignment of responsibilities, for both the contractor and the council for actioning error reports produced when uploads to the council's information management system (PS Team) fail;
- Assurance that the properties from the council's information management system have been accurately uploaded into the contractor's system.

Acceptable assurance was provided on compliance with the control environment as it mainly operated as intended although errors were detected. These included gas/electrical certificates not being uploaded into the council's information management system, evidence not being retained of letters sent out regarding gaining access for gas servicing and the lack of information that was available in relation to key performance indicators as information had not migrated from the previous contractor's system to the current contractor's system.

Although the review identified issues in relation to uploading gas certificates into the council's information management system, Internal Audit confirmed that there were valid gas certificates for all the properties in the sample tested.

An action plan was agreed with implementation dates of 28th February 2015.

2.2.2 Former East North East Homes Leeds – Managed Stores

A review of the managed stores contract was undertaken to ensure that the contract is fit for purpose and being managed appropriately, contractors are procured in line with Contract Procedure Rules to ensure value for money is obtained and there are adequate governance arrangements to monitor delivery of the service.

The review provided limited assurance on the control environment as there were key weaknesses including that the expected benefits of the contract were not being monitored and there was no robust procedure in place to check the prices charged. Acceptable assurance was provided for compliance with controls as the control environment had mainly operated as intended although there were errors such as invoices being accepted and paid without a corresponding order being held and materials being overcharged. For the instances where no order was present to support the materials invoiced, the service has confirmed that the work had been completed.

A new managed stores contract is currently being procured and will be mobilised for 1st April 2015. The Head of Service confirmed that where recommendations have been made which would be relevant to the new contract, these will be implemented as appropriate.

2.2.3 Former East North East Homes Leeds – Direct Labour Organisation

Internal Audit undertook a review of Construction Services (alternatively known as the Direct Labour Organisation (DLO)) to obtain assurance that the SWAPs/Dynamic Procurement System is operating as intended, and to determine whether direct costs are covered by the direct income received for it.

The objectives were to ensure that work is allocated to subcontractors in a fair and transparent manner and offers value for money and that the DLO recharges job costs to their clients in a fair and transparent manner. Limited assurance was provided on the control environment due to the lack of segregation of duties in the process (there should be independence between the officer raising the order and approving variations and the officer authorising payment), the methodology for allocating labour costs and weaknesses in the access controls to the SWAPs system.

Acceptable assurance was provided on compliance with controls as testing identified the control environment has mainly operated as intended although errors have been detected, such as the approval for the use of subcontractors not being recorded, and the use of exception reports not being monitored.

2.3 *Spending Money Wisely*

Ideas Service

- 2.3.1 The Ideas service was re-launched in July 2014. Since the re-launch, 154 ideas have been submitted by staff. Internal Audit is in the process of gathering further information and assessing these. Staff are being kept up to date on progress for each of the ideas through the Sharepoint site.
- 2.3.2 As part of the communication strategy, Internal Audit is presenting workshops on the Manager Challenge Events entitled 'Spending Money Wisely – How we can listen to and implement ideas.' The session is designed to be an interactive workshop which focuses on:
- What makes a good idea
 - Common drivers for putting ideas into practice, and the forces that hold them back
 - A structured process to follow to implement ideas
 - How to encourage and listen to ideas from staff

The objective of the workshops is that by the end of the session participants will:

- Be aware of some of the key ideas and efficiencies that have been made by our employees and understand how they have been progressed/ implemented;
- Know how to encourage good spending money wisely ideas from staff;
- Be able to implement ideas generated by their teams and turn them into actions.

Adult Social Care Transport

- 2.3.3 A review of Adult Social Care (ASC) Transport was completed with the objective of providing assurance that the policies and procedures in place for the provision of transport within ASC are robust. The key areas for improvement included:
- Ensuring that data held between the systems operated by Adult Social Care and Passenger Transport is consistent:
 - Revising current assessment documentation to include the specific policy criteria for local authority transport provision to demonstrate and record eligibility prior to commissioning transport for clients; and
 - Producing a Service Level Agreement between Adult Social Care and Passenger Transport to define expected requirements from both services and establish minimum level of services, performance indicators and data requirements.

The report also provided an opportunity to incorporate any relevant recommendations into the controls embedded within the new Adult Social Care

Client Information System (CIS) and should be applied alongside the requirements of the assessment and eligibility criteria of the Care Act 2014, which will come into force in 2015/16. These recommendations were agreed to be implemented in line with Care Act timescales and the roll-out of the new CIS system.

Essential Car User Allowances

- 2.3.4 At the previous Committee meeting on the 19th September 2014, members requested that further information on matters in respect of essential car user allowances be circulated to the Committee. This information was provided to members of the Committee following the meeting.

2.4 Counter Fraud and Corruption

Reports Issued

- 2.4.1 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 3 such investigation reports during this period.

Data Analytics

- 2.4.2 Internal Audit undertakes a number of internal data matching exercises as part of the annual assurance framework. In the latest exercise, a comparison of the Council's payroll data to its creditor data was undertaken. The results identified a link between a company and a council employee.
- 2.4.3 The initial findings supported a clear conflict of interest between the employee's role with the Council and the company that potentially resulted in a loss of income to the Council.
- 2.4.4 Following the identification of the issue, the employee resigned from his position with the council.

2.5 Other Work

2.5.1 16-19 Bursary Fund Report on findings to Children's Services

Internal Audit undertook a number of school audits that included a review of how the 16-19 Bursary Fund was managed by schools in 2013/14, to determine compliance with the guidance issued by the Education Funding Agency (EFA.) Internal Audit raised a number of queries with the EFA in order to clarify the guidance and confirm recommended practices and procedures. These were summarised in a memo and it was recommended that the 'Guiding principles for the consistent use of the 16-19 Bursary Fund' issued in 2012/13 by Children's Services should be reviewed and updated to enable schools to correctly and consistently manage their allocation. It was also recommended the guidance should include examples of best practice to assist schools.

2.5.2 2014/15 Audit Findings – Report to Children's Services

A memo was issued to Children's Services summarising the main findings from the schools audits undertaken during 2014/15. These relate to imprest bank account, school voluntary fund, procurement, purchasing cards, Schools Financial Value Standard and Post 16 funding. Recommendations were made for Children's Services to consider a number of possible courses of action to remind schools of the correct procedures:

- Re-issue financial regulations to schools;
- Develop and communicate schools financial guidance to run alongside financial regulations, this should include expected controls for each area and examples of best practice;
- Training sessions for schools on financial management and other areas of concern;
- An increase in the number of school compliance visits undertaken by Children's Services.

Children's Services has agreed to implement the recommendations regarding updating the guidance and communicating this with schools. Internal Audit will follow up the recommendations during 2015 to assess progress towards implementation, will continue to liaise with Children's Services in relation to the audit findings and are willing to assist with the development of guidance/training sessions to ensure that they sufficiently address the issues identified during audit visits.

2.5.3 Employee Self Service – Travel and Subsistence

At the request of the Chief Officer – Shared Services, Internal Audit undertook a review of proposed changes to the Travel and Subsistence Claim process with regard to the introduction of Employee Self-Service and has advised the Business Support Centre on controls within the process.

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 currently on a 6 month secondment within the Capital Section which is due to end on the 31st March 2015.
- A member of staff commenced a 6 – 9 month secondment to Civic Enterprise Leeds on 10th November 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. A self-assessment review of compliance with the standards (and associated supporting evidence) is currently being undertaken within the Section in readiness for the external assessment process that must be undertaken by 31st March 2018. Proposals for the external assessment process including a methodology and framework for conducting this are currently under consideration. Initial discussions have been held with the Core Cities Chief Auditors Group around undertaking the external assessments within the Group but these need to be progressed further.

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 30 th November 2014 - % Score 3 or above
Notice	100%
Scope	100%
Understanding	100%
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. These results are in line with the previous update report in 2014/15 and compare favourably in all areas against the reported results for 2013/14 with the exception of the prompt issue of the final report. In order to address this issue, the Section is progressing 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 Director or Resources

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

Subject: KPMG report – Annual Audit 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. In accordance with proper audit practice, KPMG have issued a summary of the key audit findings for the 2013/14 financial year (**see Appendix 1**). The report concludes that the auditors have been able to provide unqualified opinions in respect of all the areas they are required to assess.

Recommendations

2. Members are asked to note the conclusions and recommendations arising from the 2013/14 external audit process.

1 Purpose of this report

- 1.1 To provide a summary of the key external audit findings in respect of the 2013/14 financial year.

2 Background information

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

3 Main issues

- 3.1 Members should note the assurances KPMG give in respect of:
- An unqualified Value for Money conclusion. It was considered the Authority continues to make good progress in achieving the savings required from the reductions in government funding, although it is becoming increasingly difficult;
 - An unqualified audit opinion on the 2013/14 Statement of Accounts;
 - The Annual Governance Statement complies with proper practice and is consistent with the auditors understanding of the Authority;
 - The Financial Statements audit found the accounts to be well prepared with few significant matters arising. It was identified the Authority had not fully disclosed details required in relation to Private Finance Initiative Schemes. Further to this, several changes were made from the draft financial statements, mainly to incorporate property valuations received late in the process;
 - The Council's Whole of Government Accounts return to the HM Treasury was consistent with the audit financial statements. 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 15 August. The Authority made the decision to delay completing the return due to other competing pressures such as completing the draft financial statements.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This is a factual report based on evidence provided by the external auditors and has no direct implications for equality, diversity, cohesion and integration.

4.3 Council policies and City Priorities

4.3.1 As this is a factual report based on evidence provided by the external auditors there are no direct implications for Council policies or City priorities.

4.4 Resources and value for money

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

4.5 Legal Implications, Access to Information and Call In

4.5.1 Under Section 4 of the Code of Audit Practice 2010 for Local Government bodies, external auditors are required to issue an Annual Audit Letter summarising the main audit findings in relation to the financial year.

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

4.6 Risk Management

4.6.1 KPMG have confirmed that the Council has adequate controls in place to mitigate the key risks identified within the 2013/14 external audit reports.

5 Conclusions

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

6 Recommendations

6.1 Members are asked to note the conclusions and recommendations arising from the 2013/14 audit process.

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.

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Annual Audit Letter 2013/14

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Leeds City Council

October 2014



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Report sections

- Headlines

Appendices

1. Summary of reports issued

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4

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.audit-commission.gov.uk.

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This report summarises the key findings from our 2013/14 audit of Leeds City Council (the Authority).

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

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

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VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 25 September 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>We identified one focus area around the Authority's savings plans and monitored progress on achieving the savings. The Authority continues to make good progress in achieving the savings required from the reductions in government funding, although it is becoming increasingly difficult. Our work identified no significant matters.</p>
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 25 September 2014. This means that we believe your financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>We identified that the Authority had not disclosed the full contractual commitment of Private Finance Initiative schemes over the life of the schemes; in addition to the liability and interest costs paid over the life of the scheme, the Code of Practice on Local Authority Accounting in the UK 2013/14 also requires the service charge element to be disclosed, which is a significant part of the contract. In addition to this, several changes were made from the original draft financial statements, mainly to incorporate property valuations that were received late in the process. Overall, the accounts were well prepared with few significant matters arising.</p>
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

The Authority did not achieve the 30 June deadline for submission of the WGA return to DCLG and auditors.

However, we received the return on 15 August and we met the 3 October audit deadline.

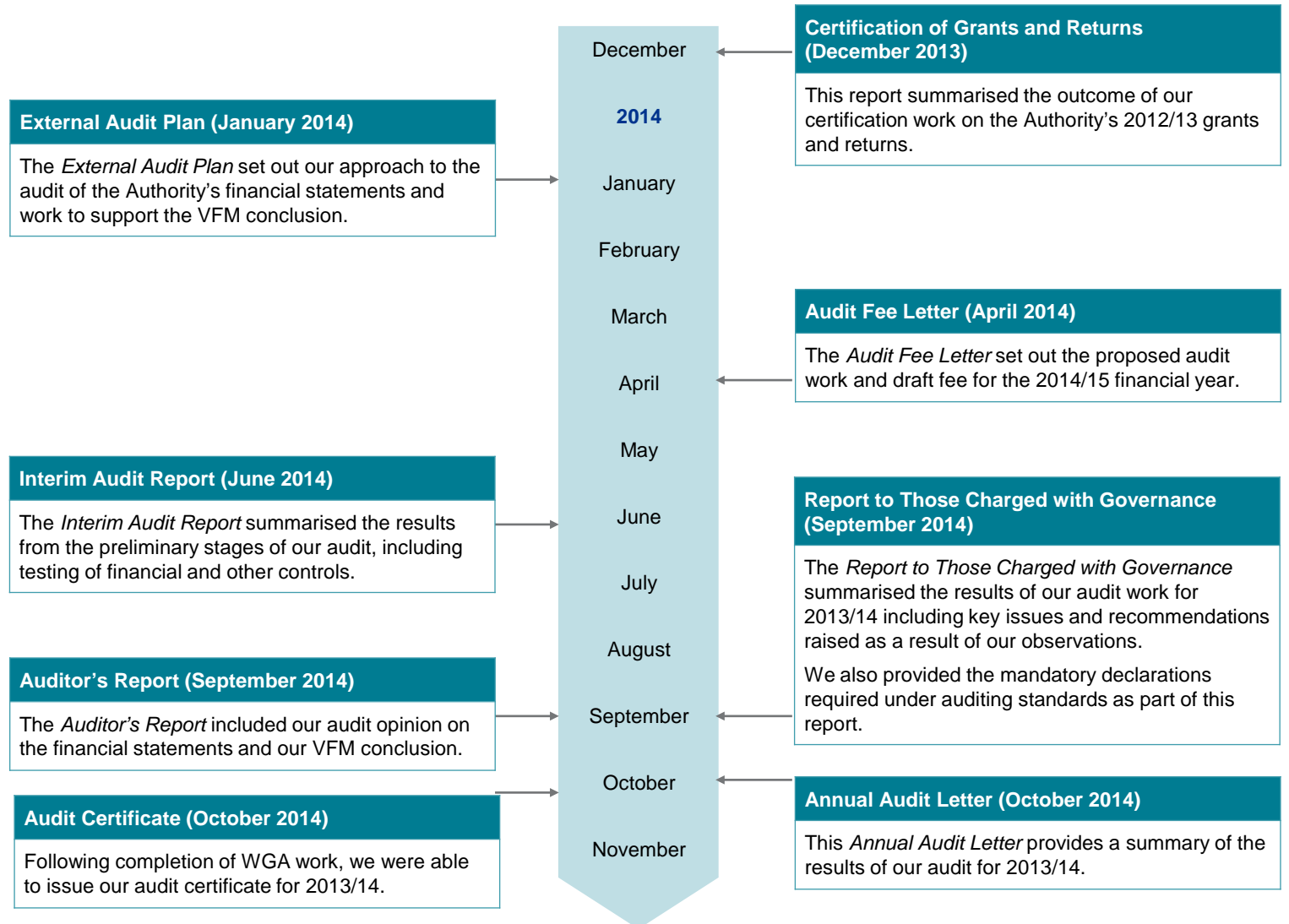
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<p>Whole of Government Accounts</p>	<p>The Authority did not achieve the deadline for submission of the WGA return to the Department for Communities and Local Government (DCLG) and auditors by 30 June. This was submitted on 15 August. The Authority made the decision to delay completing the return due to other competing pressures such as completing the draft financial statements.</p> <p>We reported that the Authority's WGA return was consistent with the audited financial statements on 2 October 2014.</p>
<p>High priority recommendations</p>	<p>We raised no high priority recommendations as a result of our 2013/14 audit work.</p>
<p>Certificate</p>	<p>We issued our certificate on 6 October 2014. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
<p>Audit fee</p>	<p>External audit</p> <p>Our final anticipated fee for the 2013/14 audit of the Authority is £309,270 subject to agreement with the Authority. This compares to a planned fee of £307,800. The Authority's NNDR3 no longer requires certification work and consequently the scale fee for the grants and returns work has been reduced. However, the audit of the financial statements required us to carry out additional procedures on NNDR figures. The Audit Commission is consulting on this issue for 2014/15 and 2015/16. We will await the outcome of this consultation before we hold further discussions with the Authority on finalising the fee.</p> <p>Other services</p> <p>We also charged £3,500 for grant compliance procedures on the Leeds Film Festival grant and £5,200 for an assessment of project management arrangements in relation to the Roma MATRIX project, which the Authority coordinates. This work was not related to our responsibilities under the Audit Commission's <i>Code of Audit Practice</i>.</p> <p>Certification of grants and returns</p> <p>Our grants work is still ongoing and the total fee will be confirmed through our report on the <i>Certification of Grants and Returns 2013/14</i> which we are due to issue in December 2014.</p>

Appendix 1: Summary of reports issued

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

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Report author: Chris Blythe
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Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

Subject: KPMG Certification of grants and returns 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. The number of grant claims for which the Audit Commission requires KPMG to audit continues to fall.
2. As in previous years the Housing & Council Tax Benefit Return was qualified due to minor reconciliation issues.
3. All other auditable returns required by the Audit Commissions were unqualified.
4. All other grant returns directly requested by Government Departments have, to date, been unqualified.

Recommendations

5. Members are asked to note the results of the 2013/14 audit of grants and returns.

1 Purpose of this report

- 1.1 To inform members on the result of the work of auditors in respect of work carried out on the certification of grant claims in 2013/14.

2. Background information

- 2.1 Each year the Government determines which grant claims require audit certification. The external auditors of each Local Authority are informed of these auditable grants by way of a register supplied by the Audit Commission. In addition the Council is required to arrange independent audits of a number of grants requested directly by

the grantable body. Corporate Financial Management provide a central coordination role to ensure all relevant working papers and grant returns are available for the auditors in order to meet the Government timetables.

3 Main issues

- 3.1 The attached report highlights the KPMG audit issues identified in respect of the 2013/14 grants and returns.
- 3.2 KPMG's report identifies one recommendation for improving the audit process. This has been built into procedures for 2014/15.
- 3.3 The KPMG report highlights one qualification in respect of 2013/14 grants. As was the case last year, this qualification was in respect of the Housing & Council Tax Benefit return. The qualification was again due to minor reconciliation differences between benefits paid per the claim form and benefits awarded per the benefits system. Members should note that KPMG are required to qualify a return if the systems used to support the claim are not fully reconciled. System improvements continue to be made but it should be recognised that the variance on the reconciliation amounted to less than £2k within a total claim of £288m. This variance had no impact on the claim received by the Council.
- 3.4 Officers continue to action audit recommendations to minimise errors and ensure accurate returns and claims are made.
- 3.5 In addition to the above, the Council has invited tenders for the audit of a number of other grant returns not covered by the Audit Commission process. To date, all completed audits have identified no issues and the returns have been unqualified.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This is a factual report based on evidence provided by the external auditors and has no direct implications for equality, diversity, cohesion and integration.

4.3 Council Policies and City Priorities

4.3.1 Under the Committee's terms of reference, members are required to receive external audit reports in order to gain the necessary assurance regarding governance. The report from KPMG provides assurance that all grant claims received to date have been certified by the auditors and any audit adjustments actioned.

4.4 Resources and Value for Money

4.4.1 Members should note the estimated KPMG audit fee of £29k for certification of grants and returns for the financial year 2013/14.

4.5 Legal Implications, Access to Information and Call In

4.5.1 As this is a factual report based on evidence provided by the external auditors none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 All recommendations contained within the Certification of Grants and Returns 2013/14 report have been considered and appropriate actions agreed.

5 Conclusions

5.1 All grant claims and returns have been successfully completed and final approved claims submitted to the relevant granting organisation.

5.2 The audit process identified one qualification issues.

5.3 Weaknesses in the control environment have been evaluated and changes have been introduced where appropriate.

5.4 External audit certification remains a valuable part of the control process and helps ensure that correct money is received by the Council.

6 Recommendations

6.1 Members are asked to note the results of the 2013/14 audit of grants and returns.

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.

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19 December 2014

Dear Alan

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims/returns:

Claim/return	Certified value (£)
BEN01 – Housing Benefit subsidy claim	287,582,027
CFB06 – Pooling of Housing Capital Receipts	20,471,371
TRA11 – Local Transport Plan Major Projects (A58M Leeds Inner Ring Road Highways Structures Essential Maintenance)	3,269,935
TRA11 – Local Transport Plan Major Projects (A65 Quality Bus Initiative)	183,841
Total	311,507,174

Matters arising

With the exception of the Housing Benefit subsidy claim, our certification work did not identify any issues or errors with the claims/returns, and we certified the claims/returns unqualified without amendment.

On the Housing Benefit subsidy claim, there were several issues which led to qualification and amendment of the claim; these were mainly attributable to benefit assessor inputting errors, as well as a minor system error. The impact on subsidy of the errors, however, is expected to be minimal.

Consequently we have made one recommendation to the Authority to improve its claims completion process.

In our 2012/13 Certification Annual Report we raised four recommendations relating to the Authority's claims/returns arrangements. Relating to the Housing & Council Tax Benefit subsidy claim, we raised recommendations around the Authority's quality assurance processes on further testing and around the reconciliation process for the Capita system. We also raised best practice recommendations around the quality assurance process on the Pooling of Housing Capital Receipts and generally around the availability of the original signed claim forms prior to completion of our work.

Of these, we are satisfied that the Authority has improved its arrangements and has addressed the recommendations in relation to quality assurance processes over housing benefits testing and the preparation of the Pooling of Housing Capital Receipts return. However, there is still scope to improve arrangements for passing signed claim forms to us in a timely manner and the reconciliation issues within the Capita system remain unresolved. Full details are included in Appendix 2.

Certification work fees

The Audit Commission set an indicative fee for our certification work in 2013/14 of £24,721. Our actual fee has yet to be finalised, but is expected to be higher than the indicative fee, due to an additional Local Transport Plan Major Projects grant requiring certification and additional work required to address errors in the Housing Benefit Subsidy claim.

The details are set out in the table below.

Claim	2013/14 Indicative fee (£)	2013/14 Final fee (£)	2012/13 Final fee (£)
BEN01 – Housing Benefit subsidy claim	19,851	21,231*	25,155
CFB06 – Pooling of Housing Capital Receipts	4,026	4,026	4,549
TRA11 – Local Transport Plan Major Projects (A58M Leeds Inner Ring Road Highways Structures Essential Maintenance)	-	2,400*	-
TRA11 – Local Transport Plan Major Projects (A65 Quality Bus Initiative)	844	844	1,544
Total	24,721	28,501*	31,248



*Proposed final fee. We are in the process of agreeing fee variations for the A58M Leeds Inner Ring Road Maintenance project and Housing Benefit Subsidy claim with the Audit Commission and will confirm the outcome with the Authority in due course.

Yours sincerely

John Prentice

Director

Appendix 1 – 2013/14 Certification of Claims and Returns Action Plan

Priority rating for recommendations		
<p>❶ Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>❷ Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>❸ Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements 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>

Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
1	Several input errors were identified in non-HRA rent rebates and rent allowance case testing during the Housing Benefit Subsidy claim certification work. Although the value of errors was small in relation to the value of the claim, these led to qualification of the claim.	The Authority should assess whether there are training needs for any of the assessment team and increase management checks in areas with a high error rate.	❷	The Council continues to work to improve team performance and address areas of higher than expected error count. Overall the level of error remains very small in relation to the overall claim. Responsible officer: Compliance manager, Welfare & Benefits. Target date: Continuous.

Appendix 2 – Follow up of 2012/13 Certification of Claims and Returns Recommendations

Number	Prior year recommendation	Priority	Status as at December 2014	Management comments
1	Further testing arrangements Quality assurance arrangements should be improved over further testing carried out by the Council.	②	No issues were identified during 2013/14 certification work and we could place reliance on the Authority's further testing.	It was accepted that should "further testing" be required in any area of the subsidy claim in future years, that this work will be internally reviewed before passing it back to the auditor. This process was effectively introduced for the 2013/14 return.
2	Signed claims/returns Original signed claims and returns should be passed to auditors upon commencement of the work.	③	There remained instances whereby signed claims/returns were passed to us after work had been completed, however, this did not have a significant impact on completion of the work.	All officers responsible for claims / returns have been informed of the importance of having completed and signed returns available before audit deadlines.
3	Housing & Council Tax Benefit subsidy claim – reconciliation process The Authority should review this reconciliation within the Capita system and endeavour to liaise with Capita in order to prevent this error from re-occurring.	③	Issues within the Capita system remain, which led to the reconciliation process being reported in the qualification letter to DWP.	There is a process of continuous improvements to the system reconciliation process. The unreconciled difference remains insignificant in relation to the overall claim and has no impact on the actual claim received by the Council.
4	Pooling of Housing Capital Receipts Quality assurance arrangements should be implemented to ensure that grant claim forms are complete and finalised prior to submission for certification. This will assist in the delivery of an efficient certification process.	③	The return was certified without amendment or qualification in 2013/14, with no quality issues identified.	System improvements have allowed costs to be more accurately recorded against individual properties. As the claim allows costs over the last 3 years to be offset against the capital receipts, officers have been reviewing such costs to improve the accuracy of the return. Further quality assurance processes have been implemented.

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Report author: Chris Blythe
Tel: x74287

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

Subject: KPMG External Audit Plan 2014/15

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

Summary of main issues

1. In order to discharge its statutory duties, KPMG has issued an audit plan which covers both the Council's 2014/15 accounts and the process for assessing the Authority's arrangements to secure value for money in the use of resources. The attached report identifies the key stages of the audit, the planned timetable and the key risks identified.
2. The Audit Commission have confirmed that KPMG will be the Council's appointed Auditors until 2017.

Recommendations

3. Members of the Corporate Governance and Audit Committee are asked to agree the nature and scope of the external audit plan.

1 Purpose of this report

- 1.1 To inform members of KPMG's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2014/15.
- 1.2 In addition this report also confirms the Council's future audit arrangements as determined by the Audit Commission.

2 Background information

- 2.1 KPMG's statutory responsibilities and powers are set out in the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice. As the Council's external auditors, KPMG are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

3 Main issues

- 3.1 The attached report from KPMG identifies the four key stages for the audit of the Council's financial statements:

- Planning,
- Evaluation of controls (Interim Audit),
- Substantive procedures,
- Completion (audit opinion and reporting the main findings).

Any findings from the interim audit will, if significant, be the subject of a separate report to this Committee in June. The main audit work (substantive procedures) is timetabled for July and August, with the resulting audit opinion and findings due to be reported back to this Committee in September.

- 3.2 In respect of the Council's accounts, KPMG have identified the valuation of plant, property and equipment and the assessment of the pensions liability as the key areas of audit focus for 2014/15.
- 3.3 In respect of the Council's Value for Money arrangements, KPMG will structure their approach around two key criteria:
- The Council has proper arrangements in place for securing financial resilience,
 - The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
- 3.4 The main risk identified in KPMG's VFM audit is whether the Council can achieve the savings target and assess the adequacy of the Council's provisions and reserves.
- 3.5 In addition to KPMG's Audit Plan, the attached letter from the Audit Commission confirms the appointment of KPMG as the Council's auditors till 2017. The Audit Commission have also informed Councils that DCLG are to consider whether to extend contracts beyond 2017. It is not yet clear as to the process for determining contract extensions but the decision as to which will be extended is expected in the summer of 2015.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The audit plan does not raise any issues requiring consultation or engagement with the public, Ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

4.3.1 Under the Committee's terms of reference members are required to agree the nature and scope of the external audit plan.

4.4 Resources and Value for Money

4.4.1 The report highlights the auditor's approach to assessing 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 report by KPMG outlines how they propose to discharge their responsibilities as defined by the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

4.6 Risk Management

4.6.1 The risks identified in the KPMG audit plan are recognised within the Council's risk register and incorporated into the level of the Council's risk based reserves.

5 Conclusions in relation to the financial statements

5.1 KPMG have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council's 2014/15 accounts and for assessing the Council's arrangements for securing value for money. They have also identified what they see as the main risks.

5.2 KPMG will inform this Committee in June if there are any significant issues arising from their interim audit. They will then report on their final VFM conclusion and the opinion on the accounts to this Committee in September.

5.3 KPMG have been confirmed as the Council's auditors for 2015/16 and 2016/17.

6 Recommendations

6.1 Members are asked to agree the nature and scope of the external audit plan.

7 Background documents¹

7.1 None.

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External Audit Plan 2014/15

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Leeds City Council

December 2014



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This document describes
how we will deliver our audit
work for Leeds City Council.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* and describes how we will deliver our financial statements audit work for Leeds City Council ('the Authority'). It also sets out our approach to value for money (VFM) work.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 explains our approach to VFM work.
- Section 5 provides further detail on the key VFM focus areas.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

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

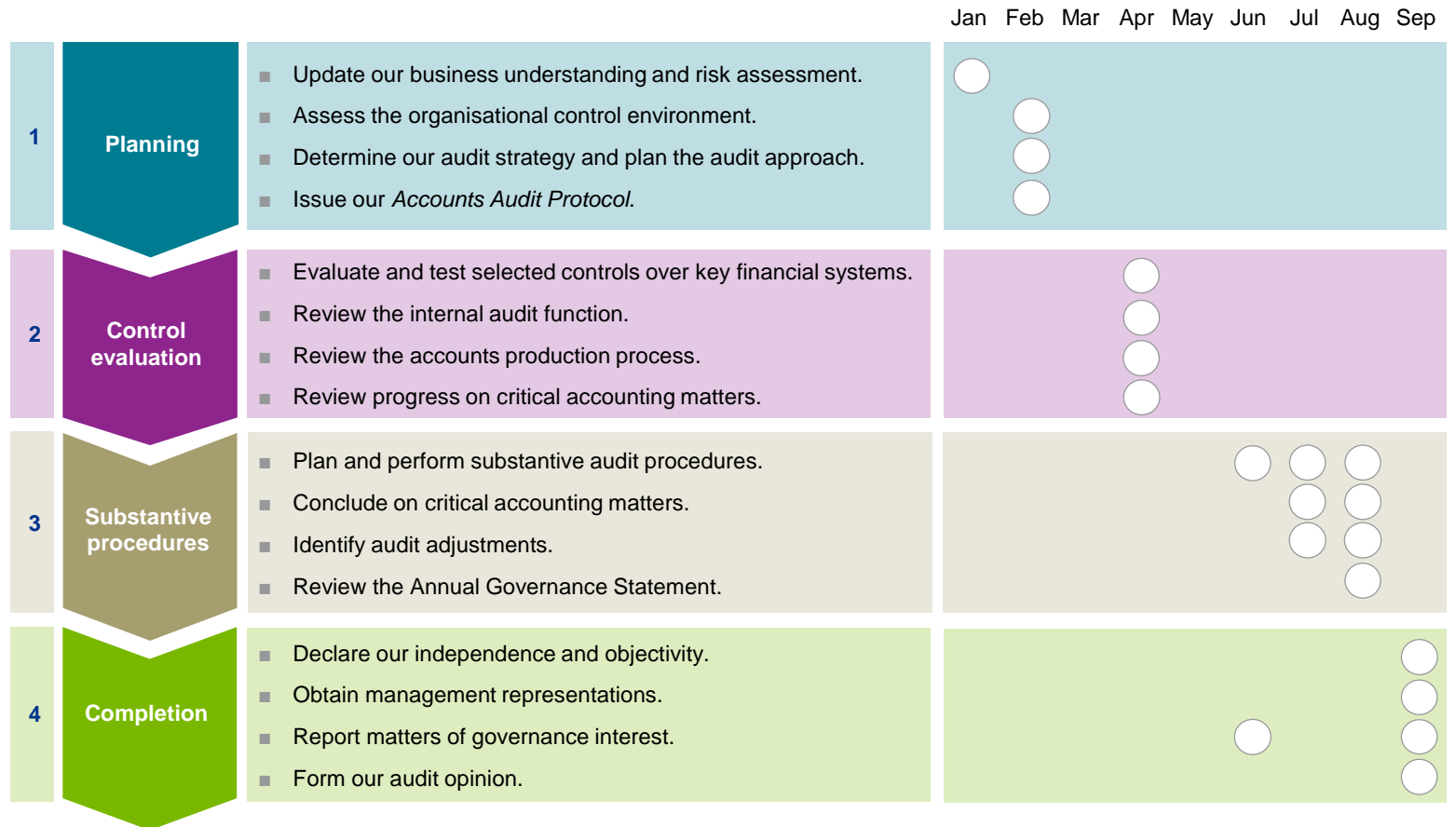
Audit approach	<p>There are no major changes to the accounts format and regulatory requirements for 2014/15 and our overall audit approach is unchanged from last year.</p> <p>Our work is carried out in four stages and the timings for these, and specifically our on site work is set out on page 4. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessments for the financial statements audits and have identified two significant risks this year.</p> <ul style="list-style-type: none"> ■ The valuation of property, plant and equipment (PPE). ■ The valuation of the local government pension fund liability. <p>Significant risks are areas of the accounts that require special audit consideration and we have described our planned approach in more detail in Section 4 of this plan.</p>
VFM audit approach	<p>We have completed our initial risk assessments for the VFM conclusion and have not identified any significant risks at this stage, although we recognise that delivering savings targets is becoming more difficult. We will update this assessment to take account of the impact of the financial settlement for 2015/16 which has just been announced.</p> <p>The 2014/15 budget included savings plans of £45,9m to address funding shortfall and cost pressures. A projected overspend was identified in Month 7 of £5.3m and the Authority has plans in place to address this. The Authority is continuing to manage its savings plans to secure longer term financial and operational sustainability.</p> <p>As part of our approach to VFM we will critically assess the controls the Authority has in place to ensure sound financial standing. We will consider how the Authority is managing its savings plans and will review key performance indicators to assess whether this has had an unintended adverse impact on service delivery.</p> <p>We will also review the latest update to the Strategic and Financial Plan to ensure it appropriately reflects expected funding reductions and the consequences for service provision.</p>

Section three Our audit approach

We will undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



Be February 2015 we will complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our detailed planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we may undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Group audit

We will discuss with the officers of the Authority whether group accounts remain necessary following the Arms Length Management Organisations (ALMOs) managing housing being brought back in-house from 1 October 2013.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We will work with the finance team to discuss learning points from the 2013/14 audit incorporating these into our work plan for 2014/15.

During April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective, working with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will present our *Interim Report to the Corporate Governance and Audit Committee* in July.

Our interim visit on site will be completed during April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We meet with Internal Audit regularly during the year to discuss progress against our respective audit plans. We met with Internal Audit in November 2014 to discuss the principles and timetable for the managed audit process.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

We also use the results of internal audit's work to inform our risk assessment.

Accounts production process

As highlighted in our *Report to Those Charged with Governance (ISA 260 Report)* in September 2014, the quality of the accounts and supporting working papers has historically been good and officers dealt efficiently with our audit queries.

We will assess the Authority's progress in preparing for the closedown and accounts preparation for 2014/15. Based on our initial discussions we have no concerns at this stage.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Corporate Governance and Audit Committee meeting in July.

Our audit approach – substantive procedures

During July and August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Corporate Governance and Audit Committee in September 2015.*

Our final accounts visit on site has been scheduled for the period July to August 2015. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with the finance team in August 2015, prior to reporting to the Corporate Governance and Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the finance team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Corporate Governance and Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to the Corporate Governance and Audit Committee in September 2015.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 1.

We confirm our audit team's independence and objectivity is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electors challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors are not covered by the set fee. Any work required will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement lead and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Corporate Governance and Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of January 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2014/15.

We identified two significant risks: Valuation of Property Plant and Equipment (PPE) and Pension valuations

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Professional Requirements

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for the authority as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.


Significant Risks

Significant risks are areas of the accounts that require special audit consideration. Based on our initial risk assessment the Balance Sheet valuations of property plant and equipment (PPE) last year were £3.3bn and the pension liability was £918m. These entries both involve the use of an expert by management; the in-house property valuers and pensions scheme actuary apply judgement in arriving at their valuations. We will assess the reliability of the experts and the accuracy of the disclosures in the financial statements.

Significant risks	Impact on audit
	<p>Risk</p> <p>In 2013/14, late valuations required changes to the asset valuations in the financial statements after the accounts were sent for audit. Material impairments also resulted in substantial variances from the previous year.</p> <p>Our audit work</p> <p>We will review your approach to re-valuation and impairment of assets and reassess the risk as part of our interim work. The impact on 2014/15 will also be considered to ensure we understand the effect and can confirm that the accounts are not materially misstated.</p>

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2014/15.

We identified two significant risks: Valuation of Property Plant and Equipment (PPE) and Pension valuations.

Areas of Audit focus	Impact on audit
	<p>Risk</p> <p>Valuation of assets supporting the pension fund have fluctuated significantly over recent years. In 2013/14 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. The valuation is determined by the scheme's actuary, based on several key assumptions which are judgemental in nature.</p> <p>Our audit work</p> <p>As we did in 2013/14 we will review the accounts disclosures to the Authority's IAS19 report reviewing the key inputs to the valuation, including the information supplied by the Authority to the actuary. We will assess the reasonableness of the assumptions used in the calculation and the scheme's actuary AON Hewitt's qualifications as expert.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; the Authority's key financial ratios and management's analysis of these; information from the Audit Commission's VFM profile tool; evidence gained from previous audit work, including the response to that work; and the work of the Audit Commission, other inspectorates and review agencies.

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

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Links with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and / or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

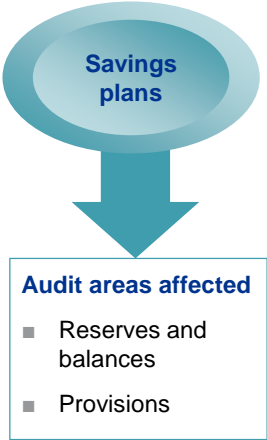
We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> local savings review guides based on selected previous Audit Commission national studies; and update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

We will be focussing on delivery of the savings plan. We have outlined the impact on our VFM approach.

We will provide an update on how the Authority is managing this area in our *Interim Audit Report*.

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Focus area	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Reserves and balances ■ Provisions 	<p>The Authority has a good track record of delivering significant savings plans in previous financial years, but there is recognition that delivery of future savings is becoming more difficult. The 2014/15 revenue budget includes a savings programme totalling £45.9 million on top of significant savings in prior years. There has been progress on delivering this programme, but with new cost pressures in adults and children’s services a projected overspend of £8.5m was reported as at month 6 (September) improving to a projected £5.3m overspending by month 7 (October).</p> <p>Directorates are continuing to monitor their financial performance closely and are aware of the need to deliver a balanced budget and actions have been agreed. A number of further short term measures have been agreed to address the potential over-spend including embargoes on:</p> <ul style="list-style-type: none"> ■ most external recruitment and appointment of agency staff; ■ overtime; and ■ non-essential non staffing spending including training and building maintenance. <p>Additionally, all services must bring forward proposals to increase fees and charges by at least 2% from 1st January 2015 and the Authority is looking to maximise the numbers of staff leaving the organisation under the Early Leavers Initiative. We will:</p> <ul style="list-style-type: none"> ■ consider how the Authority is managing its savings plans and we will review key performance indicators to assess whether this has had an unintended adverse impact on service delivery. ■ (In our final accounts audit) review the Authority’s assessment of any potential liabilities arising from the savings plans (for example as a result of the Early Leavers’ Initiative) against the Code. If material, we will review the Authority’s provisions, including the methodology, assumptions and calculations. ■ also assess the level of reserves available at 31st March 2015 against the Authority’s reserves policy, taking into account any contingent liabilities which could have a significant impact on the Authority’s financial standing if they were to crystallise.

Our audit team has had some changes since last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



John Prentice
Partner/Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Corporate Governance and Audit Committee, the Chief Executive and Deputy Chief Executive.”



Rob Walker
Manager

“I will direct and coordinate the audit. I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will liaise with the Deputy Chief Executive, the Principal Accountant within Corporate Financial Management and the Head of Internal Audit.”



Charlotte George
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Senior Financial Manager within Corporate Financial Management and the Principal Audit Manager within Internal Audit. I will also supervise the work of our audit assistants.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

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Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	28 January 2015
Control evaluation		
Interim Report (if necessary)	<ul style="list-style-type: none"> Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	July 2015
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements. 	September 2015
Completion		
Auditor's report	<ul style="list-style-type: none"> Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2015
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2015

We will be in continuous dialogue with you throughout the audit.

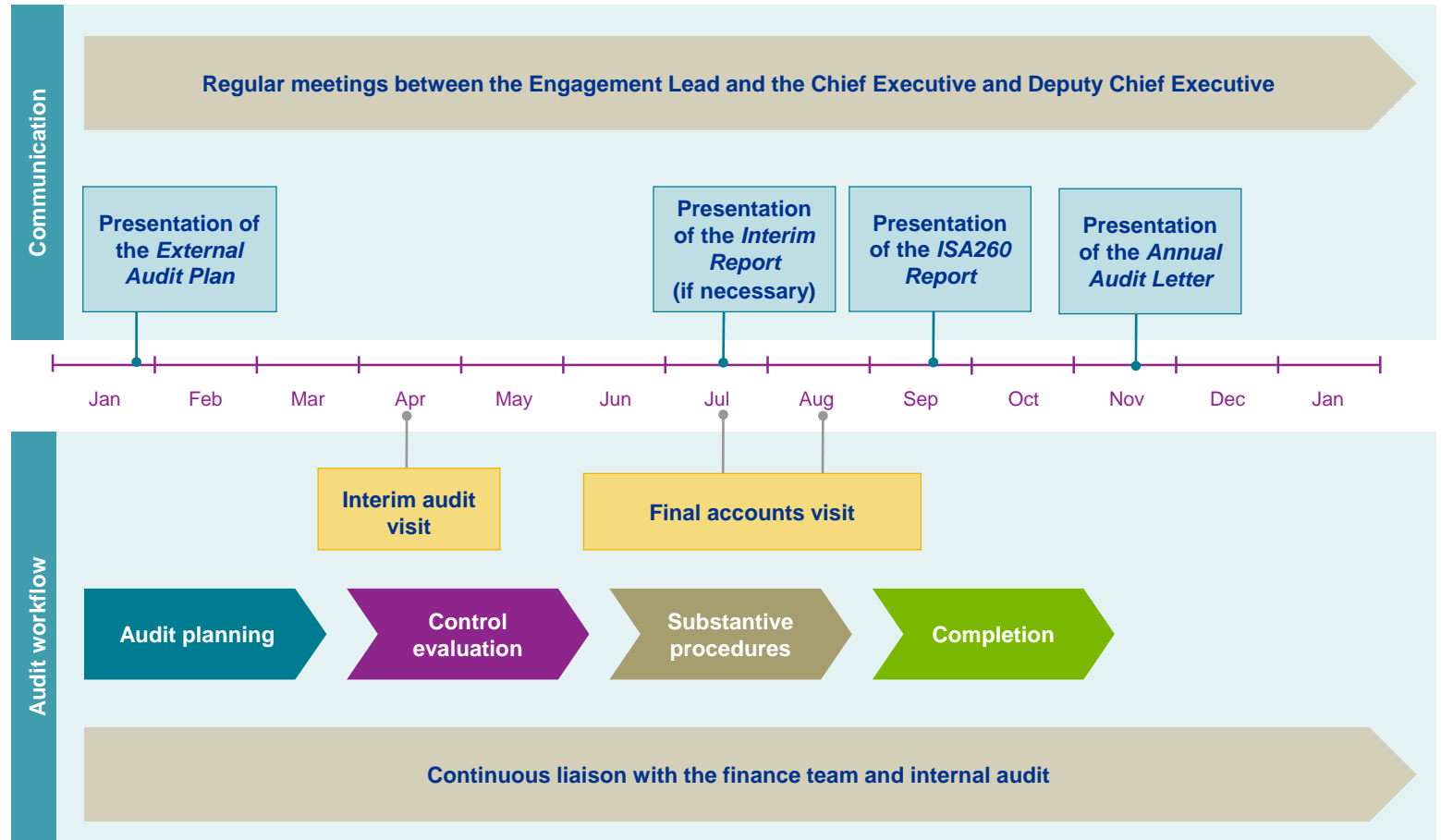
Key formal interactions with the Corporate Governance and Audit Committee are:

- January – Financial Statements Audit Plan;
- July – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July and August.



Key: ● Corporate Governance and Audit Committee meetings.

The scale fee for the 2014/15 audit of the Authority was £307,800 but has increased slightly to take account of work we are required to carry out in the Collection Fund on NNDR figures.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit as £307,800. The Audit Commission then consulted on a change to the scale fee.

From 2013/14 the Authority's NNDR3 return no longer requires certification work and consequently the scale fee for the grants and returns work was reduced by almost £3,000. However, the audit of the financial statements required us to carry out additional procedures on NNDR figures.

Element of the audit	2014/15 (planned)	2013/14 (subject to agreement)
Gross audit fee	£309,270	£309,270

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:

- the financial statements and working papers are made available for audit in line with the agreed timescales;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our jointly agreed work programme and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Deputy Chief Executive.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

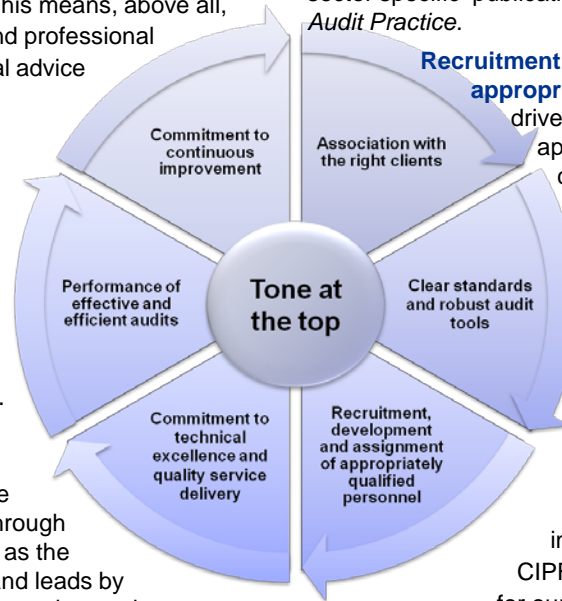
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. John Prentice as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAUDIT application has significantly enhanced

existing audit functionality. eAUDIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director;

- A dedicated Department of Professional Practice comprised of over 100 staff who provide support to our audit teams and deliver our web-based bi-monthly technical training.

We continually focus on delivering a high quality audit.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up-to-date and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensics, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgement and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory and Compliance report dated June 2014 showed that we performed highly against all the Commission's criteria.



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15 December 2014

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Direct line

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appointments@audit-
commission.gsi.gov.uk

Dear Mr Riordan

Leeds City Council – confirmation of auditor appointment from 2015/16

I wrote in June to consult you on the proposed re-appointment of KPMG LLP as the external auditor for Leeds City Council from 2015/16.

Auditor appointment

This letter confirms the appointment of KPMG LLP to audit the accounts of Leeds City Council for two years from 2015/16. The appointment is made under section 3 of the Audit Commission Act 1998 and was approved by the Audit Commission Board at its meeting on 4 December 2014.

The Commission's contracts with audit firms are extendable by three years. The Department for Communities and Local Government (DCLG) has indicated it will make a decision in summer 2015 about whether to extend the contracts from 2017 to 2020.

Audit quality and regulation

Under the provisions of the Local Audit and Accountability Act 2014, the Commission will close at the end of March 2015. From 1 April 2015, a transitional body, Public Sector Audit Appointments Limited (PSAA), set up by the Local Government Association as an independent company, will oversee the Commission's audit contracts until they end in 2017, or 2020 if extended by DCLG. Arrangements for audited bodies to appoint their own auditor will be announced by DCLG and will apply once the audit contracts have ended.

PSAA will exercise the Commission's statutory functions relating to auditor appointments and fees. It will continue to monitor the performance of the firms providing audit services, ensuring

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that local public bodies receive high quality and effective audit services which provide value for money to the local taxpayer.

Next steps

KPMG LLP will contact you in due course about the arrangements for the audit from 2015/16.

If you have any questions, please contact us by email at auditor-appointments@audit-commission.gsi.gov.uk.

Yours sincerely



Jon Hayes
Associate Controller of Audit (Compliance)

cc Mr Alan Gay, Director of Corporate Services & Deputy Chief Executive, Leeds City Council
KPMG LLP



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

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 28th January 2015

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**

20th March 2015		
Internal Audit Plan	To receive a report informing the Committee of the Internal Audit Plan for 2015/16	Head of Internal Audit Sonya McDonald
Internal Audit Update Report	To receive the Internal Audit quarterly report	Head of Internal Audit Sonya McDonald
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
KPMG – National Fraud Update	To receive a report providing an update on National Fraud issues	Chief Officer (Financial Management) Doug Meeson
Unscheduled Items		

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