

Corporate Governance and Audit Committee

Friday, 24th June, 2016

PRESENT: Councillor P Grahame in the Chair
Councillors R Wood, J Bentley, P Harrand,
K Bruce, N Dawson, J Illingworth, K Groves
and G Hussain

1 Chair's Opening Remarks

The chair welcomed members to the first meeting of the municipal year and thanked Councillor Hussain for his service to the committee as chair over the last three years.

2 Appeals Against Refusal of Inspection of Documents

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

3 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

4 Late Items

There were no late items submitted to the agenda for consideration. However supplementary information had been published in relation to Agenda Item 7 "KPMG Interim Audit Report & Technical Update" Minute No.9 refers.

5 Declaration of Disclosable Pecuniary and Other Interests'

No declarations were made.

6 Apologies

No apologies were received

7 Minutes - 18th March 2016

RESOLVED – That the minutes of the meeting held on 18th March 2016.

8 Matters Arising

Minute No.69 KPMG Full Audit Plan

Following a question about reviewing the level of the Council's reserves within the context of its medium term financial plan, it was confirmed by Mr Walker from KPMG staff that this had not happened yet, but would be completed in time for the presentation of the ISO 260 report in September. In addition Mr Walker assured the committee that this will be made available to Members as soon as the work has been completed.

RESOLVED – The Committee resolved to receive the results of the review of Council reserves as soon as it was available.

Minute No 73. Annual Information Governance Report

The Head of Governance Services provided an update which confirmed that the Committee's comments with regards to the Council's ability to comply with the INSPIRE European Directive had been reported to Corporate Leadership Team.

9 KPMG Interim Audit Report and Technical Update

The Deputy Chief Executive submitted a report which presented the results of KPMG's interim audit work in relation to the council's financial systems and controls and which provided the committee with a technical update in respect of:

- The new local audit framework
- The LGA's 2015 Spending Review submission
- A DCLG consultation on pension fund investment reform
- The Accounts and Audit Regulations 2015
- The 2015/16 Code of Practice in Local Authority Accounting in the United Kingdom
- Capital Receipts Flexibility
- Devolved Structures in the North of England
- Better Care Fund Policy Framework 2016/17 and the Care Act first phase reforms

The Principal Finance Manager updated the Committee with the latest position in relation to the future appointment of external auditors. It was confirmed that the Council had expressed interest in joining a sector led national procurement body, but this was non-binding and did not commit the council to following this procurement route. Further information will be provided at the January 2017 meeting of the Committee.

Mr Walker and Mr Smith were able to assure the committee that no serious concerns have been found by KPMG in respect of the controls in place for the key financial systems and there is nothing to report in this respect.

In discussion with Members it was confirmed that the Council's accounts were published on line. Members also sought information in respect of how the public gained access to details of transactions over £500, it was confirmed that all transactions, irrespective of value, are similarly published to the Leeds Data Mill.

Members requested that further information be provided on how the public can easily access this type of information and sought assurance that the authority's responsibilities in respect of access to data sets prescribed by the Local Authority Transparency Code are being complied with.

Clarification was also provided by KMPG to Members that although more audit work would be completed during 2016/17, the fees would not change from the previously reported level.

RESOLVED – The Committee resolved to:

- (a) Note that there are no issues which KPMG wish to bring to the attention of the Committee in respect of their review of the systems and controls which underpin the Council's financial statements; and
- (b) Request further information on how the public can access the draft statement of accounts and the data that is published on individual spending transactions.

10 Publication of Draft Statement of Accounts 2015/16

The Principal Finance Manager presented a report of the Deputy Chief Executive which presented the 2015/16 Statement of Accounts prior to them being made available for public inspection..

Members were informed that the Deputy Chief Executive signed the draft unaudited Statement of Accounts on the 13th June 2016 and that after consideration by the committee the Accounts will be placed on deposit for public inspection and will be audited by KPMG over the summer period. The final audited Accounts will be presented to the committee again in September for approval.

The Principal Finance Manager advised the committee that in respect of Business Rates the net deficit is £70m, of which 49% is attributable to the Council. At the time when the budget was set for 2015/16 this figure was predicted to be £47m, presenting a £23m shortfall of which £11m is attributable to the Authority and which will need to be taken account of in the 2017/18 budget setting process.

The Head of Corporate Finance confirmed that Business Rates were causing the Council some difficulties at the present time, this being due to a range of factors including appeals (there being some 5000 Appeals outstanding), discounts applied due to flooding (although some grant income was also received to offset this) and granted empty property relief. Members were informed that the Gross Rateable Value for the city is now estimated to be £912m which is less than the value prior to the Trinity shopping area opening.

This erosion being caused by the appeal process and the change in the economy and market conditions in Leeds.

The Committee requested that a further report on business rates be prepared for consideration to include;

- Background on to the Council's current and future liabilities in respect of business rates retention;
- The roles, responsibilities and decision making processes of the Council and the Valuation Office;
- Any impact arising from the publication by the Valuation Office of the new ratings list;
- Current and future trends in respect of business rate income and liabilities arising from business rate valuation appeals;
- The risks associated with business rates retention to the Council's budget setting process.

Members also sought confirmation on the amount of reserves that the Council holds. In total it was reported that the Council had £320m of spendable reserves, of which £268m are ringfenced, £30m are earmarked for other specific purposes and the remaining £21.3m is the Council's general reserve. Of the £268m ringfenced reserves, £186m relates to Capital, £38m relates to the HRA, £38m relates to Schools and £6m relates to grants received in advance of revenue spending.

The Chair questioned the procedure for the reduction of business rates and how businesses qualify for reductions in the City Centre when the retail landscape of the City Changes.

Members queried the 'other sundry debtor' position and noted that that this stood at £76million and had increased since last year. Members were informed that the largest change in this figure, compared to the previous year, was an increase of £6.4m in Housing Benefit overpayment debtors. Members asked that a detailed breakdown of sundry debtors be provided.

Members commented that total of capital receipts from the sale of assets totalled £26million but that the value of these assets were £32 million. It was noted that a large proportion of the difference in these figures is due to the sale of right to buy houses which the Council has no control over the level on which to sell. Members requested that further information in relation to the figure stated for the sale of non-housing related assets is provided.

Members also discussed the conversion of schools into academies and how this affected the Council's accounts. It was confirmed that the transfer of these assets totalled a £44 million loss but that the Council was no longer responsible for the maintenance of the buildings. Members requested a breakdown of the assets handed over and their value.

RESOLVED – The Committee resolved to:

- (a) note the 2015/16 unaudited Statement of Accounts as certified by the Deputy Chief Executive,;
- (b) Request a further report on business rates;
- (c) Request a breakdown of the £76 million sundry debtor position and of the capital receipts arising from non-housing assets; and
- (d) Request a detailed breakdown of the assets transferred to create academies and their associated value.

11 Internal Audit Annual Report and Opinion 2015/16

The Chief Officer (Audit & Investment) presented a report of The Deputy Chief Executive which brought to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2015/16.

It was highlighted that internal audit will also issue interim reports to the Committee if any significant matters arose which would warrant immediate attention.

Members sought clarification on how the Chief Officer's Opinion on the Council's control environment was arrived at. It was confirmed that all work undertaken by Internal Audit was done in line with the professional internal audit standards, opinions were based on evidence gathered and that the schedule of audits undertaken was reflected in the risk based audit plan presented to Members at the start of the year.

Members sought clarification that there were enough resources within Internal Audit to deliver the 2016/17 Audit Plan and to provide an opinion on the control environment. The Chief Officer (Audit & Investment) highlighted the technological advances in auditing techniques which allowed for greater audit coverage and that three extra staff had been recruited by Internal Audit from Financial Services. The Chief Officer (Audit and Investment) also confirmed that the resources deployed were sufficient to give an evidence based opinion.

Members discussed how off contract spend was monitored and also the process for extending contracts once they have expired. Members requested that a briefing note be prepared for circulation to the committee detailing the amount of off contract spend by department.

RESOLVED The Committee resolved to:

- (a) Receive the Internal Audit Annual Report for 2015/16 and note the opinion given on the basis of the audit work undertaken during the 2015/16 financial year. In particular:
 - That there were no outstanding significant issues arising from the work undertaken by Internal Audit;
 - That on the basis of the audit work undertaken during the 2015/16 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating

effectively in practice; and

- That the work undertaken to support the opinion has been conducted in accordance with an established methodology that promoted quality and conformance with the International Standards for the Professional Practice of Internal Auditing; and

- (b) Request a briefing note be prepared and circulated to committee members setting out the amount of off contract spend by directorate.

12 KPMG Report - Corporate Risk Register Analysis

The Principal Finance Manager presented a report of The Deputy Chief Executive which introduced KPMG's report on corporate risk registers and set out the Council's response to the recommendations made.

The Senior Risk Management Officer and Mr Walker of KPMG commented that the Council's Risk Register includes the types of risks that they would expect to see in a large local authority.

In discussion in relation to the two issues raised for the authority to consider by KPMG, it was confirmed that key risks would be assigned to members and that the level of prominence given to financial risk was regularly reviewed, although it was felt that the current level was appropriate.

Following questions from Members about the risks to the authority arising from the referendum vote to leave the European Union it was confirmed that the implications of this are in the process of being considered. The committee requested a further report to provide reassurance that arrangements are in place to identify and manage any emerging risks.

RESOLVED – The Committee resolved to:

- (a) note the contents of KPMG's report, and the council's proposed response to the points raised in it; and
- (b) Request a further report to provide reassurance to the committee that arrangements are in place to identify and manage any risks emerging as a consequence of the vote to leave the European Union.

13 Annual assurance report on corporate risk and performance management arrangements

The Senior Risk Management Officer presented a report of The Deputy Chief Executive. This annual report detailed assurances to the Committee on the effectiveness of the Council's corporate risk and performance management arrangements.

It was confirmed that following the publication of high level risks on the Council's website that there had been no requests from the public for further detail.

RESOLVED - The Committee resolved to note the annual report on the Council's corporate risk and performance arrangements and note the assurances in support of the Annual Governance Statement, due for consideration and approval by this Committee.

14 Annual Assurance Report on the Financial Management and Control Arrangements

The Head of Corporate Finance presented a report of the Deputy Chief Executive which provided assurance to this Committee that the Council had in place effective and robust arrangements for financial planning, financial control and other financial management activities.

This report outlined:

- The key systems, controls and procedures;
- New developments and improvements which have been put in place;
- New developments in the near future; and
- New risks and any issues arising.

The report aimed to give members assurance that the financial control and financial governance arrangements that were in place were fit for purpose, up to date and embedded across the organisation.

Members discussed the structure of the finance function at Leeds City Council and whether this was reviewed and compared to other authorities. It was confirmed that the structure and method of deployment of finance staff has, since 2009, been by way of a team who are all professionally accountable to the Chief Officer (Financial Services) and through him to the Deputy Chief Executive. These staff are then flexibly deployed as need requires. The Head of Corporate Finance confirmed that this is under constant review and is benchmarked against other comparable authorities.

Members also queried the existing business systems and whether they are integrated and provide sufficient capacity for reconciliation of all spend.

Members queried whether it was sustainable to continue to operate a budget setting and budget management process whereby, in some isolated circumstances over the last four years, directorates have overspent.

It was confirmed that demand management, compliance with statutory responsibilities (particularly around safeguarding) coupled with the ongoing need for service efficiencies continue to be a significant challenge across the authority.

RESOLVED - The Committee resolved to:

Note the assurances provided that the appropriate systems and procedures were in place to ensure sound financial management and control.

15 Annual assurance report on employment policies and procedures and employee conduct.

The HR Business Partner presented a report of the Chief Officer HR which provided assurance to the Committee that: the requirements of employee conduct were established and regularly reviewed; requirements relating to employee conduct are communicated and feedback is collected on whether expected behaviours were being demonstrated; and employee conduct is monitored and reported.

Members noted that officers were required to declare interests in a similar way to Members.

Members requested that they be updated on the position on the percentage of staff who have had appraisals at the earliest opportunity.

RESOLVED - The Committee resolved to note the positive assurances provided in relation to employment policies and employee conduct. Particularly:

(a) In relation to the requirements of employee conduct being established and regularly reviewed:

- Assurance that the Code of Conduct is accessible to employees and fit for purpose;
- Assurance that politically restricted posts have been matched to the specified and sensitive criteria; and
- Assurance that there is a programme of review for employment policies to ensure they are fit for purpose.

(b) In relation to the requirements of employee conduct being communicated and feedback being collected on whether expected behaviours are being demonstrated:

- Assurance that annual reminders regarding gifts and hospitality are issued and that Directors review annually the declarations that have been made;
- Assurance that there is rolling programme for the completion of register of interests for employees in identified high risk posts and that declarations are reviewed by Directors;
- Assurance that through the Manager Challenge programme the values and behaviours expected of managers is being embedded;
- Assurance that through the appraisal process managers rate employees on their overall performance and also on the behaviours they demonstrate;

- Assurance that through the annual engagement survey feedback is gathered direct from employees on how well behaviours are being demonstrated;
- Assurance that mandatory “Information Governance Level 1” training is in place and is reviewed and refreshed every 2 years.

(c) In relation to the requirement that employee conduct is monitored and reported:

- Assurance that where appropriate employees are referred for investigation under the disciplinary policy; and
- Assurance that there have been no referrals to the HR casework team in 2015/16 for any breach of the politically restricted posts policy, the gifts and hospitality policy or the register of interests policy.

(d) Receive an update on the percentage of staff that have had an appraisal at the earliest opportunity.

16 Annual Decision Making Assurance Report

The Head of Governance presented a report of The City Solicitor which provided the annual report to the Committee concerning the Council’s decision making arrangements.

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

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

The Section Head (Taxi & Private Hire Section) and The Head of Development Management were in attendance to answer any questions relating to Licensing and Planning.

RESOLVED – The Committee resolved to note the positive assurances provided in the submitted report in relation to executive decision making, the regulation of investigatory powers, licensing, and planning.

Particularly:

(a) In relation to executive decision making:-

- assurance that the Constitution is maintained up to date, relevant, compliant with legislation and fit for purpose;

- assurance that continuous review of delegation and publication arrangements ensure that decisions are made appropriately and transparently;
- assurance that ongoing monitoring takes place in relation to key performance indicators including the publication of agendas, minutes, and forthcoming Key decisions and the availability of decisions to call in; and
- assurance that training in relation to the Council's structures and decision making arrangements ensure that they are understood and embedded in decision making culture and are routinely complied with; and
- assurance that regular reviews of decision making governance arrangements confirm that they are updated as necessary to ensure that they are fit for purpose.

(b) In relation to the regulation of investigatory powers:-

- Assurance that appropriate preparations have been made, including the delivery of training to relevant colleagues, in anticipation of use of powers to acquire communications data by colleagues in Environmental Action;
- Assurance that guidance and procedure documents have been reviewed and updated and that no further changes to Regulation of Investigatory Powers Act policy are recommended by officers at this time;
- Assurance that appropriate steps are taken to embed and enforce good practice; and
- Confirmation that there have been no applications for directed surveillance or CHIS authorisations in the reporting period.

(c) In relation to planning:

- Assurance that the framework for determination of planning matters and arrangements for the delegation of planning functions are regularly reviewed;
- Assurance, from internal audit, that decision making arrangements are fit for purpose and routinely complied with;
- Confirmation that ongoing performance monitoring reviews:-
 - Workload;
 - compliance with statutory timescales;
 - appropriate use of agreed extensions of time;
 - decisions against officer recommendation;
 - appeals; and
 - complaints;
- Provision of appropriate training for both officers and Members has taken place; and
- Confirmation that work is ongoing to build and develop relationships with partners and customers.

(d) In relation to licensing to:-

- Note the reports received by Licensing Committee on 9th February 2016, and specifically the assurances contained in those reports in relation to licensing decisions, practice and procedure; and
- Note the work undertaken to promote safeguarding in relation to taxi and private hire licensing as outlined in the report received by Executive Board on 16th December 2015.

17 Annual Governance Statement

The Head of Governance Services submitted a report of the City Solicitor which presented the Annual Governance Statement (AGS) to the committee for approval.

RESOLVED – The Committee resolved to:

- (a) Agree that the attached draft Annual Governance Statement be released to accompany the draft accounts when they are placed on public deposit; and
- (b) Authorise the Chair to agree any additions/amendments to the Statement that may be necessary following the receipt of the External Auditor's opinion.

18 Internal Audit Update Report 1st March to 31st May 2016

The Chief Officer (Audit & Investment) presented a report which:

- Provided a summary of the internal audit activity for the period 1st March to 31st May 2016 and highlighted the incidence of any significant control failings or weaknesses; and
- Presented the Terms of Reference for the external assessment of the internal audit function for review and approval.

Mr S Shah (Head of Internal Audit at Nottingham City Council) was also in attendance to discuss the external assessment of the Internal Audit function and answer any questions from Members.

Members sought assurance that Mr Shah would have un-fettered access to information required to complete the review independently and objectively. It was confirmed that this access would be granted, that the Section 151 officer was also the sponsor of the review, and that the outcome of the review would be reported to Members in January 2017.

RESOLVED - The Committee resolved to:

- (a) note the Internal Audit Update Report covering the period from 1st March to 31st May 2016 and note the work undertaken by internal audit during the period covered by the report; and
- (b) Approve the proposed Terms of Reference for the external assessment of the internal audit function.

19 Review of the Anti-Money Laundering Policy

The Chief Officer (Audit & Investment) submitted a report which informed the Committee of the revisions to the Money Laundering Policy and to provide an opportunity to comment on the proposals.

Members sought confirmation that there had been no confirmed instances of money laundering at the Council.

RESOLVED – The Committee resolved to:

- (a) note the contents of this report, and the proposed Anti-Money Laundering Policy; and
- (b) Note that having taken into account Corporate Governance and Audit Committee and Executive Member comments, The Chief Officer (Audit and Investment) will take a delegated decision to approve the revised policy prior to publication.

20 Work Programme

The City Solicitor submitted a report which notified Members of the Committee of the draft work programme for the 2016/17 year. The draft work programme was attached at Appendix 1 of the submitted report.

The Head of Governance Services addressed the Committee and summarised the reports and information requested by Members throughout the meeting.

RESOLVED – The Committee resolved to:

- (a) Note the contents of the forthcoming work programme;
- (b) Add to the work programme items as follows:
 - A report on the authorities compliance with the Openness of Local Government Bodies Regulations 2014.
 - A report detailing the procedures relating to business rates appeals and the role of the Valuation Office;
 - A report to provide assurance on the identification and management of risks emerging from the decision to leave the European Union; and
 - A report setting out the outcome of the Internal Audit Peer Review.