



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Friday, 24th June, 2016
at 2.00 pm

MEMBERSHIP

Councillors

| | | |
|----------------------|-----------|-----------|
| P Grahame (Chair) | J Bentley | R Wood |
| K Bruce | | P Harrand |
| N Dawson | | |
| A Sobel | | |
| J Illingworth | | |
| K Groves | | |
| G Hussain | | |

A G E N D A

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|---------|------|---------------|--|---------|
| 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> | |

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| 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 - 18TH MARCH 2016</p> <p>To receive and approve the minutes of the meeting held on 18th March 2016.</p> | 1 - 8 |
| 7 | | | <p>KPMG INTERIM AUDIT REPORT AND TECHNICAL UPDATE</p> <p>To receive a report of the Deputy Chief Executive In line with the external audit plan for 2015/16 which highlights the results of KPMG's interim audit work in relation to the council's financial systems and controls. KPMG's report, which also informs Members of issues affecting local authorities which they feel the council should be aware of, is attached.</p> | 9 - 12 |

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| 8 | | | <p data-bbox="675 181 1326 248">PUBLICATION OF DRAFT STATEMENT OF ACCOUNTS 2015/16</p> <p data-bbox="675 293 1401 539">To receive a report of the Deputy Chief Executive this report is to present to the Committee the 2015/16 Statement of Accounts prior to them being made available for public inspection. The Statement of Accounts is included with the agenda as a separate document for Committee members and will be published on the Council's internet site.</p> | 13 - 18 |
| 9 | | | <p data-bbox="675 651 1310 719">INTERNAL AUDIT ANNUAL REPORT AND OPINION 2015/16</p> <p data-bbox="675 763 1385 898">To receive a report of the Deputy Chief Executive which brings to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2015/16.</p> | 19 - 50 |
| 10 | | | <p data-bbox="675 976 1235 1043">KPMG REPORT - CORPORATE RISK REGISTER ANALYSIS</p> <p data-bbox="675 1088 1401 1223">To receive a report of the Deputy Chief Executive which introduces KPMG's report on corporate risk registers and sets out the council's response to the recommendations made.</p> | 51 - 62 |
| 11 | | | <p data-bbox="675 1301 1305 1402">ANNUAL ASSURANCE REPORT ON CORPORATE RISK AND PERFORMANCE MANAGEMENT ARRANGEMENTS</p> <p data-bbox="675 1447 1401 1693">To receive a report of the Deputy Chief Executive which presents assurances to the Corporate Governance & Audit Committee on the effectiveness of the council's corporate risk and performance management arrangements: that they are up to date; fit for purpose; effectively communicated and routinely complied with.</p> | 63 - 72 |

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| 12 | | | <p>ANNUAL ASSURANCE REPORT ON THE FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS</p> <p>To receive a report of the Deputy Chief Executive which provides assurance to this Committee that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities. The report aims to give members assurance that the financial control and financial governance arrangements that are in place are fit for purpose, up to date and embedded across the organisation.</p> | 73 - 88 |
| 13 | | | <p>ANNUAL ASSURANCE REPORT ON EMPLOYMENT POLICIES AND PROCEDURES AND EMPLOYEE CONDUCT.</p> <p>To receive a report of the Chief Officer HR which provides assurance to the Corporate Governance and Audit Committee that: the requirements of employee conduct are established and regularly reviewed; requirements relating to employee conduct are communicated and feedback is collected on whether expected behaviours are being demonstrated; and employee conduct is monitored and reported.</p> | 89 - 102 |
| 14 | | | <p>ANNUAL DECISION MAKING ASSURANCE REPORT</p> <p>To receive a report of the City Solicitor which presents the annual report to the committee concerning the Council's decision making arrangements.</p> | 103 - 136 |
| 15 | | | <p>ANNUAL GOVERNANCE STATEMENT</p> <p>To receive a report of the City Solicitor which presents the Annual Governance Statement (AGS) to the committee for approval.</p> | 137 - 160 |

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| 16 | | | <p>INTERNAL AUDIT UPDATE REPORT 1ST MARCH TO 31ST MAY 2016</p> <p>To receive a report of the Deputy Chief Executive which provides a summary of the internal audit activity for the period 1st March to 31st May 2016 and highlights the incidence of any significant control failings or weaknesses and presents the Terms of Reference for the external assessment of the internal audit function for review and approval.</p> | 161 - 180 |
| 17 | | | <p>REVIEW OF THE ANTI-MONEY LAUNDERING POLICY</p> <p>To receive a report of the Deputy Chief Executive which informs Corporate Governance and Audit Committee of the revisions to the Anti-Money Laundering Policy and to provide an opportunity to comment on the proposals.</p> | 181 - 196 |
| 18 | | | <p>WORK PROGRAMME</p> <p>To receive a report of the City Solicitor which notifies Members of the Committee of the draft work programme for the 2016/17 year</p> <p><u>Third Party Recording</u></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> <ul style="list-style-type: none"> 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. 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. | 197 - 200 |

Agenda Item 6

Corporate Governance and Audit Committee

Friday, 18th March, 2016

PRESENT: Councillor G Hussain in the Chair
Councillors P Grahame, J Bentley,
P Harrand, N Dawson, A Sobel,
J Illingworth, G Hyde and Flynn (Substitute
for R Wood)

Apologies Councillors R Wood and K Bruce

62 Appeals Against Refusal of Inspection of Documents

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

63 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

64 Late Items

There were no late items submitted for consideration.

65 Declaration of Disclosable Pecuniary and Other Interests'

No declarations were made.

66 Apologies For Absence

Apologies for absence were received from Councillors R Wood and K Bruce.
In attendance as substitute for Councillor Wood was Councillor B Flynn.

67 Minutes - 28th January 2016

RESOLVED – The minutes of the meeting held on 28th January were approved as a correct record.

68 Matters Arising

Minutes No. 52 KPMG Annual Audit Letter 2014/15

The Head of Governance Services confirmed that an update position on the Collection Fund had been circulated to Members.

Draft minutes to be approved at the meeting
to be held on 24th June 2016

Minute No. 55 Report on the recent customer relations issues and trends 2015-16

The Head of Governance Services informed Members that the Scrutiny Board (Strategy and Resources) will receive the Internal Audit Report on Customer Contact and Satisfaction when it is undertaken. Furthermore that the views of the Committee had been relayed to the Chief Officer (Customer Access).

Minute No. 59 Internal Audit Update Report 1st August to 31st December 2015

In relation to information on actual savings made through the Early Leavers Initiative against the anticipated savings, Members were informed that this formed part of the Internal Audit Update Report 1st January to 29th February 2016.

69 KPMG Full Audit Plan 2015/16

The Deputy Chief Executive submitted a report which informed members of KPMG's full audit plan for the audit of the Council's accounts and value for money arrangements. The attached report from KPMG highlighted the risk based approach to the audit and the main risks they have identified for 2015/16.

Andy Smith (Senior Audit Manager) and Rob Walker (Audit Manager) were also in attendance to answer any questions from Members.

Andy Smith explained to Members what KPMG considered a "material" amount in terms of qualifying the accounts and reporting to Council finance officers.

Members discussed with KPMG staff the 'Materiality' level that would trigger KPMG to report an issue to LCC Finance officers and subsequently result in an adjustment to the accounts.

Mr Smith confirmed that;

£20m is the level at which the accounts would be qualified (as they would not represent a true and fair view) if adjustments were not made, and;
£600k is the level at which a request for an adjustment would be made by KPMG to the council and at which those details are drawn to the committee's attention.

Mr Smith confirmed that adjustments below £600k would not be notified to the committee but that officers would be advised of any such instances.

The Principal Finance Manager informed the committee of the council's approach to materiality in making adjustments to the final accounts. Where it was agreed with KPMG that there was an error, any amounts over £1m would always be adjusted for by the council. Any error identified in the accounts

between £250k and £1m would be considered for amendment, depending on the significance of its impact on the financial statements.

Members discussed the significant audit risks featured in KPMG's Plan. Mr Smith assured the committee that these risks were generic for most local authorities and were not as a result of specific concerns in relation to Leeds. In answer to a query concerning the valuation of property, plant and equipment Mr Smith confirmed that he had no specific concerns around the reliability of the in-house valuer.

Mr Smith confirmed that the current level of council reserves would be reviewed within the context of the council's medium term financial plan.

RESOLVED – The Committee resolved to note and agree the nature and scope of the audit plan presented by KPMG.

70 Internal Audit Plan 2016-17

The Acting Head of Internal Audit presented a report of the Deputy Chief Executive which presented the proposed Internal Audit Plan for 2016-17 to the Corporate Governance and Audit Committee for review and approval. This report also included a summary of the basis for the plan. The plan has been developed in consultation with senior management including the Chief Officer (Financial Services) and the Deputy Chief Executive.

Members sought assurance that off contract spend would continue to be reviewed and addressed by Internal Audit.

In light of a reduction in audit days Members sought confirmation from Mr Smith that KPMG would still be able to place reliance on Internal Audit's work. Mr Smith confirmed that, in relation to KPMG's responsibilities for auditing the accounts, the planned Internal Audit coverage of the key financial systems still remained comparatively high and that they are happy to place reliance upon that work.

The Committee sought assurance that despite the reduction in the amount of audit days available that Internal Audit would still be able to deliver evidence based opinion. The Chief Officer (Audit and Investment) confirmed to Members that there were sufficient days in the audit plan to provide such an opinion.

RESOLVED – The Committee resolved to approve the proposed Internal Audit Plan for 2016-17.

71 Internal Audit Update Report 1st January to 29th February 2016

The Acting Head of Internal Audit presented a report of the Deputy Chief Executive which provided a summary of internal audit activity for the period 1st January to 29th February 2016 and highlighted the incidence of any significant control failings or weaknesses.

The Chief Officer (Audit and Investment) explained the quality assurance improvement programme that Internal Audit is subject to and that every 5th year external assessment is undertaken to ensure the service is compliant with Public Sector Internal Audit Standards. A peer review with colleagues in core cities is to take place and as such the Committee's input was requested with regards to agreeing and approving the terms of reference for this review.

In relation to the risk based audit of Taxi and Private Hire Licensing the Acting Head of Internal Audit confirmed that their follow up review will specifically seek to validate that the operation of arrangements to ensure that no licensed driver can operate without an up-to-date DBS check being in place.

Members queried the arrangements that are in place to prevent circumstances arising where officers who have left or are in the process of leaving the employment of the council are restricted from being involved in procurement or commissioning activity which may inappropriately benefit their future employer or them personally. The Acting Head of Internal Audit confirmed that there were no specific audit tests on that matter but that any specific concerns would be investigated under the council's whistleblowing procedures.

Members asked that further enquiries be made of the Chief Officer (HR) on this issue.

RESOLVED – The Committee resolved to:

- (a) Note the Internal Audit Update Report covering the period from 1st January to 29th February 2016 and the assurances provided in respect of follow up work;
- (b) Request the Chief Officer (Audit and Investment) submit the terms of reference for conducting a review of Internal Audit to the Committee for comment and approval; and
- (c) Members asked that further enquiries be made of the Chief Officer (HR) concerning the controls in place to ensure that officers are not involved in procurement or commissioning activity which may inappropriately benefit a future employer or them personally.

72 Annual Business Continuity Report

The Principal Officer Resilience & Emergencies presented a report of the Deputy Chief Executive which provided assurance to the Corporate Governance & Audit Committee of the adequacy of the business continuity management arrangements currently in place. The scope of the report included:

- Maintenance of Business Continuity Plans (Annual Management Review) Directorate Resilience Groups;
- The impact of Storm Eva on LCC's most critical services;
- Commissioned service provider assessments Provision of advice and assistance to business and voluntary sector;
- Public awareness and warning and informing Exercising; and
- To provide assurance that LCC maintains compliance with the statutory duties contained within the Civil Contingencies Act 2004.

The Principal Officer Resilience & Emergencies assured the committee that directorates had completed their own review of commissioned service providers business continuity plans.

Members discussed the procedures in place for evacuating Civic Hall in the event of a terrorist attack or bomb scare.

Members felt that business continuity plans had been effectively put into practice during Storm Eva and that this should be highlighted to directorates to promote the fact that business continuity plans are meaningful documents.

RESOLVED – The Committee resolved to note that the business continuity arrangements are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.

73 Annual Information Governance Report

The Executive Officer Information Governance presented a report of the Deputy Chief Executive which provided the Committee with an annual report on the steps being taken to improve Leeds City Council's information governance in order to provide assurance for the annual governance statement.

The Information Governance Manager was also in attendance to help answer Members' questions.

Members discussed cyber-attacks, how these occur and the lessons learned from the attack that Lincolnshire County Council suffered.

Members suggested the possibility of conducting a mock cyber-attack at the Council.

The Committee also highlighted problems with spam email and suggested ways in which this could be better reported to ICT.

Members asked questions about the work being done to index old records to ensure that these are not lost. The Executive Officer Information Governance confirmed that programme of work was on-going to catalogue and manage paper and electronic records.

Discussion took place about the INSPIRE European directive which aims to improve the sharing of spatial data between public authorities. Members asked about the possible sanctions if this work was not completed and the type of skills required to ensure the Council complies with the requirements of the directive.

RESOLVED – The Committee resolved to:

- (a) note the contents of this report and the assurance provided as to the Council's approach to information governance;
- (b) Request that the Executive Officer Information Governance ensure that Corporate Leadership Team be advised of the consequences of not complying with the INSPIRE European Directive and of the resources and skills required to ensure compliance; and
- (c) Request The Executive Officer Information Governance conveys the committees views regarding cyber-resilience to the relevant forum.

74 Review of Financial Governance and Control Arrangements for Partnerships

The Head of Corporate Finance presented a report of the Deputy Chief Executive which provided an update to the Committee on work undertaken to identify and review joint-working arrangements with other organisations and to ensure that appropriate financial governance and control arrangements are in place.

The Senior Financial Manager (Strategy and Resources) was also in attendance to answer Members' questions.

Members discussed the roles and responsibilities played by the authority in relation to unincorporated charities where there was no Leeds City Council trustee sitting on the management board. It was confirmed that there was no financial liability

Members noted that a number of Toolkits had been developed to ensure compliance with financial regulations. The Committee sought confirmation from the Head of Corporate Finance that training would be given on these toolkits to ensure they were embedded and complied with by staff in all directorates.

RESOLVED – The Committee resolved to note the assurances provided that the appropriate financial governance and control arrangements are in place and meet expected standards.

75 Work Programme

The City Solicitor submitted a report which notified Members of the draft work programme for the 2016/17 year.

Members noted and provisionally agreed the 2016/17 meeting dates for the Committee.

RESOLVED – The Committee resolved to:

- (a) Note the contents of the report; and
- (b) Provisionally agree the meeting dates for the Committee in the 2016/17 municipal year as detailed within Appendix 1 of the submitted report.

76 Date and Time of Next Meeting

24th June 2016

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Report author: Mary Hasnip
Tel: x74722

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: KPMG Interim Audit Report and Technical Update

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

Summary of main issues

1. KPMG have completed their interim audit work and a summary of the work carried out and their findings is included as the first section of their attached report.
2. The report from KPMG goes on to provide Members with information on several major issues affecting local authorities in general.

Recommendations

3. It is recommended that Members 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.

1 Purpose of this report

- 1.1 In line with the external audit plan for 2015/16 which was presented to this Committee in March 2016, this report highlights the results of KPMG's interim audit work in relation to the council's financial systems and controls. KPMG's report, which also informs Members of issues affecting local authorities which they feel the council should be aware of, is attached.

2 Background information

- 2.1 Prior to their audit of the financial statements, KPMG undertake an Interim audit to assess the council's internal control environment. This initial audit work is designed to gain assurances on the Council's controls and procedures in order to minimise the audit coverage required at the final audit stage.
- 2.2 The main procedures and controls assessed at this interim audit stage are to:
- Understand accounting and reporting activities;
 - Evaluate design and implementation of selected controls;
 - Test operating effectiveness of selected controls;
 - Assess control risk and the risk of the accounts being misstated;
- 2.3 KPMG also provide periodical updates to this committee on issues affecting local authorities in general.

3 Main issues

3.1 Interim Audit work on the Financial Accounts and Control Environment

- 3.1.1 KPMG have completed their interim audit work on the accounts and have not identified any issues which they wish to bring to the attention of the Committee as a result of their work.

3.2 Technical Update

- 3.2.1 The update report from KPMG contains two further sections – KPMG resources and technical updates
- 3.2.2 The section on KPMG resources summarises national reports and other publications on areas which may be of interest to members. It covers their Local Government Budget Survey and a report on the role of audit in building trust in governments.
- 3.2.3 The technical update section covers developments affecting local government accounts and audits. It includes the impact of the Local Audit and Accountability Act, on which a report was presented at the January 2016 meeting of this committee. Subsequent to that report, councils were asked by the Local Government Association for non-binding expressions of interest in opting into a sector-led procurement body for external audit. The council did reply to this

request with an expression of interest. A further update report will be brought back to the committee once the details of the proposed national procurement scheme are known.

3.2.4 The report also mentions several low impact areas on which the committee may wish to seek assurances :

- Narrative foreword to the Statement of Accounts – for 2015/16 there are new statutory requirements to include information on “economy efficiency and effectiveness in its use of resources”. Members will see that the foreword to the council’s draft accounts this year has been expanded to include non-financial information.
- Arrangements for public inspection of the accounts – the council’s accounts will be on deposit from 29th June for a period of thirty working days, a timescale which complies with the new statutory requirements.
- 2015/16 Accounting Code update – the council’s finance team are aware of the Code update, and in particular that no restatement of the 2015/16 Highways infrastructure asset values will be required for the 2016/17 accounts. Work will be undertaken during 2016/17 to implement the new current value accounting requirements for highways assets.
- Capital receipts flexibility – the council is aware of the new flexibility introduced by the government, but considers that its own approach of using capital receipts to reduce its MRP requirement offers even greater flexibility.
- Better care fund – an internal audit review is underway into this area, which will be reported to the committee in a future quarterly update report.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 The interim audit report 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 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee’s terms of reference members are required to consider the Council’s arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council’s accounts.

4.4 Resources and value for money

4.4.1 The interim audit did not identify any specific risks in relation to the council’s arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal issues arising from this report.

4.6 Risk Management

4.6.1 KPMG have not identified any significant risks in the interim audit which require officer action as part of the process for completing the 2015/16 accounts.

5 Conclusions

5.1 There are no major issues raised in KPMG's interim audit which would impact on the level of audit work required to certify the Council's financial statements.

6 Recommendations

6.1 Members are asked to 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.

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.



Report author: Mary Hasnip

Tel: x74722

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Publication of Draft Statement of Accounts 2015/16

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|--|------------------------------|--|
| 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 Responsible Financial Officer has reviewed the 2015/16 accounts and certified that they are a true and fair view of the Council's financial position.
- 2 The accounts have been drawn up based on proper accounting practice as required by the Accounts and Audit Regulations 2015.
- 3 The accounts will be available for public inspection for thirty working days commencing 29th June 2016.
- 4 Despite the continuing financial pressures impacting on local government, the Council continues to manage its financial affairs in an effective manner. The final outturn position for the general fund was a small underspend of £0.4m.

Recommendations

- 5 Members are asked to:
 - Note the 2015/16 unaudited Statement of Accounts as certified by the Deputy Chief Executive, who is the Council's Responsible Financial Officer.

1 Purpose of this report

- 1.1 The purpose of this report is to present to the Committee the 2015/16 Statement of Accounts prior to them being made available for public inspection. The Statement of Accounts is included with the agenda as a separate document for Committee members and will be published on the Council's internet site.

2 Background information

- 2.1 Whilst it is not a statutory requirement for members to formally approve these unaudited accounts before the 30th June, members of this committee requested that that they receive the accounts prior to them being made available for public inspection.

3 Main issues

3.1 Main Financial Issues

- 3.1.1 The following is a summary of the main financial issues raised by the 2015/16 unaudited accounts:
- The final outturn position for the year was a £1.1m use of the General Fund Reserve, which was £0.4m less than the figure budgeted for. Within this overall improved position there was an overspend of £4.3m against the Children's Services budget, which was offset by net savings across other directorates and within corporate budgets.
 - The Housing Revenue Account outturn position resulted in the use of £16.3m of its revenue reserves. This was largely due to the planned use of £16.5m of reserves set aside to contribute to the Little London, Beeston and Holbeck PFI scheme.
 - The Council's net worth during the year has increased by £66m, and as at 31st March 2016 stands at £854m. Within this increase in the net worth, there has been an increase of £298m in the value of tangible fixed assets, and a decrease in the net pensions liability of £53m. Net borrowing for capital and treasury management purposes has increased by £341m, reflecting an increase of £214m in the capital financing requirement and a reduction in the level of revenue balances which can be used to offset external borrowing.
 - The council's level of usable reserves decreased by £70m to £320m. The majority of the decrease was in ringfenced reserves, with usable capital reserves decreasing by £42m and ringfenced revenue reserves (primarily relating to the HRA and to schools) decreasing by £24m. The level of unringfenced revenue reserves fell by £4m.
 - The position within the Collection Fund for business rates has further deteriorated, with the closing deficit for 2015/16 standing at £70m, of which 49% will fall on the council. A significant element of this deficit (£47m) was taken into account when setting the 2016/17 budget. The outturn position therefore means that a further £23m will have to be recovered when the 2017/18 budget is set, with £11m of this falling on the council.

A full analysis of these and other financial issues is included in the Foreword of the Deputy Chief Executive which can be found at the front of the accounts.

3.2 Responsibilities and Timeframes for Approving the Statement of Accounts

3.2.1 The Accounts and Audit Regulations 2015 determine the roles and responsibilities for approving local government accounts. Under these regulations it is the responsibility of the Responsible Financial Officer to certify that the accounts are a true and fair view of the Council's financial position before the 30th June. The accounts must then be available for public inspection for thirty working days, which must include the first ten working days of July. This Committee is charged with approving and publishing the final audited accounts before the 30th September.

3.2.2 To enable members to discharge their responsibilities for approving the accounts the following assurances can, or will, be given within the approval process:

- On the 13th June the Deputy Chief Executive in his capacity as the Responsible Financial Officer reviewed the 2015/16 accounts and certified that they are a true and fair view of the Council's financial position.
- The accounts have been drawn up based on proper accounting practice as required by the Accounts and Audit Regulations 2015.
- KPMG's interim audit covered the council's organisational and IT control environment, the controls over key financial systems, and the process for producing the financial statements. The interim audit did not identify any reportable concerns in these areas.
- KPMG will undertake a detailed audit of the accounts in July and August to ascertain that, in their view, the accounts show a true and fair of the Council's financial position. They will report any significant issues back to this Committee in September.
- Stakeholders have thirty working days while the accounts are on deposit to look through the accounts and supporting documentation and raise any questions with the auditors or to object to the accounts. If considered significant the auditors would pursue the complaint or questions and determine if the accounts need amendment. Any significant issues raised in this way would be reported back to this Committee in September. For 2015/16, subject to Committee approval, public inspection will commence on the 29th June.
- Members have the opportunity to question officers on any aspect of the accounts at this Committee or in the September Committee prior to approving the accounts.

3.2.3 The committee will be aware from a report presented at the January 2016 meeting that the Accounts and Audit Regulations 2015 will require councils to approve their draft accounts by 31st May from 2017/18 onwards. The council is working towards this goal gradually, and the 2015/16 draft accounts have been approved on 13th June, in comparison to 25th June for the 2014/15 accounts.

3.3 Accounting Issues Impacting on the Financial statements

3.3.1 There have been no significant changes in accounting policy affecting the 2015/16 accounts.

3.4 External Audit Issues

- 3.4.1 In September 2015, KPMG reported back to this Committee its main audit findings in respect of the 2014/15 accounts and any recommendations or risks for the following year's accounts. There were no recommendations relating to the production of the accounts arising from the 2014/15 audit. In their annual audit plan which was presented to the committee in March 2016, KPMG identified one key area of audit risk for the 2015/16 accounts, the valuation of property, plant and equipment. Their interim audit, which is reported at this committee, raises no additional matters in respect of this issue.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This is a factual report from the Deputy Chief Executive on the Council's 2015/16 financial accounts 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 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and City Priorities

- 4.3.1 The Statement of Accounts is an audited publication which provides all stakeholders with the confidence that public money has been properly accounted for and that the financial standing of the Council is on a secure basis.
- 4.3.2 As required by the Accounts and Audit Regulations 2015, the accounts are to be made available for public inspection for thirty working days. Local electors and taxpayers have the right to look through the accounts and supporting documentation as well as the right to object to the accounts and question the auditors.

4.4 Resources and value for money

- 4.4.1 This is a factual report of the Deputy Chief Executive on the financial accounts of the Council for 2015/16. There are no additional financial or value for money implications.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The accounts are required to be certified as a true and fair view of the Council's financial position by the Responsible Financial Officer before the end of June. This report does not require a key decision and is therefore not subject to call in.

4.6 Risk Management

- 4.6.1 The Council's external auditors provide a risk assessment on the accounts process as part of their interim audit as reported to this Committee. For 2015/16 the external auditors have not identified any significant risks which would require them to undertake any additional audit work on the financial statements.

5 Conclusions

- 5.1 Despite the continuing financial pressures impacting on local government, the Council continues to manage its financial affairs in an effective manner and has maintained the level of general reserves at a prudent level. The Council's net worth has increased, reflecting an increase in the value of its fixed assets, and a decrease in the pensions deficit recognised in the accounts. Overall the Council continues to balance its finances and has a proven process for managing future budget pressures.
- 5.2 The Responsible Financial officer has certified that the accounts are a true and fair view of the council's financial position.

6 Recommendations

- 6.1 Members are asked to:
- Note the 2015/16 unaudited Statement of Accounts as certified by the Responsible Financial Officer.

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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Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Internal Audit Annual Report and Opinion 2015/16

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

Summary of main issues

1. This report provides the Internal Audit Annual Opinion for 2015/16.
2. The overall conclusion is 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) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit. The work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

Recommendations

3. The Committee is asked to receive the Internal Audit Annual Report for 2015/16 and note the opinion given. In particular:
 - That there are no outstanding significant issues arising from the work undertaken by internal audit;
 - That on the basis of the audit work undertaken during the 2015/16 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice;

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

1 Purpose of this report

- 1.1 The purpose of this report is to bring to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2015/16.
- 1.2 By reviewing, challenging and monitoring such reports the Committee itself is demonstrating sound governance arrangements and enabling it to take appropriate action if needed. It should be noted that internal audit will also issue interim reports to the Committee if any significant matters arise which would warrant immediate attention.

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. Internal audit is a key source of independent assurance providing the Committee with evidence that the internal control environment is operating as intended.
- 2.2 On behalf of the Committee and the Deputy Chief Executive, internal audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.3 The terms of reference of the Committee require that it considers the council's arrangements relating to internal audit requirements including the Annual Internal Audit Report and monitoring the performance of the internal audit section.

3 Main issues

- 3.1 The Public Sector Internal Audit Standards 2013 require that the Chief Officer (Audit and Investment) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:
- The opinion;
 - A summary of work that supports the opinion;
 - A statement on conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme.
- 3.2 For 2015/16, the opinion is:

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) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit.

The audit work undertaken to support this opinion has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

3.3 The annual opinion is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. All individual audit opinions contained within this Annual Report have previously been reported to the Committee through the Internal Audit Update Reports. The relevant Update Report for each review is referenced in the table at 2.52.

3.4 There are no issues identified by internal audit in the Annual Report 2015/16 that would necessitate direct intervention by the Committee.

3.5 Progress on the actions included in the Internal Audit Improvement Plan will be included in future Internal Audit Update Reports to the Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report does not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and the Best Council Plan

4.3.1 The terms of reference for 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. The Internal Audit Plan has links to risks that may affect the achievement of Best Council Plan objectives and the aims of council policies.

4.4 Resources and value for money

4.4.1 Resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual internal audit opinion.

4.4.2 The Internal Audit Plan includes a number of reviews that have evaluated the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the council's value of spending money wisely.

4.4.3 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit plan 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 The overall conclusion is 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) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit. The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing

6 Recommendations

6.1 The Committee is asked to 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 are 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) is well established and operating effectively in practice;
- That the work undertaken to support the opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing

7 Background documents

7.1 None.

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Internal Audit

**Annual Report and Opinion
2015 / 2016**

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Section 1

INTRODUCTION

1.1 The Annual Reporting Process

- 1.1.1 The Corporate Governance and Audit Committee's terms of reference include the consideration of the council's arrangements relating to internal audit requirements including the Annual Internal Audit report and monitoring the performance of the internal audit section.
- 1.1.2 The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The objectives of the PSIAS are to define the nature of internal auditing and set basic principles for carrying out this work, to establish a framework for providing internal audit services and establish the basis for evaluation of performance and drive improvement planning.
- 1.1.3 This report is the culmination of the work performed by internal audit during the course of the year and provides the Chief Officer (Audit and Investment) 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. In accordance with the requirements of the PSIAS, the Chief Officer (Audit and Investment) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This annual report incorporates:
- The Chief Officer (Audit and Investment) opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control;
 - A summary of the work that supports the opinion; and
 - A statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.

1.2 Organisational Independence

- 1.2.1 The PSIAS require that the Chief Officer (Audit and Investment) must confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.
- 1.2.2 During the year, the Internal Audit Charter was reviewed and updated and this was approved by the Corporate Governance and Audit Committee in July 2015. The

Charter specifies that the Chief Officer (Audit and Investment) must report to a level within the council that allows internal audit to fulfil its responsibilities.

- 1.2.3 The authority's Financial Regulations state that the Chief Officer (Audit and Investment) 'must be able to report without fear or favour, in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee and the scrutiny function.'
- 1.2.4 Appropriate reporting and management arrangements are in place within LCC that preserve the independence and objectivity of the Chief Officer (Audit and Investment).

Declaration of independence and objectivity

The reporting and management arrangements in place are appropriate to ensure the organisational independence of the internal audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity.

Chief Officer (Audit and Investment)

Section 2

OPINION AND ASSURANCE

2.1 Opinion 2015/16

- 2.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that *'the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'* This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

Chief Officer (Audit and Investment) opinion for 2015/16

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) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit.

The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

- 2.1.2 During the year, we have audited several areas that have resulted in limited assurance opinions and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the council's governance, risk management and control arrangements at the year end.

2.2 Basis of Assurance

- 2.2.1 The annual opinion on the adequacy and effectiveness of the control environment for 2015/16 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2015/16 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in March 2015.

- 2.2.2 Each piece of audit work results in an audit report that provides, where appropriate, an assurance opinion. To ensure consistency in audit reporting, the following definitions of audit assurance are used:

| Control Environment Assurance | |
|--|---|
| 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. | |
| Assurance Level | Definitions |
| Substantial Assurance | There are minimal control weaknesses that present very low risk to the control environment. |
| Good Assurance | There are minor control weaknesses that present low risk to the control environment. |
| Acceptable Assurance | There are some control weaknesses that present a medium risk to the control environment. |
| Limited Assurance | There are significant control weaknesses that present a high risk to the control environment |
| No Assurance | There are fundamental control weaknesses that present an unacceptable level of risk to the control environment. |

| Compliance Assurance | |
|---|---|
| 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. | |
| Assurance Level | Definitions |
| Substantial Assurance | The control environment has substantially operated as intended although some minor errors have been detected. |
| Good Assurance | The control environment has largely operated as intended although some errors have been detected. |
| Acceptable Assurance | The control environment has mainly operated as intended although errors have been detected. |
| Limited Assurance | The control environment has not operated as intended. Significant errors have been detected. |
| No Assurance | The control environment has fundamentally broken down and is open to significant error or abuse. |

2.2.3 Organisational impact is reported as either major, moderate or minor. Any reports with major organisational impacts are reported to the Corporate Leadership Team along with the relevant directorate's agreed action plan and then to Corporate Governance and Audit Committee as part of the regular update reports. There have been no major organisational impact reports issued during the year.

| Organisational Impact | |
|-----------------------|---|
| Level | Definitions |
| 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. |
| 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. |
| 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. |

2.3 Assurance Areas

Key Financial Systems and Financial Risks

- 2.3.1 Our reviews of the key financial systems and other financial internal control audits support the opinion that, overall, the council has effective financial governance, risk management and internal control arrangements in place.
- 2.3.2 Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice. The level of assurance provided for all key financial systems reviews undertaken during the year was good or substantial. Governance arrangements in respect of the central coordination and setting of the council budget were found to be robust and the management of key income and expenditure risks along with the corresponding internal control frameworks were found to be operating effectively. During the year, we have highlighted some opportunities to improve the effectiveness and efficiency of operations but have not identified any significant concerns.
- 2.3.3 As previously, the key financial systems subject to audit were discussed with the external auditors to ensure that the work of internal and external audit are linked as efficiently and effectively as possible. KPMG has reviewed the findings of a sample of our work on key financial systems in 2015/16 and did not raise any concerns over the timeliness and quality. KPMG has confirmed that they use the work of internal audit to inform their risk assessment, including audit risks related to key financial systems.

- 2.3.4 Our work on Budget Action Plans covered the processes in place, both corporately and for a sample of two directorates, for the management of the risks relating to the achievement of savings targets. These processes have operated effectively overall during the year.
- 2.3.5 We have supplemented our coverage of key financial systems work on significant income and expenditure risks with a broad range of compliance and systems based reviews, including the Early Leavers Initiative, the New Homes Bonus scheme and the commissioning of external residential and independent fostering agency payments. This work has found that, in general, the council has appropriate arrangements in place to manage the financial risks in the areas reviewed. However, we were unable to provide assurance on the process for selecting external providers from the framework contract in our review of the commissioning of external residential and independent fostering agency placements within Children's Services. This was because evidence had not been retained by Children's Services to confirm that the appropriate process is followed from a financial perspective. This is a significant area of expenditure (£22.3M) and progress against the recommendations made during the audit will be followed up during 2016/17.

Grants and Certifications

- 2.3.6 During the year, we have undertaken 14 reviews which have provided assurance to various central government departments and other bodies that the grant conditions have been complied with. We have also certified the account balances of 8 school voluntary funds.

Procurement

- 2.3.7 For the key procurement risk areas, we have reviewed procurement arrangements both centrally and within directorates, and considered whether policies and procedures were fit for purpose and being followed. Our reviews have covered the following areas:
- arrangements to support the use of contracts and identify procurement savings;
 - procurement, management and extension of contracts;
 - management of the council's joint venture for professional property and building services; and
 - expenditure not linked to a contract.
- 2.3.8 Overall we found that controls are more effectively embedded for procuring and monitoring significant expenditure made through contracts, compared to lower level expenditure that is not linked to a contract. While acceptable, good or substantial audit opinions were provided for the majority of our reviews, limited audit opinions were provided for our Spending Money Wisely Challenge reviews of expenditure not linked to a contract, as there was limited compliance with Contracts Procedure Rules (CPRs). The issues have been reported in our Internal Audit Update

Reports to the Corporate Governance and Audit Committee during the year and the individual audit reports have been circulated to Members.

- 2.3.9 As a result of these reviews, action has been agreed with the directorates which should help to improve compliance with CPRs for expenditure not linked to a contract. We will carry out follow up audits during 2016/17 to assess whether improvements have been made.
- 2.3.10 A further limited assurance audit opinion was provided for our review of the council's joint venture for professional property and building services. We found weaknesses in the performance management of the partnership and there was a lack of evidence that the process for ensuring that the approved version of technical drawings (the design freeze) was being used in all cases. The absence of formal design freeze information reduces assurance that fees and other costs can be monitored regularly and accurately. We have carried out an interim follow up review in this area which identified that the recommendations had recently been implemented or are in the process of being implemented. We will carry out a further review in 2016/17 to confirm that the new controls have become embedded.

Other Risks

- 2.3.11 We have undertaken compliance and systems based audits to provide assurance on the governance, risk management and internal control arrangements in place on a range of other, non-financial risk areas during the year. Our work has had links to risks relating to the achievement of council priorities, health and safety, safeguarding and compliance with legislation.
- 2.3.12 Sample testing through compliance audits has also provided assurance that decision making has been undertaken in accordance with the council's constitution, key performance information is accurately reported and that directorate (City Development) risk and performance management is undertaken in line with the council's agreed policy.
- 2.3.13 These reviews have resulted in acceptable or higher levels of assurance, with the exception of the cash handling arrangements at an area office and compliance with the disclosure and barring service (DBS) renewal requirements in respect of Taxi and Private Hire Licensing.

- Area office cash handling arrangements

The unannounced visit to an area office highlighted that improvements were required to ensure that monies are fully accounted for where the council has taken on an appointee or deputy role in the management of service users' finances. Our follow up review of the specific area office, undertaken later in the year, found that improvements had been made and the audit resulted in a good assurance opinion. However, further work is required to ensure that

robust arrangements are replicated across the rest of the area offices to ensure that all service user's monies are appropriately safeguarded. Senior management have confirmed that the improvements will be implemented as an urgent priority.

- Taxi and Private Hire Licensing

We provided limited assurance on the DBS renewal element of the Taxi and Private Hire Licensing audit as there were a significant number of drivers that had not had their DBS checks renewed on an annual basis, in line with the council's policy. Since the conclusion of the audit, good progress on improving this position has been reported to the Executive Board by the Service.

Information Governance and ICT

2.3.14 ICT and information governance risks are monitored and reviewed at a high level through the council's formal risk management process. The audit coverage had links to risks relating to ICT failure, information governance and core business applications. The reviews resulted in acceptable or higher assurance opinions and have not highlighted any significant concerns during the year.

2.3.15 We have supported the work of the Information Governance team by undertaking an assessment of the council's current position against the Information Security Management System Standard, ISO 27001:2013. The standard provides a systematic approach for establishing, implementing, operating, monitoring, reviewing, maintaining and improving information security. The review informed the development of the audit programme for 2016/17 and recommendations were made to develop an action plan that pulls together the various strands of activity that are being undertaken across the council in this area.

2.3.16 Our audit coverage also included reviewing the governance arrangements in place for two major ICT projects. The audit provided good assurance that the expected benefits of the projects were achieved and that appropriate governance arrangements were in place.

Housing Partnerships Assurance Framework

2.3.17 Housing Leeds manages and maintains council homes and provides a range of services for council tenants. The Housing Leeds Assurance Framework is designed to provide assurance that the risks associated with the effective delivery of these services are properly managed. During the year, the scope of our audit work has included coverage with links to risks relating to finance, contractor performance, quality of works completed, health and safety and the customer experience.

2.3.18 Overall, the assurances provided have been positive, with each of the 12 audits resulting in either good or acceptable audit opinions. Our work also found that good

progress has been made to improve processes where previous audits have provided a limited assurance opinion.

- 2.3.19 No significant concerns have been raised within this assurance block and management have agreed suitable action plans to improve control in areas where weaknesses have been identified.

Follow up work

- 2.3.20 Where our audit work has highlighted areas for improvement, recommendations have been made to address the risk and management action plans have been established. A follow up audit is undertaken to provide assurance on the actions implemented for all reviews that have resulted in limited assurance opinions. With the exception of the joint venture review referenced above at 2.3.10, each of the 12 follow up audits that have been undertaken this year have resulted in an improved audit assurance opinion. This provides assurances in respect of the commitment and effectiveness of management in implementing actions to improve risk management and internal control processes.

Schools

- 2.3.21 During the year we have undertaken seven audits of maintained schools, selected on a risk basis. The scope of the work included a review of school voluntary funds; procurement and payment of goods and services; inventory; payroll; school meals and extended schools income. The majority of these audits found good controls to be in place and operating effectively in practice. However, two of the reviews resulted in limited assurance audit opinions with weaknesses being identified across the audit programme and particularly in relation to the administration of the school voluntary fund and procurement arrangements. One of these schools has now become an Academy and further information on the other school has been provided in the Internal Audit Update Report March to May 2016.
- 2.3.22 We have supported the continuous improvement of internal control at schools by providing advice on the completion of the Schools Financial Value Standard and we have developed a checklist that has been issued to all schools that should help to address the weaknesses identified by our audit work.
- 2.3.23 Our coverage also included a sample of two maintained schools with 6th forms to provide assurance on compliance with the Education Funding Authority (EFA) 6th Form Funding and 16-19 Bursary Fund Grant Claim guidance and no significant issues were identified.

External Work

- 2.3.24 As in previous years, we have carried out audit work for several external clients and partners to generate income for the council. The majority of the external work that we undertake is not reported to the Corporate Governance and Audit Committee or

detailed within this report as it does not form part of the assurance arrangements for the council.

- 2.3.25 All audits undertaken during the year for the Leeds Grand Theatre resulted in either acceptable or good levels of assurance, with no significant concerns being identified.

Staff Ideas Service

- 2.3.26 The staff ideas service provides an additional mechanism through which staff can share their ideas for saving money and improving services. The ideas service aims to embed a culture of Spending Money Wisely across the authority through reinforcing the 'doing our best' behaviours, sharing good practice and encouraging staff to implement their own ideas where appropriate.
- 2.3.27 The staff ideas service is administered by internal audit, who monitor the staff ideas Sharepoint site and ensure that ideas are allocated to the nominated contacts within the relevant directorate. The nominated officer then looks into the viability of the idea and provides a response on the Sharepoint site.
- 2.3.28 During 2015/16, 27 ideas were submitted through the Staff Ideas Service (181 ideas were submitted in 2014/15). The low number of ideas received during the year may mean that staff are raising their ideas with their manager directly or it may indicate that there is scope to raise awareness of the Staff Ideas initiative. We are working with directorates to improve the effectiveness of this initiative to ensure that the council maximises opportunities to improve value for money and embed a Spending Money Wisely culture across the organisation.

Anti-Fraud and Corruption

- 2.3.29 The anti-fraud and corruption work undertaken includes both proactive anti-fraud and corruption activities (fraud strategies) and reactive work (investigations.)
- 2.3.30 The team takes a risk-based approach to ensure the risk of fraud is managed effectively with available resources. Proactive fraud exercises, data analytics work and participation in the National Fraud Initiative (NFI) provide assurance that the authority is taking positive action to detect potential fraud and prevent its recurrence.
- 2.3.31 The council's Whistleblowing Policy and Raising Concerns Policy set out the means by which serious concerns can be brought to the attention of internal audit.
- 2.3.32 The Whistleblowing Policy is available on the intranet and encourages council employees and Members, who have serious concerns about any aspect of the council's work, to come forward and voice those concerns without fear of reprisal.

- 2.3.33 The Raising Concerns Policy is published on the council website and offers guidance to members of the public that may have concerns around aspects of the council's work.
- 2.3.34 The promotion and accessibility of these policies helps the council to be responsive to emerging risks that are identified.
- 2.3.35 Internal audit continues to act as the custodians of these policies. In 2015/16, we received a total of 88 potential irregularity referrals (91 in 2014/15). Of these, 53 were classified under the remit of the Whistleblowing or Raising Concerns policies (63 in 2014/15). All reported irregularities were risk assessed by internal audit and either investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Where the matter was referred to directorates or HR for investigation, we have made follow up enquiries to ensure all aspects of the referral have been addressed.
- 2.3.36 Of the cases investigated during the year, 9 resulted in disciplinary action being taken or the resignation of the employee concerned. In 14 cases, the investigation resulted in improvements being made to the control environment.
- 2.3.37 As part of our proactive fraud work programme we have focussed on the National Fraud Initiative (NFI) outputs and raised awareness of fraud risks across the council. We have done this through news items on InSite, the weekly Essentials e-mail which is sent to all staff with access to e-mail, and targeted communications to particular groups to raise awareness of specific risks.

2.4 Other Work

- 2.4.1 We have provided advice on a wide range of issues including interpretation of Contract Procedure Rules, training for staff on Financial Procedure Rules, and on risks and controls within individual systems or processes. There have been 26 such requests for advice during the year (29 for 2014/15).

2.5 Summary of Completed Audit Reviews

- 2.5.1 This section provides a summary of all reports issued since 1st June 2015. Audit reviews completed from 1st April 2015 to 31st May 2015 were reported in the Internal Audit Annual Report for 2014/15. All reviews up to 29th February 2016 where the audit opinion was limited for either the control environment or compliance with procedures have already been highlighted to the Corporate Governance and Audit Committee in the Internal Audit Update Reports throughout the year. Reports with limited audit opinions issued in the period 1st March to 31st May 2016 are included in the Internal Audit Update Report covering that period and presented to the Committee at the same meeting as this Annual Report.

The Annual Internal Audit Report 2015/16

2.5.2 Further reviews in each area where limited assurance has been provided are scheduled to be completed to ensure recommendations have been adopted and suggested controls are working well in practice.

| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|---|---------------------|---|-----------------------|--------------------------|---------------------------------|
| | Control Environment | Compliance | Organisational Impact | | |
| Key Financial Systems and Other Financial Risks 53 reviews completed | | | | | |
| Year-end reconciliation of Civica to FMS 2014/15 (Sundry Income Year-end Rec) | Substantial | | N/A | Strategy & Resources | Update Report June to July 2015 |
| Leeds Welfare and Benefits Service - Counter Fraud 2014/15 | Good | Substantial | N/A | Citizens and Communities | Update Report June to July 2015 |
| Income Management System to Financial Management System Year end reconciliation 2014/15 | Substantial | | N/A | Strategy & Resources | Update Report June to July 2015 |
| Council Tax year-end reconciliation | Substantial | | N/A | Citizens and Communities | Update Report June to July 2015 |
| Business Rates year-end reconciliation | Substantial | | N/A | Strategy & Resources | Update Report June to July 2015 |
| Housing Rents Year End Rec 2014/15 | Substantial | | N/A | Environment & Housing | Update Report June to July 2015 |
| Creditors Year-End Reconciliation 14/15 | Substantial | | N/A | Strategy & Resources | Update Report June to July 2015 |
| BSC Central Payments Service 2014-15 (Creditors) | Substantial | Substantial | Minor | Civic Enterprise Leeds | Update Report June to July 2015 |
| Year End Reconciliation of Housing Benefit and Council Tax | Substantial | | N/A | Citizens and Communities | Update Report June to July 2015 |
| Children's Services - Commissioning of External Residential and Independent Fostering Agency Placements | Acceptable | Monitoring arrangements & accuracy of payments: Acceptable Call off process: Limited | Moderate | Children's Services | Update Report June to July 2015 |
| Troubled Families Programme | Good | Acceptable | Minor | Children's Services | Update Report June to July 2015 |
| Travel and Subsistence - ASC 14-15 | N/A | Substantial | Minor | Adult Social Care | Update Report June to July 2015 |
| Travel and Subsistence - City Development | N/A | Substantial | Minor | City Development | Update Report June to July 2015 |
| Environment & Housing - Directorate Purchasing Cards 2014-15 | N/A | Acceptable | Minor | Environment & Housing | Update Report June to July 2015 |
| Travel & Subsistence - E&H 2014-15 | N/A | Good | Minor | Environment & Housing | Update Report June to July 2015 |
| Travel and Subsistence BSC 14-15 | N/A | Acceptable | Minor | Civic Enterprise Leeds | Update Report June to July 2015 |
| Civic Enterprise - Directorate Purchasing Cards | N/A | Acceptable | Minor | Civic Enterprise Leeds | Update Report June to July 2015 |
| Rents and Leases of Commercial Properties | N/A | Good | Minor | City Development | Update Report June to July 2015 |
| Nursery Fees follow up review (Burley Park Children's Centre) | N/A | Acceptable | Minor | Children's Services | Update Report June to July 2015 |
| Nursery Fees follow up review (Cottingley Children's Centre) | N/A | Acceptable | Minor | Children's Services | Update Report June to July 2015 |

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| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|---|---------------------|-------------|-----------------------|--------------------------|--|
| | Control Environment | Compliance | Organisational Impact | | |
| Aireborough Leisure Centre follow up review | N/A | Good | N/A | City Development | Update Report June to July 2015 |
| Payroll 2014-15 Year- End Reconciliation | Substantial | | N/A | Civic Enterprise Leeds | Update Report August to December 2015 |
| Bank Reconciliation and Cashbook 2014-15 | Substantial | Substantial | Minor | Strategy & Resources | Update Report August to December 2015 |
| Housing Rents | Substantial | N/A | Minor | Environment & Housing | Update Report August to December 2015 |
| New Homes Bonus | Good | N/A | Minor | City Development | Update Report August to December 2015 |
| Section 278 | Good | N/A | Minor | City Development | Update Report August to December 2015 |
| Early Leavers Initiative | Acceptable | Acceptable | Minor | Cross Cutting | Update Report August to December 2015 |
| Travel and Subsistence 2014-15 Civic Enterprise | N/A | Acceptable | Minor | Civic Enterprise Leeds | Update Report August to December 2015 |
| Council Tax | Substantial | N/A | Minor | Citizens and Communities | Update Report January to February 2016 |
| Business Rates | Substantial | N/A | Minor | Citizens and Communities | Update Report January to February 2016 |
| Sundry Income - Bereavement Services | Good | Good | Minor | Environment & Housing | Update Report January to February 2016 |
| Payroll and HR Administration | Substantial | Good | Minor | Civic Enterprise Leeds | Update Report January to February 2016 |
| Other Bank Accounts - Electoral Services | Limited | Acceptable | Minor | Citizens and Communities | Update Report January to February 2016 |
| Total Repairs | Good | Acceptable | Minor | Environment & Housing | Update Report January to February 2016 |
| Travel and Subsistence Environment and Housing | N/A | Good | Minor | Environment & Housing | Update Report January - February 2016 |
| Travel and Subsistence City Development | N/A | Good | Minor | City Development | Update Report January - February 2016 |
| Travel and Subsistence - Accuracy of processing by BSC | N/A | Substantial | Minor | Civic Enterprise Leeds | Update Report January - February 2016 |
| Collective Agreement December 2014 payroll Terms & Conditions | N/A | Good | Minor | Strategy & Resources | Update Report January - February 2016 |
| Housing Benefits Reconciliations | Substantial | N/A | Minor | Strategy & Resources | Update Report March to May 2016 |
| Housing Benefits Assessment and Payments | Substantial | Substantial | Minor | Citizens and Communities | Update Report March to May 2016 |
| Local Welfare Support Scheme | Good | Substantial | Minor | Strategy & Resources | Update Report March to May 2016 |
| Income Management System | Substantial | Substantial | Minor | Strategy & Resources | Update Report March to May 2016 |
| Central Sundry Income | Substantial | Substantial | Minor | Strategy & Resources | Update Report March to May 2016 |
| Capital Programme Central Controls | Substantial | N/A | Minor | Strategy & Resources | Update Report March to May 2016 |
| Essential Car User Allowances | Good | Good | Minor | Strategy & Resources | Update Report March to May 2016 |
| Grants to third party organisations | Good | Good | Minor | City Development | Update Report March to May 2016 |
| Financial Management Central Controls | Substantial | N/A | Minor | Strategy & Resources | Update Report March to May 2016 |

The Annual Internal Audit Report 2015/16

| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|---|--|-------------|-----------------------|--|--|
| | Control Environment | Compliance | Organisational Impact | | |
| Treasury Management and Bankline | Substantial | Substantial | Minor | Strategy & Resources | Update Report March to May 2016 |
| Central Payments System | Substantial | Substantial | Minor | Strategy & Resources | Update Report March to May 2016 |
| Environment and Housing Creditor Payments | Substantial | Good | Minor | Environment & Housing | Update Report March May 2016 |
| Kirkgate Market follow up review | Good | Acceptable | Minor | City Development | Update Report March May 2016 |
| Schools Central Control | Good | N/A | Minor | Children's Services | Update Report March to May 2016 |
| Budget Action Plans | N/A identification of best practice | | | Strategy & Resources | Update Report March to May 2016 |
| Procurement and Spending Money Wisely 15 reviews completed | | | | | |
| Spending Money Wisely Challenge 2014/15 - Memos to Chief Officers | N/A - Summaries of transactions for Chief Officers | | | Cross Cutting | Update Report June to July 2015 |
| Joint Venture – professional property and building services | Acceptable | Limited | Minor | City Development | Update Report June to July 2015 |
| Other hired and contracted services follow up review | N/A | Acceptable | N/A | Environment & Housing | Update Report August to December 2015 |
| Category Plan Development | Acceptable | N/A | Minor | Strategy & Resources | Update Report August to December 2015 |
| Changing the Workplace contract review | Good | Substantial | Minor | Strategy & Resources | Update Report August to December 2015 |
| West Yorkshire Supply of Coated Materials Contract Review | Good | Acceptable | Minor | City Development | Update Report August to December 2015 |
| Spending Money Wisely Challenge City Development | N/A | Limited | Minor | City Development | Update Report January to February 2016 |
| Spending Money Wisely Challenge Environment and Housing | N/A | Limited | Minor | Environment & Housing | Update Report January to February 2016 |
| Spending Money Wisely Challenge Strategy & Resources | N/A | Limited | Minor | Strategy & Resources | Update Report January to February 2016 |
| Public Health Contract Review | N/A | Substantial | Minor | Public Health | Update Report January to February 2016 |
| Contract Extensions | Good | Acceptable | Minor | Strategy and Resources/Cross Cutting | Update Report January to February 2016 |
| Spending Money Wisely Challenge Children's Services | N/A | Limited | Minor | Children's Services | Update Report March to May 2016 |
| Joint Venture – professional property and building services follow up | Acceptable | N/A | Minor | City Development | Update Report March to May 2016 |
| Neighbourhood Networks Contract Review | Good | Acceptable | Minor | Adult Social Care | Update Report March to May 2016 |
| Enforcement Agencies | Acceptable | Good | Minor | Strategy & Resources / Environment & Housing | Update Report March - May 2016 |
| Other Risks 17 reviews completed | | | | | |
| Decision Making Children's Services | N/A | Substantial | Minor | Children's Services | Update Report June to July 2015 |
| Decision Making City Development | N/A | Substantial | Minor | City Development | Update Report June to July 2015 |

The Annual Internal Audit Report 2015/16

| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|---|---------------------|--|-----------------------|--------------------------|--|
| | Control Environment | Compliance | Organisational Impact | | |
| Key Performance Indicator - No. of People supported in to jobs | N/A | Substantial | Minor | Children's Services | Update Report June to July 2015 |
| Area Office cash handling arrangements | N/A | Limited | Moderate | Adult Social Care | Update Report June to July 2015 |
| KPI - No. of complaints about council services | N/A | Chief Executive's Office: Substantial Environmental Action: Good | N/A | Citizens and Communities | Update Report June to July 2015 |
| Temporary Accommodation and Homelessness follow up review | Good | Good | Minor | Environment & Housing | Update Report August to December 2015 |
| Directorate Risk and Performance Management Review (City Development) | Substantial | N/A | Minor | City Development | Update Report August to December 2015 |
| Learning Disability Community Support Service - Customer Monies | Good | Joseph Court: Good Iveson Rise: Acceptable | Moderate | Adult Social Care | Update Report August to December 2015 |
| Corporate Health and Safety | Good | Good | Minor | Strategy & Resources | Update Report August to December 2015 |
| Bequests and Trusts | Good | N/A | Minor | Strategy & Resources | Update Report August to December 2015 |
| Area Office follow up review | N/A | Good | Minor | Adult Social Care | Update Report January to February 2016 |
| Section 48 House Searches, Appointees and Deputies follow up review | Acceptable | Acceptable | Minor | Strategy & Resources | Update Report January to February 2016 |
| Taxi and Private Hire Licensing | Acceptable | DBS Renewals: Limited Other controls: Substantial | Moderate | Citizens and Communities | Update Report January to February 2016 |
| Safeguarding - Disclosure and Barring Service Checks and Health and Care Professions Council | Acceptable | Acceptable | Moderate | Strategy & Resources | Update Report March to May 2016 |
| Passenger Transport Contract Follow-up Review | Acceptable | Good | Moderate | Civic Enterprise Leeds | Update Report March to May 2016 |
| Arrangements for the implementation of the Care Act 2014 | Good | Substantial | Minor | Adult Social Care | Update Report March to May 2016 |
| Administration of Client Monies | Limited | Limited | Moderate | Adult Social Care | Update Report March to May 2016 |
| Information Governance and ICT 7 reviews completed | | | | | |
| Information Governance - Contracts & Commissioning follow-up review | Acceptable | N/A | Moderate | Strategy & Resources | Update Report August to December 2015 |
| Published Payments and Redactions follow up review | Good | N/A | Minor | Strategy & Resources | Update Report August to December 2015 |
| XN System Follow up | Good | N/A | Minor | City Development | Update Report January to February 2016 |
| ICT Benefits Realisation Review 2015-16: PSN Initiative Transition Project and LLN Transition Project | Substantial | Good | Minor | Strategy & Resources | Update Report March to May 2016 |
| Bankline and LATIMA Business Application | Substantial | N/A | Minor | Strategy & Resources | Update Report March to May 2016 |
| FMS Business Application | Good | N/A | Minor | Strategy & Resources | Update Report March to May 2016 |

The Annual Internal Audit Report 2015/16

| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|---|---------------------|----------------|-----------------------|-----------------------|---------------------------------------|
| | Control Environment | Compliance | Organisational Impact | | |
| Housing Partnerships Assurance Framework Reviews 12 reviews completed | | | | | |
| Housing Leeds Quality Management Systems Construction Services 2014/15 | Acceptable | Acceptable | Minor | Environment & Housing | Update Report June to July 2015 |
| Housing Needs Customer Experience 2014/15 | Acceptable | Acceptable | Minor | Environment & Housing | Update Report June to July 2015 |
| Welfare Reform Initiatives 2014/15 | Good | Acceptable | Minor | Environment & Housing | Update Report June to July 2015 |
| Quality Management Systems Property and Contracts 14/15 | Acceptable | Good | Moderate | Environment & Housing | Update Report June to July 2015 |
| PFI Gas Servicing | Acceptable | Acceptable | Moderate | Environment & Housing | Update Report June to July 2015 |
| Major Adaptations | Good | Good | Minor | Environment & Housing | Update Report August to December 2015 |
| Quality Management Systems | Acceptable | Acceptable | Moderate | Environment & Housing | Update Report August to December 2015 |
| Contractor Data Integrity Follow Up | Good | Good | Minor | Environment & Housing | Update Report August to December 2015 |
| Disrepair Service | Acceptable | Good | Minor | Environment & Housing | Update Report August to December 2015 |
| Managed Stores | Acceptable | Acceptable | Minor | Environment & Housing | Update Report March to May 2016 |
| Void Management | Good | Acceptable | Minor | Environment & Housing | Update Report March to May 2016 |
| Requests for Information | Good | Acceptable | Minor | Environment & Housing | Update Report March to May 2016 |
| Schools 9 reviews completed | | | | | |
| Primary School Follow Up review | N/A | Medium | N/A | Children's Services | Update Report June to July 2015 |
| School audit x 3 | N/A | Good Assurance | N/A | Children's Services | Update Report June to July 2015 |
| School audit | N/A | Limited | N/A | Children's Services | Update Report June to July 2015 |
| Schools 6 th form bursary and funding | N/A | Acceptable | N/A | Children's Services | Update Report June to July 2015 |
| Schools 6 th form bursary and funding | N/A | Substantial | N/A | Children's Services | Update Report June to July 2015 |
| School audit | Substantial | Substantial | N/A | Children's Services | Update Report August to December 2015 |
| School audit | Limited | Limited | N/A | Children's Services | Update Report March to May 2016 |

The Annual Internal Audit Report 2015/16

| Report Title | Audit Opinion | | | Directorate | Included in report to CGAC |
|--|---------------------|------------|-----------------------|-------------|---------------------------------------|
| | Control Environment | Compliance | Organisational Impact | | |
| External Work 4 reviews completed | | | | | |
| Leeds Grand Theatre and Opera House Ltd: Budgetary Control | Good | N/A | N/A | External | Update Report August to December 2015 |
| Leeds Grand Theatre and Opera House Ltd: Creditors | Acceptable | Acceptable | N/A | External | Update Report August to December 2015 |
| Leeds Grand Theatre and Opera House Ltd: Contracts with Visiting Companies | Acceptable | N/A | N/A | External | Update Report August to December 2015 |
| Leeds Grand Theatre and Opera House Ltd: Payroll | Good | Good | N/A | External | Update Report August to December 2015 |

| Report Title | Results/Opinion | Directorate | Included in report to CGAC |
|---|--|-----------------------|---------------------------------|
| Grants and Other Head of Internal Audit Assurances 22 reviews completed | | | |
| Local Transport Capital Block Funding Grant | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance) Specific Grant Determination 2010 No 31/1859 have been complied with | City Development | Update Report June to July 2015 |
| Cycling ambition Grant | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Cycling Ambition Specific Grant Determination 2013-14 No 31/2213 have been complied with | City Development | Update Report June to July 2015 |
| West Yorkshire Plus Transport Fund | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the expenditure incurred by the local authority meets the criteria on the schemes specified in the 27 September 2013 report to the West Yorkshire ITA | City Development | Update Report June to July 2015 |
| Leeds City Region Annual Return year ended 31st March 2015 | The body's internal audit, acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ended 31st March 2015. Internal audit has been carried out in accordance with the body's needs and planned coverage. Internal Audit found and reported that, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the body. | Leeds City Region | Update Report June to July 2015 |
| Assessed and Supported Year in Employment (AYSE) Grant Claim | Assurances provided that the grant paid for the period 2014/15 was applied for the purposes intended by the DfE and the financial transactions conform to the Grant Funding Agreement and objectives specified. | Children's Services | Update Report June to July 2015 |
| Disabled Facilities Capital Grant | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions | Environment & Housing | Update Report June to July 2015 |

The Annual Internal Audit Report 2015/16

| Report Title | Results/Opinion | Directorate | Included in report to CGAC |
|---|---|---|--|
| | attached to Disabled Facilities Capital Grant Determination (2014t1S) No 91t2244 have been complied with | | |
| Additional DfT Highways Capital Grant Awards: Highways Maintenance, Local Pinch Point Fund - Thornbury Roundabout and Rodley Roundabout 14-15 | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the three additional DfT Highways Capital Grant Funding Allocations in 2014/15 have been complied with | City Development/Strategy & Resources | Update Report August to December 2015 |
| Local Authority Bus Subsidy Ring Fenced (Revenue) Grant | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached the Local Authority Bus Subsidy Ring Fenced (Revenue) Grant Determination 2014/15 have been complied with | Civic Enterprise Leeds | Update Report August to December 2015 |
| Troubled Families Grant Claim September | Assurances provided that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness. | Children's Services | Update Report August to December 2015 |
| Additional DfT Highways Capital Grant Awards: Pothole fund | To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the one additional DfT Highways Capital Grant Funding Allocations in 2014/15 have been complied with. | City Development / Strategy & Resources | Update Report August to December 2015 |
| Building Hope Accounts 2014/15 | Independent Examination of Accounts | Strategy & Resources | Update Report January to February 2016 |
| St Aidan's Charitable Trust Accounts 2014/15 | Independent Examination of Accounts | Strategy & Resources | Update Report January to February 2016 |
| Troubled Families Grant Claim January 2016 | Assurances provided that the results detailed on the grant claim will satisfy the DCLG requirements of reasonableness. | Children's Services | Update Report January to February 2016 |
| Lord Mayors Charity Accounts | Independent examination of accounts | Strategy and Resources | Update Report March to May 2016 |
| School Voluntary Funds x 8 | Certification of Account Balances | Children's Services | Various Update Reports |

Section 3

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME AND CONFORMANCE WITH PSIAS 2015/2016

3.1 Internal Audit Performance

3.1.1 The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council’s arrangements for monitoring the performance of internal audit. This section of the report summarises the performance information that has been reported throughout the year to the Corporate Governance and Audit Committee.

[Reports to the Corporate Governance and Audit Committee \(1st April 2015 to 31st March 2016\)](#)

| Report | Purpose |
|---|---|
| Internal Audit Update Reports | Provided regular summaries of the work undertaken by internal audit and allowed the Committee to review the performance of the section. |
| Internal Audit Quality Assurance and Improvement Programme Framework and Internal Audit Charter | To seek approval for the Internal Audit Charter and to inform the Committee of the Internal Audit Quality Assurance and Improvement Programme Framework as defined by the Public Sector Internal Audit Standards. |
| Annual Report 2014/15 | Provided an overview of the work undertaken by internal audit and the Annual Audit Opinion in respect of the council’s governance, risk management and control arrangements for 2014/15. |
| Annual Audit Plan 2016/17 | Presented the proposed Internal Audit Plan for 2016-17 for review and approval. |

[Resources](#)

3.1.2 Resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual internal audit opinion. As reported throughout the year, the level of resources available for internal audit work was less than when the annual plan for 2015/16 was agreed. Actual audit days for the year were 3,133, compared to 3,980 days allocated for assurance work in the audit plan (79%). A number of audit assignments of relatively lower risk were removed and considered in the planning process for inclusion in the 2016/17 plan. However, we

have used computer aided audit techniques to support the delivery of an increasing number of audit assignments during the year, particularly in respect of the key financial systems audits. This has helped us to streamline the audit process and achieve results that are more effective in a shorter period. Excluding external work, anti-fraud related work and audit queries and consultation work, we have completed 139 reviews during the year. This compares favourably against the 138 reviews completed during 2014/15, given the reduction in available resources.

Experience and Qualifications

3.1.3 The table below demonstrates the high levels of qualifications and experience within the internal audit section.

Experience of staff in post as at 31/03/2016

| Years of experience – local government auditing | FTE | % |
|--|-------------|-------------|
| 1 – 5 years | 3 | 16% |
| 5 – 10 years | 4.6 | 25% |
| Over 10 years | 10.9 | 59% |
| Total FTE | 18.5 | 100% |

Qualifications of staff in post as at 31/03/2016

| Qualification | FTE | % |
|--------------------------|-------------|-------------|
| CIPFA | 7.6 | 41% |
| Other CCAB – ACCA, ICAEW | 3.5 | 19% |
| IIA | 3.1 | 17% |
| AAT | 1.3 | 7% |
| CIPFA Trainees | 2 | 11% |
| IIA Trainees | 1 | 5% |
| Total FTE | 18.5 | 100% |

3.1.4 Proficiency and due professional care is a key requirement of the PSIAS. All internal auditors have a personal responsibility to undertake a programme of Continuing Professional Development (CPD) to maintain and develop their competence. We have allocated time within the audit plan for CPD, training and personal development to be undertaken throughout the year to continuously improve the knowledge and skills within the internal audit section.

3.2 Quality Assurance and Improvement Programme

Quality Standard Accreditation

- 3.2.1 All internal audit work is undertaken in accordance with internal quality procedures incorporated in its quality management system, which has been ISO accredited since 1998. During February 2016, an independent review was undertaken of internal audit's quality system to ensure compliance with the ISO 9001:2008 standard. The review team conducted a process-based audit, focusing on significant aspects/ risks/ objectives required by the standard and concluded that:

“..... the organisation has established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the organisations' policy and objectives.”

- 3.2.2 The next review visit is due in August 2016.

Customer Feedback

- 3.2.3 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues with an assessment ranging from 5 (for excellent) to 1 (for poor). The results for the 41 questionnaires received between 1st April 2015 to 31st March 2016 – as shown in the table below - are based on the percentage of those assessments that are 3 (satisfactory) or above. The number of CSQs returned for 2015/16 has improved compared to the previous year (35).
- 3.2.4 The results are used to determine areas for improvement and inform the continuing personal development training programme for internal audit staff.

| Question | Actual 2014/15 % Score 3 or above | Actual 2015/16 % Score 3 or above | 2015/16 Average Score at 31 st March 2016 |
|--|---|---|---|
| Sufficient notice was given | 100 | 100 | 4.65 |
| Level of consultation on scope | 100 | 98 | 4.41 |
| Auditor's understanding of systems | 97 | 100 | 4.41 |
| Audit was undertaken efficiently | 100 | 98 | 4.68 |
| Level of consultation during the audit | 100 | 100 | 4.54 |
| Audit carried out professional and objectively | 100 | 100 | 4.7 |

| Question | Actual 2014/15 % Score 3 or above | Actual 2015/16 % Score 3 or above | 2015/16 Average Score at 31 st March 2016 |
|--|---|---|---|
| Accuracy of draft report | 100 | 100 | 4.55 |
| Opportunity to comment on audit findings | 100 | 100 | 4.75 |
| Clarity and conciseness of final report | 100 | 100 | 4.54 |
| Prompt issue of final report | 94 | 92 | 4.28 |
| Audit recommendations will improve control | 100 | 100 | 4.29 |
| The audit was constructive added value | 100 | 100 | 4.36 |
| Overall Average Score | | | 4.51 |

- 3.2.5 Feedback from customer satisfaction questionnaires continues to be very positive. These results are extremely encouraging, particularly as the nature and complexity of work undertaken by internal audit continues to change.

[2015/16 Quality Assurance and Improvement Action Plan \(QAIP\)](#)

- 3.2.6 The PSIAS require that the results of the internal audit QAIP are included in the annual report. A report was presented to the Corporate Governance and Audit Committee in July 2015 which informed members of the review and updates to the QAIP.
- 3.2.7 The majority of actions within the 2015/16 QAIP have been implemented as shown in the table below. All residual actions will be carried forward to the 2016/17 QAIP. The key action that remains outstanding is the external assessment process. A methodology for the external assessment has been developed in conjunction with the Core Cities and the Terms of Reference for this review will be presented to the Committee as part of the Internal Audit Update Report for March to May 2016, elsewhere on this agenda.

Appendix 1 – Improvement Action Plan

| Internal Audit Improvement Action Plan for 2015/16 | | | | |
|---|---|----------------------------|---|---|
| | Action | Timescale | Status | Comments |
| 1 | <p>External assessment mechanism for review of Internal Audit against PSIAS requirements to be put in place. This will include:</p> <ul style="list-style-type: none"> - Analysis of different mechanisms of assessment and preferred option identified; - Scope of work re assessment to be defined and agreed between parties; - Ensure assessor appropriately qualified and competent; - Identification of any conflicts of interest. <p>The outcome of the above, including the preferred option and assessor will be reported to CGAC and approval sought.</p> | October 2016 | Planned | <p>The requirement is for the external assessment to be completed at least every 5 years. Our first assessment must be completed by 2018.</p> <p>The external assessment arrangements have been reported to CGAC in the January to March 2016 Update Report. The Terms of Reference for the review is due to be presented to CGAC in the June 2016 meeting.</p> <p>The external assessment is due to be undertaken in October 2016.</p> |
| 2 | Assurance mapping will continue to be developed and evolve during the annual planning process. | 2014/15 Annual Audit Plan | Ongoing action carried forward to 2016/17 | A documented framework for assurance mapping was formalised during 2015/16 and was used for the 2016/17 planning process. Assurance maps have been drafted and these will be updated and refreshed during 2016/17. |
| 3 | Performance information to be included in the regular update reports to CGAC will be discussed and agreed with members of the Committee. This will be included in the reports on an on-going basis. | 9 th July 2015 | Implemented | |
| 4 | Review and update the section’s quality procedures and ensure these are fit for purpose and effective. | 31 st July 2015 | Implemented | |

The Annual Internal Audit Report 2015/16

| | | | | |
|---|---|--------------------------------|---|---|
| 5 | Investigate options for integrated Audit Management Software (timesheets and working papers) including business case and implement new automated working practices/documentation. | By 31 st March 2016 | Partly implemented and carried forward to 2016/17 | The first phase of User Acceptance Testing has now been completed. The software is to be moved across to the council servers and further user Acceptance Testing will be undertaken by the end of Quarter 1. The new version of the software will then be rolled out to staff |
| 6 | Review and update audit reporting protocols with directorates. | 31 st July 2015 | Implemented | |
| 7 | Review and update the Internal Audit Technical Manual to ensure this reflects current working practices and meets the requirements of PSIAS. | 31 st July 2015 | Implemented | |
| 8 | Ensure the recommendations made in the Information Governance review of Audit and Investment have been fully implemented. | By 31 st March 2016 | Partly implemented and carried forward to 2016/17 | High priority recommendations have been implemented. Low and medium priority recommendations are currently in progress. |



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Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: KPMG Report – Corporate Risk Register Analysis

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

Summary of main issues

1. KPMG have carried out a review of the council’s Corporate Risk Register, as part of a national review of their local government and police and fire service clients.
2. The attached report from KPMG gives an overview of their national findings, and reports on how the council’s risk register compares to these.

Recommendations

3. Members are asked to note the contents of KPMG’s report, and the council’s proposed response to the points raised in it.

1 Purpose of this report

- 1.1 This report introduces KPMG's report on corporate risk registers and sets out the council's response to the recommendations made.

2 Background information

- 2.1 KPMG have carried out a national review of the corporate risk registers in place at their local authority, police and fire service clients. The review covered both the risks identified and the risk management processes in place.

- 2.2 Under the Committee's terms of reference members are to receive external audit reports so as to:

- (i) inform the operation of Council's current or future audit arrangements; and
- (ii) provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

3 Main issues

- 3.1 KPMG's review gives an overview of the most frequently identified risks and the risk management arrangements in place across the bodies surveyed.

- 3.2 In comparing the council's arrangements to the national picture, the review identified two issues for the council to consider – the prominence given to financial risks within the corporate risk register, and whether key risks should be allocated to individual members.

- 3.3 As noted in the annual assurance report on corporate risk and performance management arrangements on today's agenda, on the issue of financial risks, budget management and monitoring are already undertaken on a risk-based approach where financial management resources and reporting are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. In addition, the 2016/17 budget is already included as a high risk in the corporate risk register and monitored monthly through reports to budget holders, directorate leadership teams, corporate leadership team and the Executive Board. Recognising the challenges, specific project management based support and reporting is also in place around the achievement of the key budget actions plans to highlight any variations at an early stage. It is therefore considered that the financial risk management arrangements in place are sufficiently robust.

- 3.4 It is proposed that for 2016/17, key corporate risks will be allocated to portfolio members.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The risk register report from KPMG 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 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

4.4 Resources and value for money

4.4.1 The report does not identify any specific issues in relation to the council's arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal issues arising from this report.

4.6 Risk Management

4.6.1 The report confirms that the council's corporate risk register is comparable to those of other councils, and identifies two issues for the council to consider.

5 Conclusions

5.1 The report from KPMG gives assurance that the council's arrangements for its corporate risk register compare well with those in place at similar organisations across the country.

6 Recommendations

6.1 Members are asked to note the contents of KPMG's report, and the council's proposed response to the points raised in it.

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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Local Authority Corporate Risk Register Analysis

**Single Tier Authorities
Leeds City Council**

Local authority corporate risk register analysis

Background

Risk management is a critical management tool to manage, assess and prioritise risks therefore enabling resources to be applied to minimise, monitor and control the probability and/or the impact of negative events.

An important component of the risk management process is the corporate risk register, which identifies those risks which are critical for management to minimise, monitor and control.

KPMG has used its extensive audit client base to undertake Corporate/Strategic risk register analysis. The exercise compared the corporate risk registers from a range of local authorities covering:

- Single Tier Councils;
- County Councils;
- District Councils;
- Fire and Rescue Services; and
- Police bodies.

The outcome highlights the most frequently featured risks across local authority risk registers and changes from 2014 when a similar exercise was carried out.

We also considered the arrangements in place to maintain and review risk registers at the local authorities and fire and police bodies.

Finally, we considered the degree to which risk registers are used as an integrated management and assurance tool, which is especially important given other parts of the Public Sector are increasingly using tools such as Board Assurance Frameworks and Assurance Mapping.

Purpose

Organisations should use the comparative information to help consider:

- Whether there are potential risks that may have been omitted from their own risk register;
- Whether potential risks are given sufficient priority;
- The mechanics of the risk management process at their organisations; and
- How managing risks and providing assurance can be developed further.

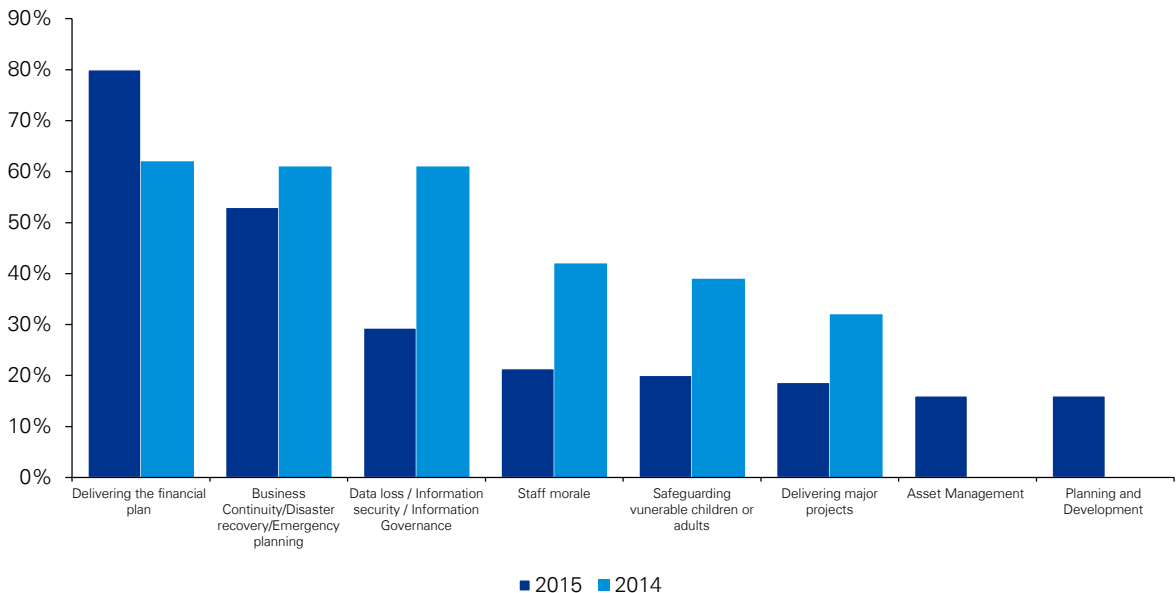
Leeds Analysis

In general Leeds CC risk registers contain risks seen in comparable councils analyzed on page 3 and page 4 based on the November 2015 register: Based on this the Council could consider whether:

- financial risks are given sufficient prominence in the corporate risk register; and
- members should be allocated key risks along with officers.

Local authority corporate risk register analysis (cont.)

Most frequently featured risks across all authority types



The top three residual risks occurring most frequently are:

- Delivering the medium term financial plan/saving targets/delivering funding cuts;
- Business continuity/disaster recovery incidents/emergency planning; and
- Data loss/information security/information governance risks.

A much higher number of bodies (80% compared to 62% in 2014) identified **Delivering the medium term financial plan/saving targets/delivering funding cuts** as a risk, although this is still not as high as might be expected given the significant reduction in grants seen in recent years and on-going financial pressures.

Risks in relation to **Business continuity and disaster recovery** were identified in 53% of risk registers (compared to 61% in 2014) and Data loss/information security and information governance were identified in 29% of risk registers (compared to 61% in 2014). So whilst these risks remain high in terms of frequently occurring risks – It is noticeable that both risks occur less often than in prior years. This fall is a surprise but may be as a result of investments in arrangements reducing the residual risks across the sector.

The risk that no longer features in the above analysis is **Partnership arrangements/governance**, which is surprising given the emergence and growth of initiatives such as the Better Care Fund.

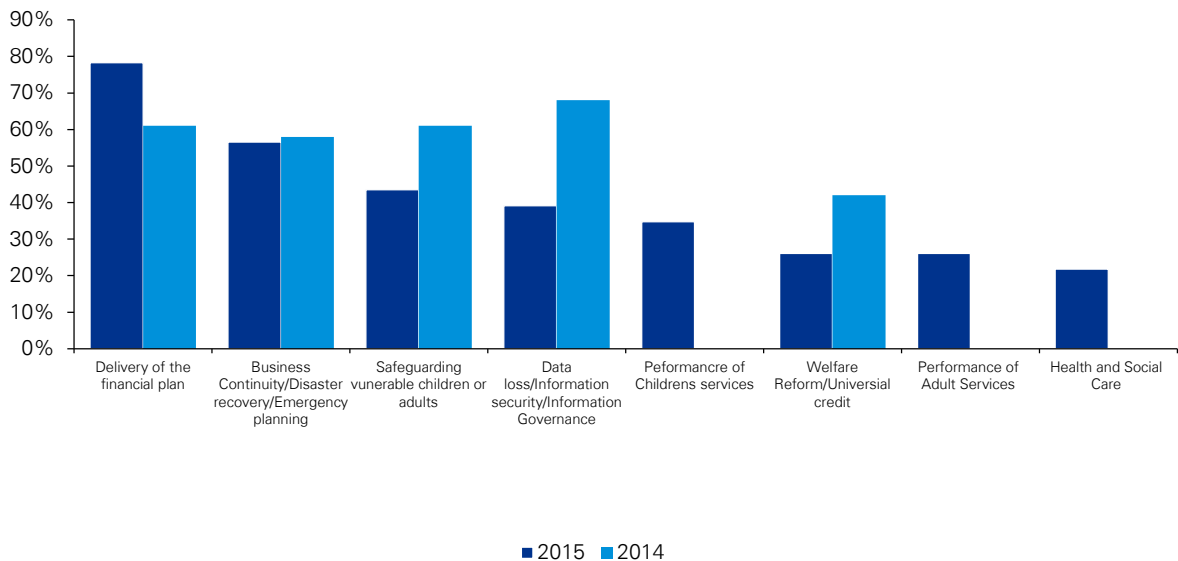
Compared to the same analysis last year the following risks are new for 2015:

- Asset management; and
- Planning and development issues.

Local authority corporate risk register analysis (cont.)

Most frequently featured risks across single tier authorities

The chart below shows the eight most frequently identified risks at the single tier authorities included in the exercise.



If you exclude the **safeguarding risk**, which is clearly not a relevant risk for all authorities (e.g. District Councils), the three most common risks for single tier authorities are the same as the all authority type analysis, with **delivery of the Medium Term Financial Plan** again the highest risk.

We note we see more risks in relation to **Health and Social Care**, (21% of single tier authorities), which is understandable given the arrival and growth of the Better Care Fund. This also possibly explains the reduction in **Partnership Governance risks**, which are now better defined as Health and Social care. We also note that concerns over operational performance in Children and Adults services are now being seen in more risk registers.

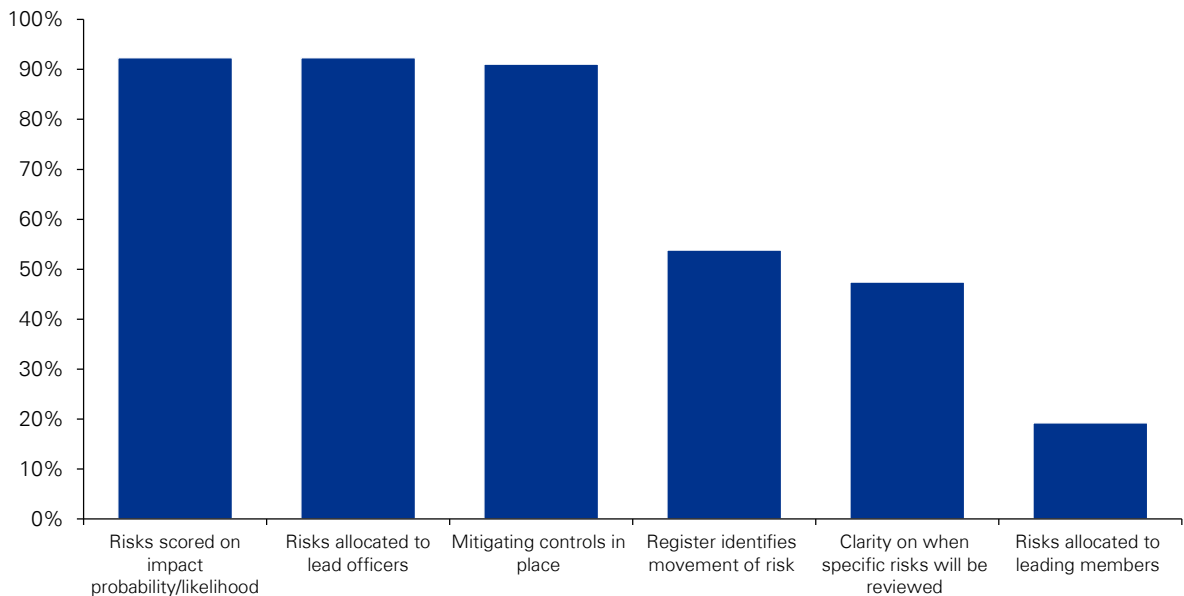
Against a background of the significant reputational and business impact of safeguarding cases, it is also noticeable that safeguarding vulnerable children or adults was only identified in 43% of single tier authorities, which is down from 61% in 2014.

Leeds CC comparison

The four of five top risks in the November 2015 corporate risk map are consistent with those seen elsewhere including **Safeguarding Adults and Children** (which are 2 risks in the Council’s risk map) **Welfare Changes** and a **Major incident in the city** which compares to Emergency planning above. **School places** the 5th risk is not seen in many of the registers analyzed. **Medium Term Budget whilst** not in the top 5 risks of the Council is shown as High Impact but below the risk appetite tolerance line some thing we would expect to be under constant review given the difficulties of the financial position facing the Council.

Local authority corporate risk register analysis (cont.)

Survey Responses on Risk Register Reporting and Responsibilities



The chart above analyses the risk registers reviewed across all authorities. As expected, a high level of registers score risks on impact and probability, the controls in place and are allocated to lead officers.

However, less risk registers clarify when a risk is to be reviewed, which could result in the risk not being dealt with appropriately and provides less assurance. Further to this, risks do not appear to be regularly/widely allocated to lead members, which could reduce the scrutiny of these risks.

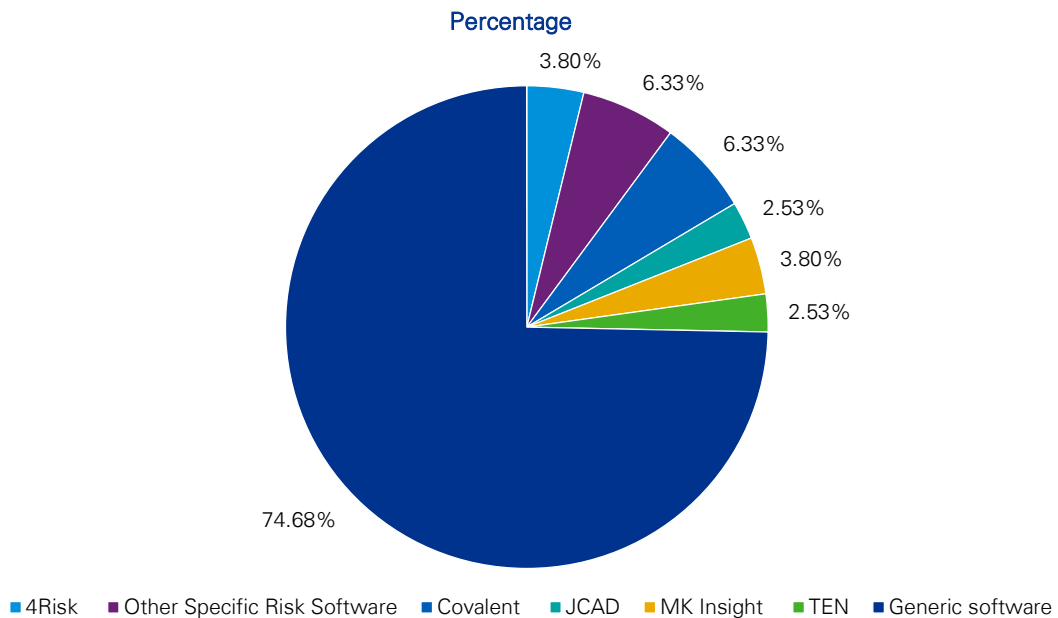
Leeds CC Comparison

Leeds compares well to other councils in this analysis with local systems complying with all the criteria above except *Risks allocated to members* which is something the Council could consider.

Local authority corporate risk register analysis (cont.)

Software used to support risk management

The chart below shows that 75% of authorities do not use specific risk management software, often preferring to use spreadsheet systems to record the risks. These systems are potentially less robust compared to specific software. Of the authorities that do use specific software, the most commonly used packages are Covalent, 4risk and MK Insight. 4Risk is used at Leeds.



Moving forward

It is noted that in the wider Public Sector, many bodies are now using Board Assurance Frameworks/Assurance Mapping. Assurance mapping is the process where risk reports set out the controls and assurances in place to confirm that risks are being addressed. Setting out the assurances can give lead Officers and Members confirmation that assurance is in place and that the quality of the assurance is sufficient against the risk.

Our work has identified limited use of such tools in the local authority sector.

Our comparison exercise identified that:

- Risks were linked to strategic objectives in 57% of reports;
- Assurances were reported in 53% of the reports; and
- Effectiveness of controls were reported in 49% of the reports.

These are important elements of assurance mapping processes and our work suggests there is significant scope for local authorities to develop in this area.



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Report of the Deputy Chief Executive

Report to: Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual assurance report on corporate risk and performance management arrangements

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| 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: N/A Appendix number: N/A | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Summary of main issues

1. This annual report presents assurances to the Corporate Governance & Audit Committee on the effectiveness of the council's corporate risk and performance management arrangements: that they are up to date; fit for purpose; effectively communicated and routinely complied with.
2. It provides one of the sources of assurance the Committee is able to take into account when considering approval of the Annual Governance Statement. It also enables the Committee to fulfil its role under the council's risk management policy and the Committee's own Terms of Reference to review the 'adequacy of the council's Corporate Governance arrangements (including matters such as internal control and risk management)'.

Recommendations

Corporate Governance & Audit Committee is asked to receive 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 in September.

1 Purpose of this report

- 1.1 This annual report presents assurances to the Corporate Governance & Audit Committee on the effectiveness of the council's corporate risk and performance management arrangements: that they are up to date; fit for purpose; effectively communicated and routinely complied with.

2 Background information

- 2.1 On 18th September 2015, Corporate Governance & Audit Committee received the previous annual assurance report on the council's corporate risk and performance arrangements. This report seeks to update the Committee on arrangements during 2015/16 and summarises work planned for 2016/17.

3 Main issues

Assurances on 2015/16 arrangements

3.1 *Best Council Plan & Performance Management*

- 3.1.1 For an organisation's risk and performance management arrangements to be effective, its strategic objectives and supporting key performance indicators (KPIs) must be up to date, effectively communicated and monitored and action taken as appropriate. During 2015/16, this was achieved as follows:

- The strategic ambitions, outcomes and priorities of the council are set out in the Best Council Plan (BCP). Through consultation with staff and elected members that began in summer 2015, the BCP was refreshed for 2016/17 and approved by Full Council in February 2016. The refreshed BCP continues the aim previously set out in the 2015/16 BCP of reducing inequalities, but articulates this more firmly around the integrated concepts of promoting economic growth and of Leeds being a compassionate city.
- The 2016/17 BCP was widely communicated through a letter from the Leader to key partners, a blog from the Leader to staff, items in the staff 'Essentials' newsletter and publication of the BCP on the authority's Internet and Intranet sites. At the time of writing, the Insite Intranet BCP page has been viewed nearly 2,400 times (1,569 unique visitors) between April and May 2016; the leeds.gov BCP pages receiving 559 hits (410 unique visitors) between April and May 2016.
- The 2016/17 BCP was developed in conjunction with the 2016/17 budget with both being considered alongside each other by the Executive Board in December 2015 and February 2016 and subsequently by Full Council. This co-development helps ensure that the council's strategy and allocation of resources both inform and are informed by each other with the annual budget and medium-term financial strategy now more clearly being the financial expression of the council's ambitions, policies and priorities. A new document has recently been produced to show this with a one-page visual representation aligning the 2016/17 net revenue budget with the 2016/17 BCP Best City population outcomes.
- Beyond the authority's financial plans, the BCP continues to draw on and link with a range of other supporting council and partnership plans. These include the Children & Young People's Plan; Health & Wellbeing Strategy; Core Strategy; Adult Social Care Local Account; Safer Leeds Strategy;

Citizens@Leeds Strategy and the council's People & Culture Strategy and Equality Improvement Priorities. The Executive Board, Scrutiny Boards, Community Committees and partnership boards (e.g. Children's Trust Board and Health and Wellbeing Board) receive relevant performance information on delivery of these related and supporting plans.

- Scrutiny Boards consider additional performance reports on areas relevant to their portfolios, incorporating both BCP and wider operational performance. Both the content and frequency of such reports are determined by the requirements of each specific Board.
- As part of the 2016/17 BCP refresh, its Key Performance Indicators (KPIs) have been updated: there is now a small set of 20 'Best City' KPIs to help measure progress over time against the 8 population outcomes set out in the BCP. The majority of these are taken from the supporting council and partnership plans, facilitating a consistent view of performance. The 20 Best City KPIs are supplemented by several 'Best Council' KPIs that help measure progress against our Best Council ambition of being a more efficient and enterprising organisation.
- Progress in delivering the BCP ambitions, outcomes, priorities and breakthrough projects is reported to the Corporate Leadership Team (CLT) each month (with items raised by directors themselves), facilitating cross-council ownership, discussion and follow-up action of specific areas as needed. This is part of a combined monitoring report, integrating policy, performance, financial and workforce information. Directors discuss relevant issues with Executive members.
- CLT monthly reporting is accompanied each quarter by a more detailed report on the 'BCP Scorecard': the most significant key performance indicators (KPIs) that help measure progress on the BCP as a whole in delivering better outcomes for both the city and the organisation in-year and in the longer term. This report shows the direction of travel against the best comparative performance, thus providing directors with a clear insight into the council's overall performance against the BCP.
- The quarterly scorecard is published on the council's intranet and also the Leeds Observatory, alongside data relating to population, crime, deprivation, health, the economy and the environment. A link to the scorecard is e-mailed to all elected members to alert them to the information. These arrangements help to make the data available to a wide audience.
- The scorecard is also shared with Core City local authority performance managers to facilitate benchmarking.
- The BCP informs the appraisal objectives set for the Corporate Leadership Team and so performance against the BCP outcomes and priorities is used as part of a suite of information for the Chief Executive's appraisals of his directors and his own appraisal with the Leader. We can confirm that this took place for both the mid-year and end of year appraisals in 2015/16 and that the 2016/17 BCP outcomes and priorities have informed the development of CLT members' new 2016/17 appraisal objectives. Appraisal guidance for staff for 2016/17 has also recently been updated to emphasise the importance of linking individual objectives and the work that teams do to the BCP outcomes.
- The guidance and template for Committee and Executive Board reports include sections for authors to evidence how the contents of their reports

support the BCP. The Corporate Policy & Intelligence team review all Executive Board reports at draft stage and provide feedback to report authors advising them of where these links can be made stronger and, in particular at this time of year with a new BCP in place, advising where authors may still be linking to the previous 2015/16 Plan. As with the appraisal process, this helps cascade the outcomes and priorities set out in the BCP to a wide range of staff.

- A year-end performance report that highlights the progress made throughout 2014-15 in delivering the six strategic objectives set out in the 2014/15 BCP was considered by Executive Board on the 15th July 2015. A similar report looking back on the 2015/16 BCP will be presented to Executive Board on 27th July 2016. Producing this annual performance report is in line with best practice and the authority's performance management framework.

3.2 Risk management

3.2.1 Corporate & service risk management

- Corporate, directorate, programme and project registers continue to be maintained, with significant risks escalated to appropriate boards and management teams as required. This includes quarterly updates on the risk status of all the council's programmes and complex projects to the Strategic Investment Board as part of the corporate risk register and the opportunity for all directors to raise prospective risks each month through the CLT monthly BCP combined monitoring reports.
- The corporate risk register continues to house the most significant risks to the council including the seven 'standing' corporate risks that will always remain on the register, these being:
 - Safeguarding children
 - Safeguarding adults
 - Health and safety
 - City resilience (emergency planning)
 - Council resilience (business continuity management)
 - Financial (both the in-year budget risks and longer term forecasting)
 - Information safeguarding
- In November 2015, Executive members and CLT reviewed the corporate risk register to ensure that it remained up to date and aligned with the emerging 2016/17 Best Council Plan outcomes and priorities. New corporate risks on Air Quality, Health and Social Care Sustainability and Care Market Viability/Sustainability were agreed and the scope of the existing corporate risk on Major Flooding expanded to cover the whole city rather than just the centre.
- In February 2016, a new process was established of publishing the corporate risk map on the council's Intranet site and Leeds Observatory following each quarterly update. This was communicated to staff through an item in Essentials linking to a new Insite page dedicated to corporate risks.
- The guidance and template for Committee and Executive Board reports include sections for authors on risk management. As part of their review of all Executive Board reports referred to above, the Corporate Policy & Intelligence also provide feedback to report authors with any additional risk management considerations.

- An annual report summarising how the council manages its most significant risks was reported to the Executive Board on the 15th July 2015. This year's report is, at the time of writing, being drafted in preparation for the Executive Board meeting 27th July 2016.

3.2.2 Financial risk management

- As noted in the June 2016, 'Financial Management and Control Arrangements' report to this Committee, financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk: for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets and so on. To reinforce this risk-based approach, specific project management based support and reporting around the achievement of the key budget actions plans continues to be in place in 2016/17.
- An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.

3.2.3 Project risk management

- The Projects, Programmes and Procurement Unit (PPPU) continue to provide specialist risk management advice and training in relation to projects. The 'PM lite' project management methodology adopted by the council in April 2015 also helps embed a standardised approach to risk management across the council's portfolio of projects and programmes.
- Risk management workshops continue to take place for key programmes and projects. Those facilitated by the risk management team in 2015-16 have included the World Series Triathlon in Leeds, The European Capital of Culture Bid and a key project related to bringing new investment into the city. Feedback from the workshops has been positive; on a scale of 1-4 (with 4 being 'strongly agree'; 3 being 'agree'):
 - 100% of participants strongly agreed or agreed that the events during 2015-16 have been worthwhile and beneficial (82% as 4; 18% as 3).
 - 100% rated the facilitator at the highest level for their skills and knowledge (88% as 4; 12% as 3).

3.2.4 4Risk

- The 4Risk risk management software system is now used by all council directorates to administer their corporate risks. We can confirm that all corporate risks have been updated on the system each quarter during 2015-16.
- During the summer of 2015, a 4Risk user survey was undertaken to identify the extent to which the software and the support provided by the corporate risk team met user requirements. The survey results identified that while some of the system functions could be simplified – for example, by adopting single user sign on - the support provided by the Corporate Policy & Intelligence team and the system user guides they had developed were highly valued.

3.2.5 Assurances

- As noted in the separate report 'KPMG Report – Corporate Risk Register Analysis' on today's agenda, in April 2016 KPMG issued a report on their analysis of local authority corporate risk registers (including that of Leeds City Council). The review considered the most frequently featured risks across local authorities' registers to enable organisations to consider whether any potential risks should be added to their own registers and whether they are given sufficient priority. It also considered the arrangements in place to maintain and review registers against 6 criteria:
 - Are risks scored on impact and probability / likelihood
 - Are risks allocated to lead officers
 - Are mitigating controls in place
 - Does the register identify movement of risk
 - Is there clarity on when specific risks will be reviewed
 - Are risks allocated to leading members
- KPMG concluded that Leeds' corporate risk register compares well to those of other comparable councils and complied with all the criteria above except 'risks allocated to members'. The report raised two items for consideration: the council should consider whether financial risks are given sufficient prominence in the corporate risk register and members should be allocated key risks along with officers. In response, we consider that financial risk management arrangements are sufficiently robust with specific risks reported throughout the year to members and senior officers that feed into the wider corporate financial risks. The second point raised in terms of allocating corporate risks to members is now being addressed (please see the 2016/17 section below).
- The council's external auditors provide a risk assessment on the council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.
- During the summer of 2015, Internal Audit carried out a review into City Development's risk management directorate arrangements, its scope focused on whether: risks to the achievement of council plan objectives are identified; monitoring arrangements are in place for the achievement of council plans and objectives; appropriate reporting arrangements are in place. At the end of their review, Internal Audit gave City Development the highest rating of 'Substantial assurance' for their control environment, with only three lower priority recommendations made.
- In March 2016, the Health and Social Care Information Centre (HSCIC) carried out a review on the fitness for purpose and main processes of data sharing activities administered by the council's Public Health Intelligence Team (PHIT). The risk management element of HSCIC's review concluded that "risks are assessed and managed through the implementation of additional controls". The details from the report, seen below, support this conclusion:
 - The PHIT adheres to the Leeds City Council Corporate Risk Management framework and associated methodology and has an established risk owner.
 - Employees are required to attend mandatory risk management training, with Senior Managers required to attend additional training.

- The Public Health Information Governance Group monitor risk at directorate level, risks are escalated to and centrally managed by the Corporate Governance team via risk reporting tools. Risks are also discussed at the PHIT Resilience Group and updates are supplied to the Public Health Information Governance Group. A corporate risk register is held for active risks, with treated risks removed and a local summary risk register is supplied to the PHIT monthly for review.

At the end of the review, the HSCIC's opinion was, "there is minimal risk of inappropriate exposure and / or access to HES (Hospital Episode Statistics) data provided by the HSCIC to the PHIT under the terms and conditions of data sharing agreement".

- Quarterly meetings took place during 2015/16 between the Senior Risk Management Officer and Principal Officer from Internal Audit. The purpose of the meetings included sharing information on:
 - Emerging themes from Internal Audit reports regarding control weaknesses/failures and risks arising;
 - Feedback from corporate risk management on any new risks/risk areas identified and any updates/changes to existing risks;
 - Whether audits are required to review any emerging risks arising after the initial audit plan has been agreed.

Following the refresh of the corporate risk register with CLT and Executive Board members, the Senior Risk Management Officer delivered a presentation on the risks to Internal Audit to build audit staff's understanding of the corporate risks and how they are managed and to inform the development of the internal audit work plan.

3.3 Staffing

3.3.1 Two members of staff in the Corporate Policy & Intelligence Team are responsible for the corporate arrangements for risk management, performance management and the Best Council Plan. Both staff members remain up to date with good practice in these areas through continuous professional development and networking, including:

- The Principal Officer became CIPFA-qualified in November 2015; continues to serve on the board of ALARM (the Public Risk Management Association) North East & Yorkshire; is an ALARM Registered Risk Practitioner and represents the council at regular meetings of the Core City local authority corporate performance managers.
- The Senior Officer is also CIPFA-qualified; Institute of Risk Management (IRM)-certified, in June 2016 sat the IRM diploma final exams and serves on the IRM North East Regional Group.

3.4 2016/17

3.4.1 At the time of writing, a review of all intelligence-related functions is underway as part of a wider review of Support Services which will require further consideration of service priorities and allocation of resources at corporate and directorate levels, including those that support the council's risk and performance management arrangements.

3.4.2 We will update this Committee as any new arrangements emerge and in the meantime, continue with existing arrangements and work plans. These include:

- Maintaining streamlined BCP reporting and publishing corporate risk and performance information.

- Refreshing the BCP for 2017/18 alongside the 2017/18 budget to ensure the continued alignment of strategy and finances.
- Updating corporate and directorate risk registers in line with emerging risks, including those resulting from amendments to the council's strategic outcomes and priorities.
- Allocating corporate risks to portfolio members in response to KPMG's recent recommendation.
- Ongoing review and benchmarking of risk and performance arrangements through regular communications with colleagues in the Core City local authorities and other organisations and consideration of latest guidance, updated standards and any changes in statutory / government requirements of risk and/or performance management in local authorities.
- Revising the council's Risk Management Policy and Performance Management Framework in line with any new arrangements resulting from the review of all intelligence-related functions.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Key stakeholders have been engaged in maintaining the council's corporate risk and performance arrangements. These include the Corporate Leadership Team, Executive Board, Intelligence colleagues across the council and 4Risk users.
- 4.1.2 We will continue to engage with members when reviewing the council's risk and performance management arrangements.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This is an assurance report with no decision required. Due regard is therefore not directly relevant.

4.3 Council policies and the Best Council Plan

- 4.3.1 The risk management arrangements in place support compliance with the council's risk management policy and Code of Corporate Governance, through which, under Principle 4, the authority should take 'informed and transparent decisions which are subject to effective scrutiny and risk management'.
- 4.3.2 The performance management arrangements focus around the Best Council Plan: its annual refresh and ongoing review and monitoring of delivery of the Best Council outcomes and priorities form part of the council's budget and policy framework.

4.4 Resources and value for money

- 4.4.1 The council's risk and performance arrangements are managed within existing resources with additional savings achieved in 2015/16 through staff reductions in the Corporate Policy and Intelligence Team.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The council's risk management arrangements support the authority's compliance with the statutory requirement under the Accounts & Audit Regulations 2011 to have 'a sound system of internal control which facilitates the effective exercise of

that body's functions and which includes arrangements for the management of risk.'

4.5.2 Performance information on corporate key performance indicators is published on the council's website and the Leeds Observatory. The management of the council's most significant risks and performance related to delivering the 2015/16 Best Council Plan objectives and priorities will be published through annual reports due to be presented to the Executive Board on 27th July.

4.5.3 No decision is required; therefore this assurance report is not subject to call in.

4.6 Risk Management

4.6.1 There are no significant risks identified in the council's risk and performance management arrangements.

5 Conclusions

5.1 This report provides assurance on the council's corporate risk management and performance management arrangements. It provides one of the sources of assurance the Committee is able to take into account when considering approval of the Annual Governance Statement. It also enables the Committee to fulfil its role under the council's risk management policy and the Committee's own Terms of Reference to review the 'adequacy of the council's Corporate Governance arrangements (including matters such as internal control and risk management)'.

6 Recommendations

6.1 Corporate Governance & Audit Committee is asked to receive the annual report on the council's corporate risk and performance arrangements and note the assurances given prior to its consideration of the Annual Governance Statement in September.

7 Background documents

7.1 None

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Report author: Neil Warren

Tel: 07781 276865

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual Assurance Report on the Financial Management and Control Arrangements

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| 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 purpose of this report is to provide assurance that the Council has in place robust arrangements for proper and effective financial control, governance and other financial management activities.
2. Recognising the significant financial challenges facing the Council, not least the continuing reduction in government funding, it is critical that the Council has in place sound arrangements for financial planning and management.
3. The Council's Responsible Financial Officer (RFO) has established an effective financial control environment and specifically robust arrangements for strategic financial planning and effective financial management and control.
4. The Council has a sound framework for reviewing and challenging financial performance, has realistic plans in place to make the necessary savings in the current 2016/17 financial year and is taking the appropriate steps to deliver them. Directorates have contingency plans in place to help to manage unforeseen variations against the budget.
5. The financial management and control framework is subject to a number of independent assessments, including the Council's internal audit function which has reviewed and given substantial assurance on the Council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.

6. External audit have again evaluated the Council's key financial systems as part of their interim audit work and have confirmed that nothing has come to their attention which would they would be required to communication to this Committee.
7. The financial management and control framework is continually being assessed and reviewed to ensure that it remains fit for purpose. This will continue and any issues and developments will be reported back to this committee.

Recommendations

8. Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure sound financial management and control.

1. Purpose of this report

- 1.1 The overall purpose of this report is to provide assurance to this Committee that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.
- 1.2 Given the significant financial challenges facing the Council both in 2016/17 and in the medium-term it is essential that we continue to ensure that we have in place appropriate arrangements around financial performance, strategic financial planning, financial governance and financial control. This report outlines;
 - The key systems, controls and procedures,
 - New developments and improvements which have been put in place,
 - New developments in the near future
 - New risks and any issues arising.
- 1.3 The report aims to give members assurance that the financial control and financial governance arrangements that are in place are fit for purpose, up to date and embedded across the organisation.

2. Background information

- 2.1 This is the fifth year of reporting to this Committee on the financial planning and management arrangements of the Council. Previous reports have outlined the following arrangements;
 - a) Overarching Controls;
 - The strategic role within the Council of the Responsible Financial Officer;
 - Professionally qualified and accountable staff;
 - Financial Regulations;
 - The monitoring of the integrity of financial systems;
 - The statutory Code of Practice for Treasury Management arrangements.
 - b) Main financial processes;
 - Budget preparation and setting.
 - In-year budget monitoring.

- Closure of accounts and reporting.

- 2.2 Reports to this Committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. Rather than just report the main processes and arrangements again, this report seeks to highlight progress on addressing previously identified weaknesses and any new developments or risks that have emerged over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A.
- 2.3 Financial procedures and controls put in place by the Responsible Financial Officer are part of the overall financial control environment and form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.

3. Main issues

3.1 Strategic Financial Planning.

- 3.1.1 It is clear that the current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. The Council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without significant changes in the way the Council operates. The report to Council in February 2016 'Best Council Plan 2016/17 proposals' explains how this will be done: that, while continuing its programme of efficiencies, the council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and skilling up staff to grow their commercial and business acumen.
- 3.1.2 On the 25th November 2015, the Chancellor announced the first combined Spending Review and Autumn Statement since 2007. Compared to the Summer Budget 2015, the Office for Budget Responsibility forecast higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances over the Spending Review period. The Spending Review set out firm plans for spending on public services and capital investment by all central government departments through to 2019/20.
- 3.1.3 The final Local Government Settlement was announced on the 8th February 2016 ahead of a formal motion and parliamentary debate on the 10th February 2016. Through the settlement, Government set out an offer to any council that wishes to take it up, of a four-year funding settlement to 2019/20. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners and local authorities should also use their multi-year settlements to strengthen financial management and efficiency. Government is making a

commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and on the proviso that councils have published an efficiency plan – the deadline for local authorities to accept the funding offer and publish an medium-term financial/ 'efficiency plan' is the 14th October 2016.

- 3.1.4 The Council has a proven and comprehensive approach to the development of its medium-term financial strategy, its annual budget setting and the identification of saving plans and work is already underway to update the Council's existing medium-term financial plan in preparation for a report to the Executive Board in September 2016.

3.2 Financial Health Performance.

- 3.2.1 Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability and service decision-making and accountability. Every budget has a named accountable budget holder, supported by a budget monitoring officer and a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.
- 3.2.2 Financial monitoring across the Council is facilitated by the Council's Financial Management Systems (FMS). On a monthly basis budget holders, taking a risk-based approach, review their spend and commitments against the approved budgets and project their year-end position. There are also instances where spending is controlled on systems other than the Council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS. Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the corporate Financial Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services.
- 3.2.3 Financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. To reinforce this risk-based approach, specific project management based support and reporting around the achievement of the key budget actions plans continues to be in place in 2016/17.
- 3.2.4 As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Deputy Chief Executive and the Corporate Leadership Team and are also reviewed and challenged by the corporate Finance Performance Group. In addition, budget monitoring reports are presented monthly to directorate leadership teams, individual executive members and the Executive Board as well as quarterly to scrutiny committees.

- 3.2.5 In line with the Council's financial regulations and value of 'Spending Money Wisely', it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved budgets or to identify other sources of funding such as areas of under spend. All Directorates are required to have an agreed contingency plan.
- 3.2.6 Within the year, any decision to amend the approved budget has to be undertaken within the virement rules which, as part of the budget and policy framework, are agreed annually by full council as part of the annual budget setting process.

3.3 Financial Control Arrangements.

- 3.3.1 External audit has again given independent assurance on the Council's accounts and accounting practice as well as the arrangements to ensure value for money and the controls around the key financial systems.
- 3.3.2 It is important that this Committee is informed of the key assurances provided and that these processes are still fit for purpose and are being complied with. Members should therefore note the following assurances;
- The Council has tried and trusted arrangements for treasury management which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report Treasury Management Governance Report on the 28th January 2016 which reported on the robustness of these arrangements.
 - In response to the Government's deficit reduction plans and subsequent cuts in the grants which we receive from government, by the end of 2016/17 the Council will have had to deliver significant financial savings. Establishing robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. KPMG have provided independent assurance that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
 - The Internal Audit Annual Report and Opinion received by this Committee on the 24th June 2016 again provided assurance to members that all of the key core financial systems and processes had been audited and all received either a substantial or good audit opinion.
 - The Corporate Financial Integrity Forum, which meets each month and is chaired by the Chief Officer (Financial Services), has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;
 - The regular review and reconciliation of financial systems to the financial ledger
 - The regular review and reconciliation of balance sheet accounts.

- The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.
- That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.
- Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.

3.4 Addressing the key issues and developments raised in the 2015/16 Financial Management report and Future Challenges and Improvements

- 3.4.1 Financial Governance arrangements for partnership and other such arrangements – the introduction of new responsibilities and the development of new collaborative structures and service delivery models provide challenges in terms of transparency, demonstrating accountability and managing risk. Specifically for Financial Services the increasing complexity of the legal, accounting and taxation arrangements for these entities and partnerships present new challenges and the service is working closely with our partners to ensure proper financial governance arrangements are put in place for each separate arrangement. The 18th March 2016 meeting of this committee received a report which provided assurances that provided assurance that all of the identified partnerships had appropriate arrangements in place with due regard to expected standards.
- 3.4.2 Financial Regulations – The Responsible Financial Officer approved the current Financial Regulations in June 2014 with supporting toolkits providing detailed guidance and outlining the required process to aid compliance. The majority of these toolkits were reviewed and updated in 2015/16 and re-published via InSite. The financial regulations themselves have been reviewed and updated with revised versions approved by the Responsible Financial Officer.
- 3.4.3 Financial Management Function – within the context of the wider review of Support Services, the vision for Financial Services continues to be that it will be smaller, but one that is risk-focussed and delivering a more efficient and influential service. Previous reports to this Committee have recognised that as staff numbers reduce, the service needs to be redesigned, in order to continue to be effective. The Financial Services Management Team has established a number of actions in the 2016/17 Financial Services Service Plan to re-shape the service to ensure continuing delivery of an effective financial management function with fewer resources.
- 3.4.3.1 The training and development of Finance staff in order to deliver the service remains a priority in the Service Plan. In addition, in terms of succession planning and the on-going development of the staffing resource, Financial Services continues to support a number of Trainee Professional Accountants as part of the Council's graduate training programme with further recruitment planned for 2016.
- 3.4.3.2 The continuing loss of experienced staff, particularly through the Council's Early Leaver Initiative does remain an issue for Financial Services. However, the Financial Services Management Team continually reviews the adequacy of resources and has in place succession plans and a clear vision as to the future

shape of the service which recognises the current and future requirements of the Council. In the immediate-term, staffing resources will continue to be realigned to reflect priorities and risk and this will provide opportunities for both internal promotion and personal and professional development.

3.4.5 These issues are being closely monitored through a number of mechanisms and reported to the corporate Financial Strategy Group and corporate Finance Performance Group on a monthly basis and any significant issues are reported to the Corporate Leadership Team and Executive Board in the monthly financial health reports.

3.5 Other key issues and developments for 2016/17 and future challenges and improvements;

3.5.1 Reform of the Local Government Finance System & 100% Business Rates Retention – under the current retention scheme, which has been in place since April 2013, business rates income is shared equally between local and central government. Local authorities that experience growth in business rates are able to retain 50% of that growth locally although the downside is that local authorities also bear 50% of the risk if their business rates fall or fail to keep pace with inflation. Government has confirmed the proposal to end national uniform business rates with the introduction of 100% retention of business rates for local government by 2020. The plans to devolve business rates, while an important stage towards fuller fiscal devolution and reform of the local government finance system, needs to be managed carefully as the rates are a volatile source of income that can vary according to how a national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks. Leeds is participating in the consultative working groups which are looking at the phasing out of the revenue support grant, designing a new business rates retention system and assessing the new functions/responsibilities that could be devolved to local authorities as part of phasing out the core revenue support grant and fully-retaining business rates income.

3.5.2 National funding formula for schools - consultation on the introduction of a new national funding formula for schools was launched in March 2016 and reinforces the government's direction of travel in terms of significantly reducing the role of local authorities in running and supporting schools. Resources have been prioritised within Financial Services to financially model, assess the impact on schools in Leeds and respond to the Government consultation regarding the proposal to fundamentally reform the school funding system. In addition, work is ongoing to assess the financial impact and risk to the Council should maintained schools become academies.

3.5.3 Accounts and Audit Regulations 2015 & future accounting changes – in 2016/17 we need to continue to review and develop the process for closing down the financial accounts and the preparation of the statement of accounts in line with the reducing timescales (from 2017/18 the unaudited accounts will need to be certified by the 31st May with the final accounts published by the 31st July). In addition, for the 2016/17 accounts, we need to implement some changes to accounting policies, in particular the current value accounting for transport infrastructure.

- 3.5.4 Review of Core Business Systems - the core business systems review is linked to the wider review of Support Services and is part of the work focussing on how we manage our people, finances, assets and procurement. The intention is to simplify what we do, standardise how we do it, and assess how we can better integrate the Council's core information systems. The Financial Management System (FMS) is part of this review and work is already underway to assess the efficacy of the system against both current and future requirements.
- 3.5.5 Financial Management System (FMS) – the integrity of the data within the Council's core FMS is very much dependent on the data and information from a multiple of source feeder systems, for example SAP for employee costs, Framework-i for Children's Services and CIS for Adult Social Care, Total Mobile for Property Maintenance, etc. In 2016/17 the work programme for the corporate financial integrity forum will include seeking specific additional assurances as to the integrity of the source data that feeds into the core FMS.
- 3.5.6 Supporting the Best Council Plan – the 2016/17 budget recognises the Best Council ambition of becoming a more enterprising organisation and includes a range of proposals around securing additional income from commercial activities and traded services. Financial Services have a key role to play in this around supporting service managers to grow their commercial and business acumen and in particular working with them around service costing, pricing and price sensitivity and understanding risks, pension liabilities, accounting for traded services, etc. The 2016/17 Financial Services Service Plan includes a specific objective around supporting the Council to become a more commercial organisation.

4. Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2015/16 report to Full Council on the 24th February 2016. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 24th February 2016 as part of the Revenue Budget and Council Tax 2016/17. This report has no direct equality and diversity/cohesion issues.

4.3 Council policies and Best Council Plan

- 4.3.1 The 2016/17 Best Council Plan's ambitions, outcomes and priorities underpin the proposed 2016/17 budget and have been used to ensure that the Council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the Council's values, with the priority being for directorates and

services to keep within their budgets. Ensuring that the Council has appropriate financial management systems and procedures in place is clearly a key aspect and as such this report does provide some assurances, albeit not comprehensive, assurance that money is being spent wisely.

- 4.3.2 The terms of reference of the Corporate Governance & Audit Committee require the Committee to consider the adequacy of the Council's policies and practices to ensure compliance with statutory guidance and the adequacy of the Council's Corporate Governance arrangements.

4.4 Resources and value for money

- 4.4.1 This report deals with the Council's overall Financial Control Environment and specific arrangements for ensuring effective financial management and control and is aimed at providing assurance to members as to their fitness for purpose.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements. The Accounts and Audit Regulations 2015 come into force on the 1st April 2015 and sets out the responsibility for internal control, the published accounts and audit.
- 4.5.2 This report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.
- 4.6.2 The Council's external auditors provide a risk assessment on the Council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.

5. Conclusions

- 5.1 The Responsible Financial Officer has established an effective overall Financial Control Environment framework for financial planning and exercises effective financial management and control which, in his opinion, discharge his statutory responsibilities.
- 5.2 The framework of control and developments outlined in this report are fit for purpose, up to date, embedded and are regularly complied with.

5.3 Members can also take assurance from a number of rigorous reviews and assessments undertaken, including;

- External audit have again evaluated the Council's key financial systems as part of their interim audit work in respect of the 2015/16 accounts and have confirmed that nothing has come to their attention which would be required to be communicated to this Committee. This work involved;
 - Understanding accounting and reporting activities,
 - Evaluating design and implementation of selected controls,
 - Testing the operating effectiveness of selected controls,
 - Assessing the control risk and risk of the accounts being misstated.
- Internal audit have assessed the major financial systems and controls and given either good or substantial assurance on the financial controls in place.
- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget continues to meet the Council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the Council's accounts.
- Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, directorate leadership teams and the Corporate Leadership Team.
- Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.

5.4 Whilst the above arrangements should provide members with substantial assurance that the Council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept continually under review and improved upon where appropriate.

There are a number of improvement priorities and objectives outlined in the 2016/17 Financial Services Service Plan for example reviewing the financial management systems, continuing to develop integrated working with other support services, supporting the Council's Best Council Plan priorities and Breakthrough projects, assessing the impact of the reform to the system of financing local government, considering the financial impact on schools of the implementation of a national funding formula as well as the potential financial impact from increasing academisation of schools and providing assurances around value for money.

6. Recommendations

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

7. Background documents¹

7.1 None

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

Appendix A

1. Overarching Financial Control Environment

1.1 In order that the Council's statutory Responsible Financial Officer can discharge his duties a number of overarching arrangements and controls are in place as part of an effective Financial Control Environment;

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

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

1.1.3 **Capital and Treasury Management Arrangements** - As previously reported to this Committee, changes have been made to the Capital Approvals framework to strengthen accountability for capital decisions and streamline the decision making process. This work continues with the focus on an enabling approach allied to transparency of decision making. The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis. Quarterly updates are presented to Executive Board. Proposals for new capital schemes must be accompanied by robust business cases and ensure that they are aligned to the Best Council Plan objectives.

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

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

1.1.5 **Integrity of Accounts** - The integrity of all the financial data is of fundamental importance in ensuring financial information is both timely and accurate in order

to correctly inform decision making. This is a key role of the Corporate Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

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

2. Main Financial Processes

- 2.1 The above arrangements are intrinsic to all aspect of the overall Financial Control Environment but are perhaps best illustrated in practice through the annual financial cycle which covers;

- Financial Planning and Budget preparation and setting.
- In-year budget management and monitoring.
- Closure of accounts and year-end reporting.

2.1.1 Financial Planning and Budget Setting

- 2.1.1.1 Local authorities are under a statutory duty to set a balanced budget each year. Whilst at a basic level this can simply be seen as an annual exercise, given the financial challenges facing local authorities this needs to be set within a context of a medium term financial strategy. The 2016/17 financial year is the first year covered by the 2015 Spending Review and again presents significant financial challenges to the Council. The Council to date has managed to achieve considerable savings in the order of £330m over the past 5 years and the budget for 2016/17 requires the Council to deliver further significant savings. It is also now clear that the Government's deficit reduction plans will extend through to at least 2019/20, with the indicative funding levels coupled with increasing cost meaning that further savings will be required.

- 2.1.1.2 The medium-term Financial Strategy provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget for the next four years but it does recognise the Council's ambitions, policies and priorities and sets out the main financial challenges facing the Council and a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy was last presented to the Executive Board in October 2015 and will be updated and presented to the Executive Board in September 2016 as part of process for considering whether to accept the Government's 2017/18 to 2019/20 indicative funding offer.

- 2.1.1.3 Within the context of the Financial Strategy, as well as being a financial expression of the Council's policies and priorities, the annual budget is also a means of controlling spending to the available resources and re-enforcing financial accountability and responsibility.

- 2.1.1.4 The annual budget process is led by the Deputy Chief Executive and involves a wide range of officers and members across the Council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves a range of assumptions including the level of core government grant and other specific funding, council tax base, inflation, demand and demography trends, interest rates, levels of income and fees & charges as well as new or developing spending pressures. This part of the process will be led by Corporate Finance staff, but will involve financial and non-financial staff based in directorates and service areas. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.
- 2.1.1.5 Directorates start to prepare and input detailed estimates into the budget module of the Council's Financial Management System (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their service priorities, spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.
- 2.1.1.6 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the Council's ambitions, policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio Members at appropriate points in the process.
- 2.1.1.7 Following consultation, the Councils constitution determines that initial budget proposals are submitted to Scrutiny 8 weeks prior to the Council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board.
- 2.1.1.8 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just process planning but also engagement with Elected Members and Senior Management.
- 2.1.1.9 In many ways the budget is an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a budget risk register which attempts to identify and assess the risks built into the budget estimates. It is important to appreciate that the time frame of the budget risk register is just one budget year. The budget risk register not only assists in assessing the robustness of the estimates but also acts as a means of assessing the adequacy of reserves in that it provides an assessment of what may go wrong in year.
- 2.1.1.10 Reaching a view of the robustness of the estimates and the adequacy of resources not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial control.

2.1.1.11 Along with Elected Member scrutiny, the budget process is subject to review by Internal Audit. In addition external audit, as part of their assessment of financial resilience, provided assurances as to the robustness of the budget itself.

2.1.2 In-year Budget Management and Monitoring

2.1.2.1 Budget management and monitoring is a continuous process which operates at a variety of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to Budget Holders within the Council. In line with the Budget Holder Accountability Framework, every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.

2.1.2.2 Financial Monitoring in the Council is facilitated by the Council's Financial Management System (FMS). The system holds information as to the approved budgets, actual spend and income, commitments and year-end projections. On a monthly basis budget holders review the spend to date, against the approved estimates and against profiled estimates. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate finance staff, and clearly does involve a degree of judgement. In practice some budgets are more difficult to manage and project than others. There are also instances where spending is controlled on systems other than the Council's main FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS.

2.1.2.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget holders are aggregated upwards to be reviewed by Budget Holders, Chief Officers, and Directors. The year-end projections for each directorate are submitted to the Deputy Chief Executive and are reviewed and challenged each month by the Corporate Finance Performance Group (FPG). This Group is primarily made up of Heads of Finance and is chaired by the Chief Officer - Financial Services. The year-end projections are then reported monthly to the Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring performance reports on the capital programme, capital receipts, council tax and business rate collection, and treasury/debt activities are considered during the year by Executive Board.

2.1.2.4 In line with the Council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. All directorates have agreed contingency plans identified to the value of 2% of their net managed budgets. In year, any decision to amend budgets is undertaken within the virement rules agreed annually by Full

Council as part of the budget setting process. All such decisions are recorded as part of the delegated decision making process.

- 2.1.2.5 It is also important to appreciate that external and internal audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of Accounts

- 2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board, usually in June each year. This report compares the budget to the final outturn for each Directorate and provides an explanation as to the reason for any variation, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the strategic accounting team within Corporate Finance to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
- 2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in Corporate Finance. All finance officers and relevant directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the Council's external auditors and reported back to members of this committee.
- 2.1.3.4 The Chief Officer Financial Services oversees the closedown process and the Deputy Chief Executive reviews both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

Report of: Chief Officer Human Resources

Report to: Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual assurance report on employment policies and procedures and employee conduct.

| | | |
|--|------------------------------|--|
| 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 is the annual report to the committee concerning the Council's employment policies and employee conduct. From the review, assessment and on-going monitoring carried out, the Chief Officer HR has reached the opinion that, the requirements of employee conduct are established and regularly reviewed; requirements relating to employee conduct are communicated and feedback is collected on whether expected behaviours are being demonstrated; and employee conduct is monitored and reported.

Recommendations

1. Members are requested to consider and note the positive assurances provided in this report 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.

- 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.
- 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.

1 Purpose of this report

- 1.1 To provide assurance to the Corporate Governance and Audit committee that: the requirements of employee conduct are established and regularly reviewed; requirements relating to employee conduct are communicated and feedback is collected on whether expected behaviours are being demonstrated; and employee conduct is monitored and reported.

2 Background information

- 2.1 An internal audit of “Employee conduct – central controls” was issued in June 2015 and this concluded that overall there was “Good assurance”. A recommendation from the audit was that a reporting mechanism be introduced to the Corporate Governance and Audit Committee to give assurance that the key employment policies and procedures are fit for purpose, effectively communicated, working as intended and regularly reviewed. The first such report was presented in September 2015.
- 2.2 An internal audit of register of interests and gifts and hospitality is currently in progress.

3 Main issues

3.1 Employee Code of Conduct

An Employee Code of Conduct is in place and is set out in Part 5 of the council’s constitution ‘Codes and protocols’. It was revised in 2013 to align it with the Members Code of Conduct. Any breach of the employee code of conduct can lead to disciplinary action. In addition to this the Council has also established a set of values to inform the way that the council delivers services and the way in which staff work.

- 3.2 Employees have access to the Code of Conduct and associated policies via the Toolkit section on InSite along with guidance and supplementary notes. It is the duty of managers to ensure that the Code of Conduct is available to employees who do not have access to InSite. There is also an induction checklist that is completed for new starters and this covers making employees aware of the Code of Conduct on the first day of their employment.

- 3.3 The Code of Conduct is referenced every time a communication goes out about any of the policies and procedures which link to the code. In addition to regular council-wide reminders regarding the code of conduct, individual services identify when specific reminders are needed.

3.4 Gifts and hospitalities

The rules on the acceptance of gifts and hospitality are communicated to managers and staff annually to ensure all employees are aware of the process. This communication normally takes place in early December as offers of gifts and hospitality traditionally see an increase in the run up to the Christmas period.

In the period April 2015 to March 2016, 121 gifts/ hospitality were registered, 43 of which are recorded as rejected by the employee who was offered the gift/

hospitality. The vast majority of the 78 gifts/ hospitality which were accepted are for attendance at seminars/ award ceremonies/ CPD events and were made to employees working within City Development. 59 of the 78 records are valued at £60 or under. On an annual basis Directors are sent a copy of the register for their directorate and they are responsible for reviewing this to ensure that they are satisfied that there are no concerns, either with what individual officers have declared over the year or with any particular firm making inappropriate offers. No such concerns were identified in the last annual review and there have no referrals in 2015/16 to the HR casework team for any breach of the gifts and hospitality policy.

3.5 Employee Register of Interests

There is a rolling programme in place for the completion of Register of interest forms. High risk posts are identified using the following criteria: posts that give significant advice or speaking for the council; posts where there is significant authority to make decisions; and posts with significant discretion over spending. For Public Health and Civic Enterprise Leeds all forms have been completed and reviewed by the Director/ Chief Officer. In other directorates the forms have been sent to employees in identified high risk posts for completion (final forms sent May 2016) and responses are being collated ready for review. Directors and chief officers have a responsibility to assess declarations and take the necessary actions to address any potential conflict of interest. Examples of declarations include duties such as school governors and other voluntary activities with other organisations. There have been no referrals to the HR casework team in 2015/16 for any breach of the register of interests policy.

3.6 At the Corporate Governance and Audit committee held on the 18th March 2016, minute 71 c asked that further enquiries be made of the Chief Officer HR in regard to officers who have left or are in the process of leaving and any restrictions being made in respect of commissioning or procurement work. If an employee who is involved in procurement and commissioning activity resigns from their employment at the Authority then it is the line manager's responsibility to identify with the employee if there is any conflict of interest between their current work programme and their future external employment. If a conflict is identified then the employee is given alternative meaningful work during their notice period. In addition all employees are reminded in writing when they leave the Authority that that any unauthorised or improper disclosure of what is classed as sensitive personal information would be a breach of the Data Protection Act 1998 for which they could be personally liable. Once an employee has left the Authority then it is possible for complaints to be raised through internal audit for investigation and referred to the police if criminal activity is suspected.

3.7 A report was submitted to the Scrutiny Board (Resources and Council Services) in April 2015 which explored the use of restricted covenants in employment contracts. The conclusion detailed in the report was that, "The use of restrictive covenants would not prevent people using their knowledge and information gained in council service to be used for their own personal gain. Unless the council can prove that it would damage a business interest, it would be difficult and expensive to pursue a remedy."

3.8 Mandatory “Information governance level 1” training for all employees is in place. It was completed in 2014 and is reviewed and refreshed every 2 years. The new training is due to be launched in June 2016 and employees have 8 weeks to complete. Employees with IT access complete an e-learning package and those without IT access receive a leaflet to their home address.

3.9 Politically restricted posts

An exercise was conducted in early 2015 to ensure politically restricted posts were matched to the specified and sensitive criteria. New positions are categorised from the creation of the post. In August 2015 there were 74 politically restricted posts, this has reduced to 70 (May 2016), 63 of these posts are currently filled. There have been no referrals in 2015/16 to the HR casework team for any breach of the politically restricted posts policy and procedure.

3.10 Expectations from managers and supervisors

Our values and behaviours clearly set out expectations for all managers and supervisors. We continue to run Manager Challenge, a culture change programme launched in April 2014 for 2,500 managers and supervisors. The programme is supported by a range of learning opportunities and is continuously evaluated.

3.11 Appraisal data

Arrangements are in place to assess the performance of staff against expected behaviours through the two formal appraisals each year, a ‘full year’ appraisal (1 April to 30 June) and an ‘interim appraisal’ (1 October to 31 December). At the end of each appraisal window, any outstanding appraisals are chased up and this has resulted in high levels of completion rate on time. In the ‘full year’ appraisal cycle, managers are required to rate employees’ performance in terms of how well they are performing against the council’s values in the way they carry out their work, and their overall performance. In the mid year appraisal employees are invited to give feedback on how well they feel their manager is performing against the values.

Latest mid year completion rate = 97.6% (collected in December 2015)

Latest full year completion rate = 97.3% (collected in June 2015)

3.12 Employee Engagement Survey

The annual staff survey collects more general feedback on how well the expected behaviours are being demonstrated. This is the second year that we have run the Employee Survey in its current format, with a set of questions aligned to our ‘Doing our Best’ ambitions, values and manager habits. There is real significance to the 2015 results, as they give us our first progress report since the baseline figures were established in 2014, and give us an insight into the impact of our Manager Challenge programme. Pleasingly, there is a good news story to tell. We successfully maintained the high level of response rates in 2015, with over 6600 people completing the survey (44% in 2015, compared to 45% in 2014). The overall engagement score for the council increased from 7.2 (2014) to 7.52

(2015). This was based on answers to the question 'If a friend asked you to give a score from 1 to 10 working for Leeds City Council, what would it be?' The scores for every individual question improved between 2014 and 2015.

3.13 Handling disciplinary matters

There are also formal routes for staff to report non-compliance with the Code of Conduct through raising a grievance or submitting a whistleblowing concern which may lead to an investigation under the disciplinary policy. A revised disciplinary policy was implemented as of 1st July 2015. The new policy is ACAS compliant and was subject to detailed consultation with service managers and trade union colleagues. Since implementation monthly meetings have been held with trade union colleagues to discuss the operation of the new policy and these have proved to be very effective in addressing concerns. Informal mechanisms including regular supervision between an employee and the supervisor/manager are used to raise and correct minor misconduct matters, but for more serious issues the formal disciplinary policy is used.

3.14 In 2015/2016 122 employees were referred for a formal disciplinary investigation. Feedback from trade union and HR colleagues indicates that managers are using the new policy appropriately to deal informally with some issues which previously were escalated for formal investigation. The outcomes of investigations for 2014/15 and 2015/16 are shown in the table below.

| Outcome of disciplinary investigations. | 2014/15 Number of employees | 2015/16 Number of employees |
|---|------------------------------------|------------------------------------|
| Dismissed | 37 | 17 |
| Offered an alternative to dismissal | 1 | 4 |
| Final or written warning | 37 | 27 |
| Resigned | 25 | 15 |
| Management instruction* or recommendation to management | 51 | 20 |
| No further action | 15 | 18 |
| Total number | 166 | 101** |

**"Management instructions" were part of the old disciplinary procedure and have been replaced in the new policy by informal action via line managers.

** 21 cases ongoing as at 31.03.16

3.12 In November 2015 the Dignity at Work policy and the revised Drugs and Alcohol policy were implemented. The Improving Performance, Managing Attendance and Grievance policies are all currently being reviewed. Working groups of HR, managers and Trade Union colleagues are formed and meet to discuss proposed changes before consulting more widely. In all these policies there is an emphasis on managers taking early action to avoid issues escalating unnecessarily.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Reviews of employment policies are subject to consultation with service managers and trade union colleagues.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 All reviews of employment policies include Equality Impact Assessments. These ensure equality, diversity, cohesion and integration is considered throughout the development, implementation and review or establishment of any key decisions, strategies, policies, services and functions.

4.3 Council policies and the Best Council Plan

4.3.1 An internal audit of "Employee conduct – central controls" was issued in June 2015 and this concluded that overall there was "Good assurance".

4.4 Resources and value for money

4.4.1 Effective management of our workforce has a positive impact on our overall salary costs.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report is not subject to call in. All employment policies are legally compliant and if they are not followed then there is a risk of employees taking legal action against the Council through Employment Tribunal claims.

4.6 Risk Management

4.6.1 An internal audit of "Employee conduct – central controls" was issued in June 2015 and this concluded that overall there was "Good assurance".

5 Conclusions

5.1 This report provides assurances to the Corporate Governance and Audit Committee that employee conduct is properly managed, policies are regularly

reviewed and employee conduct forms part of normal manager/ employee relations.

6 Recommendations

Members are requested to consider and note the positive assurances provided in this report 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.
- 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.

- 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.

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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| Resources | Position ID | Pers.area | Personnel Subarea | Organizational Unit | Position |
|------------------------|-------------|------------------------|--------------------------|------------------------------|--|
| Politically Restricted | 50014779 | Adult Social Care | Resources & Str | Resources & Strategy | Chief Officer Resources & Strategy |
| Politically Restricted | 50144367 | Adult Social Care | Directorate | Adult Social Care | Director Adult Social Services |
| Politically Restricted | 50193855 | Adult Social Care | A&C Area Soc Wk | Access & Care Delivery | Chief Officer Access & Care Delivery |
| Politically Restricted | 50214222 | Adult Social Care | Commissioning | Commissioning Services | Chief Officer Commissioning |
| Politically Restricted | 50321169 | Adult Social Care | Health Ptnrshps | Health Partnerships | Chief Officer Health Partnerships |
| Politically Restricted | 50108483 | Childrens Services | Directorate | Children's Services | Director of Children's Services |
| Politically Restricted | 50315976 | Childrens Services | Directorate | Employment & Skills | Chief Officer Employment & Skills |
| Politically Restricted | 50322395 | Childrens Services | Directorate | Safeguarding, Specialist & T | Deputy Director |
| Politically Restricted | 50322397 | Childrens Services | Directorate | Learning, Skills & Universal | Deputy Director Learning |
| Politically Restricted | 50322399 | Childrens Services | Directorate | Partnership Development & | Chief Officer Partnership Dev & Bus Supt |
| Politically Restricted | 50444458 | Childrens Services | Child Wkfce Dev | Active Schools | Active Schools Strategic Lead |
| Politically Restricted | 50444506 | Childrens Services | Safeguarding, Specialist | Youth Offending Service | Lead Manager |
| Politically Restricted | 50445097 | Childrens Services | Learning Imprmt | Virtual School LA Children | Headteacher Virtual School LA Children |
| Politically Restricted | 50001763 | Citizens & Communities | Chief Executive | Leeds City Council | Chief Executive |
| Politically Restricted | 50010284 | Citizens & Communities | Welfare & Bens | Welfare & Benefits | Chief Officer (Welfare & Benefits) |
| Politically Restricted | 50098858 | Citizens & Communities | Lic & Rgstrtn | Electoral Services Team | Deputy Electoral Services Manager |
| Politically Restricted | 50162320 | Citizens & Communities | Directorate | Citizens & Communities | Assistant Chief Executive |
| Politically Restricted | 50322806 | Citizens & Communities | Lic & Rgstrtn | Electoral Services | Electoral Services Manager |
| Politically Restricted | 50353678 | Citizens & Communities | Communities | Communities | Chief Officer (Communities) |
| Politically Restricted | 50353681 | Citizens & Communities | Communities | Communities - Partnerships | Executive Officer (Partnerships) |
| Politically Restricted | 50353685 | Citizens & Communities | Customer Access | Customer Access | Chief Officer (Customer Access) |
| Politically Restricted | 50425981 | Citizens & Communities | Communities | Migration Yorkshire | Head of Migration Yorkshire |
| Politically Restricted | 50009718 | City Development | Directorate | City Development | Director of City Development |
| Politically Restricted | 50010459 | City Development | Plng & Sust Dev | Planning & Sustainable Dev | Chief Planning Officer |
| Politically Restricted | 50018944 | City Development | Resources & Str | Resources & Strategy | Chief Officer for Resources & Strategy |
| Politically Restricted | 50166634 | City Development | Highways & Trns | Highways & Transportation | Chief Highways Officer |
| Politically Restricted | 50378083 | City Development | Economic Dev | Economy & Regeneration | Chief Officer Economy & Regeneration |
| Politically Restricted | 50409823 | City Development | Libraries & Inf | Culture & Sport | Chief Officer Culture & Sport |
| Politically Restricted | 50442774 | City Development | Resources & Str | Information Management & | Head of Information Mgt & Technology |
| Politically Restricted | 50010408 | Civic Enterprise Leeds | Directorate | Civic Enterprise Leeds | Chief Officer Civic Enterprise Leeds |
| Politically Restricted | 50009720 | Environment & Housing | Directorate | Environment & Housing | Director of Environment & Housing |
| Politically Restricted | 50010511 | Environment & Housing | Community Safety | Community Safety | Chief Officer Community Safety |
| Politically Restricted | 50285860 | Environment & Housing | Parks & Country | Parks & Countryside | Chief Officer Parks & Countryside |

| | | | | | |
|------------------------|----------|-----------------------|-----------------|-----------------------------|--|
| Politically Restricted | 50316020 | Environment & Housing | Environ Action | Environmental Action | Chief Officer Environmental Action |
| Politically Restricted | 50316052 | Environment & Housing | Waste Mgt Svcs | Waste Management Service | Chief Officer Waste Management |
| Politically Restricted | 50437823 | Environment & Housing | Housing Mgt | Housing Leeds Management | Chief Officer Housing Management |
| Politically Restricted | 50437836 | Environment & Housing | Property & Con | Housing Leeds Property & C | Chief Officer Property & Contracts |
| Politically Restricted | 50442391 | Environment & Housing | Waste Mgt Svcs | Waste Collection Operation | Head of Service (Waste Collection Ops) |
| Politically Restricted | 50442394 | Environment & Housing | Waste Mgt Svcs | Waste Strategy & Infrastruc | Head of Service (Waste Strategy & Inf) |
| Politically Restricted | 50467024 | Environment & Housing | Environ Action | Locality City Centre | City Centre Locality Manager |
| Politically Restricted | 50316009 | Public Health | Public Hlth LCC | Commissioning - Environme | Chief Officer Strategy & Commissioning |
| Politically Restricted | 50010155 | Strategy & Resources | Human Resources | Human Resources | Chief Officer (Human Resources) |
| Politically Restricted | 50010162 | Strategy & Resources | Financial Mgt | Financial Services | Chief Officer (Financial Services) |
| Politically Restricted | 50010176 | Strategy & Resources | ICT | Information Communication | Chief Digital Officer |
| Politically Restricted | 50010398 | Strategy & Resources | Democratic Svcs | Scrutiny & Member Develop | Head of Scrutiny Support & Member Dev |
| Politically Restricted | 50018866 | Strategy & Resources | Democratic Svcs | Governance Services | Head of Governance Services |
| Politically Restricted | 50245181 | Strategy & Resources | Democratic Svcs | Civic & Member Support | Head of Civic and Member Support |
| Politically Restricted | 50348110 | Strategy & Resources | Legal Services | Legal & Democratic Services | City Solicitor |
| Politically Restricted | 50353682 | Strategy & Resources | Strat & Improve | Strategy & Improvement | Chief Officer (Strategy & Improvement) |
| Politically Restricted | 50421373 | Strategy & Resources | Directorate | Strategy & Resources | Deputy Chief Executive |
| Politically Restricted | 50421608 | Strategy & Resources | Legal Services | Legal services B | Section Head |
| Politically Restricted | 50454105 | Strategy & Resources | Financial Mgt | Revenue Savings Programm | Head of Revenue Savings Programme |
| Politically Restricted | 50457759 | Strategy & Resources | PPPU | Projects, Programmes & Pro | Chief Officer |
| Politically Restricted | 50457832 | Strategy & Resources | PPPU | PPPU Programmes A | Head of Programme |
| Politically Restricted | 50457835 | Strategy & Resources | PPPU | PPPU Programmes B | Head of Programme |
| Politically Restricted | 50457836 | Strategy & Resources | PPPU | PPPU Programmes C | Head of Programme |
| Politically Restricted | 50457838 | Strategy & Resources | PPPU | Programmes B1 | Executive Programme Manager |
| Politically Restricted | 50457839 | Strategy & Resources | PPPU | Programmes A1 | Executive Programme Manager |
| Politically Restricted | 50457840 | Strategy & Resources | ICT | ICT Programmes | Executive Programme Manager |
| Politically Restricted | 50457841 | Strategy & Resources | PPPU | Programmes C1 | Executive Programme Manager |
| Politically Restricted | 50457842 | Strategy & Resources | PPPU | Programmes A3 | Senior Technical Manager |
| Politically Restricted | 50457843 | Strategy & Resources | PPPU | Projects B2 | Senior Technical Manager |
| Politically Restricted | 50457844 | Strategy & Resources | PPPU | Strategic Category C1 | Senior Technical Manager |
| Politically Restricted | 50457850 | Strategy & Resources | PPPU | Projects B4 | Senior Project Manager |
| Politically Restricted | 50457851 | Strategy & Resources | PPPU | Programmes A2 | Senior Project Manager |
| Politically Restricted | 50457852 | Strategy & Resources | PPPU | Projects B1 | Senior Project Manager |

| | | | | | |
|------------------------|----------|----------------------|------|---------------|------------------------|
| Politically Restricted | 50457853 | Strategy & Resources | PPPU | Projects A6 | Senior Project Manager |
| Politically Restricted | 50457854 | Strategy & Resources | PPPU | Projects C2 | Senior Project Manager |
| Politically Restricted | 50457855 | Strategy & Resources | PPPU | Projects C3 | Senior Project Manager |
| Politically Restricted | 50459197 | Strategy & Resources | PPPU | Programmes A3 | Technical Manager |

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Report authors:
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 Helen Cerroti

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual Decision Making Assurance Report

| | |
|--|---|
| Are specific electoral Wards affected? If relevant, name(s) of Ward(s): | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Are there implications for equality and diversity and cohesion and integration? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Is the decision eligible for Call-In? | <input 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

This is the annual report to the committee concerning the Council's decision making arrangements. The assurances contained within this report will feature in the draft Annual Governance Statement (to be considered by Committee later in this agenda).

From the review, assessment and on-going monitoring carried out, the Head of Governance Services, Head of Service (Legal Services), Head of Elections, Licensing and Registration and Chief Planning Officer have reached the opinion that, overall, the decision making systems in their respective remits are operating soundly and that arrangements are up to date, fit for purpose, effectively communicated and routinely complied with.

Recommendations

Members are requested to consider and note the positive assurances provided in this report in relation to executive decision making, the regulation of investigatory powers, licensing, and planning. Particularly:

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.

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.

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.

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.

1 Purpose of this report

- 1.1 This is the annual report to the committee concerning the Council's decision making arrangements.
- 1.2 The report provides one of the sources of assurance which the Committee is able to take into account when considering the approval of the Annual Governance Statement.
- 1.3 Members are 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.

2 Background information

- 2.1 The Council's decision making framework, which is detailed within the Council's Constitution, comprises of the systems and processes through which decision making is directed and controlled. Whilst a number of these systems and processes are put in place in direct response to primary and secondary legislation, others reflect the implementation of locally adopted definitions and choices made to ensure maximum transparency and accountability within Council practice and procedure.

Reporting Period

- 2.2 The Committee has received annual assurance reports in respect of executive decision making, Regulation of Investigatory Powers Act, licensing and planning matters. Most recently, the Annual Decision Making Assurance Report was received by committee on 9th July 2015.
- 2.3 The Accounts and Audit Regulations 2015 require the Annual Governance Statement (in draft or final format) to be published together with the draft accounts as part of the public inspection documents. This means that the Annual Governance Statement must be prepared by 1st July in 2016 and 2017 and by 1st June in 2018. For this reason it is proposed to shorten the reporting period in this report to 10 months, so that future years can show like for like reporting periods.
- 2.4 This report therefore reflects decision making arrangements for the period 1st June 2015 to 31st March 2016, with the intention that future reports will cover each financial year.

3 Main issues – Executive Decision Making

Amendments to the Decision Making Framework

- 3.5 The council's decision making framework is set out in the Constitution. In accordance with Article 15 the Monitoring Officer keeps the Constitution under review to ensure that its aims and principles are given full effect.

In Year Amendments

- 3.6 Where necessary throughout the year the monitoring officer has used the authority set out in Article 15 to approve minor amendments to the constitution to ensure that it reflects any legislative change, to give effect to decisions of the council or for the purposes of clarification.
- 3.7 In addition changes have been approved by Full Council following recommendations made by General Purposes Committee. More particularly:-
- 3.7.1 On 8th July 2015 Full Council approved amendments to the constitution designed to give effect to the Local Authorities (Standing Orders)(England)(Amendment) Regulations 2015 in relation to the disciplinary process for relevant senior officers.
- 3.7.2 On 13th January 2016 Full Council approved amendments to the constitution to enable cross authority monitoring and enforcement of taxi and private hire activity.

Annual Review of the Constitution

- 3.8 Article 1 provides that the Council will exercise its powers and duties in accordance with the law and the Constitution. Article 16 requires that the Constitution is published and is available for inspection.
- 3.9 Article 15 'Review and Revision of the Constitution' requires the Monitoring Officer to monitor and review the Constitution to ensure that its aims and principles are given full effect. In particular the Monitoring Officer is required to be aware of the strengths and weaknesses of the Constitution and to make recommendations as to how it could be amended to better achieve its purpose. Where necessary as a result of legislative change, to give effect to decisions of Council or the Executive, or for the purposes of clarification the Monitoring Officer is authorised to amend the Constitution. Other amendments can be made by the Council, the Executive or such other person or body as is indicated in the Constitution itself in relation to each individual document.
- 3.10 Every year the Monitoring Officer undertakes a review of the constitution. In 2016 the review has centred on the Council's decision making governance arrangements. Consultation has taken place with Directors and their staff, seeking feedback in relation to the decision making framework. Officers were particularly asked to comment on whether the arrangements set out are clear and practical to apply in the Council's working environment. As a result the Executive and Decision Making Procedure Rules and the Access to Information Procedure Rules have been reviewed and updated¹ to clarify procedure and to reflect the

¹ Amendments to the Executive and Decision Making Procedure Rules:-

- clarify responsibility which is now held within each Directorate for publication of decisions;
- confirm that Members will receive notification of items included on the List of Forthcoming Key Decisions and the publication of Key Decisions;
- confirm that approval for a matter to be decided under special urgency provisions will be published with the relevant decision;
- ensure that cross referencing is accurate and up to date; and
- clarify the application of relevant Access to Information Procedure Rules.

Amendments to the Access to Information Procedure Rules:-

current working practice of the Council. No substantive changes were required to the rules as a result of the consultation exercise.

Delegation of Functions

Review of Executive Arrangements

- 3.11 In December 2015 a review of the Leader's executive arrangements culminated in a revision of the officer delegation scheme (executive functions), and consequential amendments to the Executive Members Oversight of Officer Executive Delegations. The revised documents made only minor changes to accountabilities in relation to executive functions but sought to promote transparency and accountability in decision making by using plain English and fuller description to provide greater clarity around officer accountabilities as well as executive and scrutiny oversight.
- 3.12 The revised delegations were further considered during the review of decision making governance. Directors indicated that they were satisfied with the executive delegations now in place and proposed no further amendments.
- 3.13 In accordance with the Executive and Decision Making Procedure Rules, the Leader is required to present a written record of her executive arrangements at the Annual Meeting each year. The arrangements presented by the Leader to the Annual Meeting on 19th May 2016 have been duly incorporated into Part 3 of the Council's Constitution. The Committee may wish to note the following amendments which were made to those arrangements:-
- Within the Executive Board Portfolios:-
 - Inclusion of international relations with Economy and Culture;
 - Inclusion of sport and active lifestyles with Resources and Strategy;
 - Clarification of the 14-16 skills development function within Employment, Skills and Opportunity;
 - Inclusion of community safety within Communities; and
 - inclusion of sustainable energy and carbon reduction, cemeteries, crematoria, burial grounds and mortuaries, parks and countryside, and countryside management in Environment and Sustainability;
 - a new delegation in respect of the Community Infrastructure levy – neighbourhood fund to Community Committees (to be concurrent with the Assistant Chief Executive (Citizens and Communities so that he is able to take decisions in urgent situations.); and

-
- clarify that Members of the Council and officers attending meetings in the course of their employment should not be included in the definition of 'public' when the public are excluded from meetings;
 - remove provision relating to disclosure of confidential information by Members which had been included in the rules under the Council's previous Members' Code of Conduct; and
 - provide clarification in relation to applicability of the rules to executive decision making.

- minor amendments to the officer delegation scheme (executive functions) to reflect and enable the amendments in portfolios detailed above, and to reflect changes in the law.

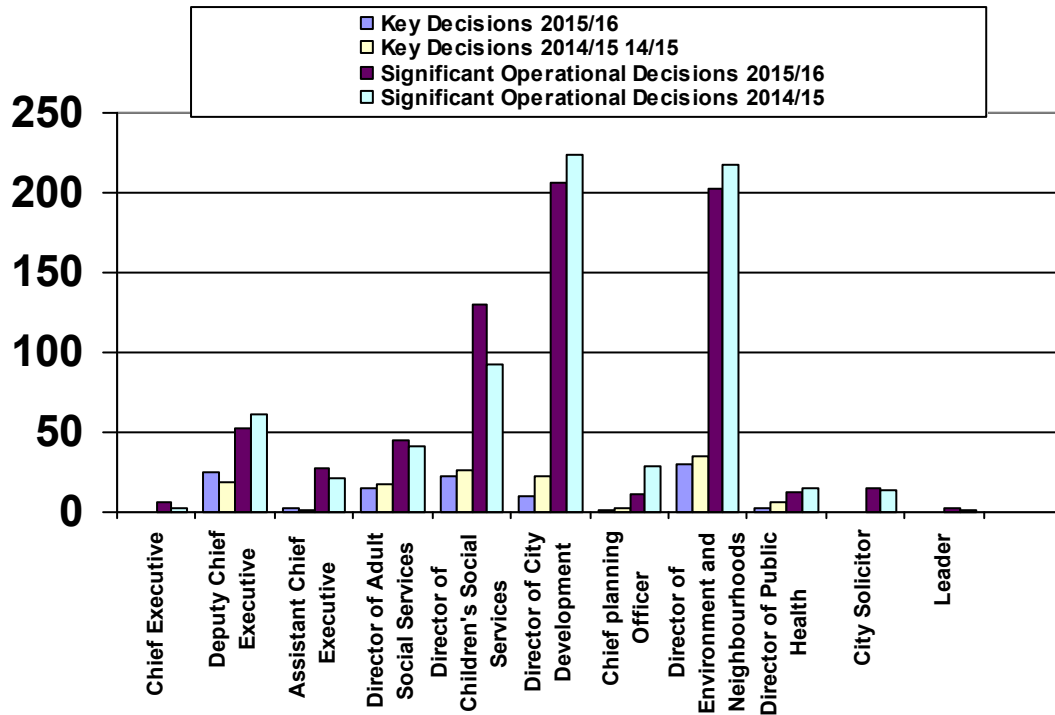
Sub-delegation Schemes

- 3.14 Each Director keeps their own sub delegation scheme under review throughout the year, making changes responsively to ensure that each scheme reflects the decision making authorities in place in their directorate.
- 3.15 Although, for the most part, the Leader’s amendments in December 2015, did not alter the responsibilities of each Director, each sub-delegation scheme has been reviewed in order to reflect the amended wording in the new executive arrangements ensuring transparency of officer decision making.
- 3.16 Finally, each Director has reviewed and adopted a new sub-delegation scheme for the 2016/17 municipal year, reflecting the new delegations made by the Leader and by Full Council with effect from the Annual Council Meeting.
- 3.17 Every time a Director renews or amends their scheme the delegated decision is published as a significant operational decision, and the scheme is published in the online library maintained by the Head of Governance Services.

Publication of decisions

- 3.18 Each Director remains responsible for the publication of Key and Significant Operational Decisions, taken under their delegated authority, to the Council’s website. The chart set out below shows the distribution of published decisions across the directorates and the relative numbers of Key and Significant Operational Decisions taken during this reporting period (2015/16) and also the corresponding 10 month period for the previous municipal year (2014/15).
- 3.19 Members will note the clear pattern as to which directorates take the greater number of decisions requiring publication. When consideration is given to the nature of the functions discharged by each directorate the Head of Governance Services is of the view that this distribution is to be expected.
- 3.20 Similarly the ratio of key decisions to significant operational decisions reflects previous years. The Head of Governance Services is satisfied that only a relatively small number of decisions, those of greatest significance in terms of their financial consequences and their impact on communities, fall within the definition of a Key Decision and trigger the additional controls² in place for key decision making, whilst the council promotes its value of being ‘open, honest and trusted’ by publishing a much greater number of significant operational decisions without delaying the making and implementation of those decisions.

² Inclusion on the list of forthcoming key decisions, prior publication of report, recording of decision and availability for call-in.



- 3.21 The Head of Governance Services has undertaken a brief online review of arrangements in place for the recording and publication of decisions by the city councils of Birmingham, Newcastle, Bristol, Manchester, Bradford and Wakefield. Thresholds for Key decisions range from £1,000,000 in relation to capital spending in Birmingham and Newcastle (who set different thresholds for revenue spending) to £250,000 in Wakefield and Bradford, although Manchester have an additional threshold of 10% of any budget heading (provided that figure is not less than £50,000). Only one of the Council's surveyed (Bristol) reflects the significance threshold of impact on one or more ward in place in Leeds, the others all require a significant impact on two or more wards.
- 3.22 It will be seen that there has not been a significant rise in the number of significant operational decisions published despite implementation of the Openness of Local Government Bodies Regulations 2014. Members will recall that the regulations imposed additional requirements on the authority to publish written records of certain council decisions. Arrangements were put in place through amendments to the definition of a significant operational decision, and to the Access to Information Procedure Rules requiring publication of these decisions 'as soon as practicable'. This has enabled the batch publication of high volume decisions ensuring that the authority meets the requirements of regulations effectively whilst not creating an undue administrative burden.
- 3.23 The success of this approach is reflected in the way that it is beginning to be applied to significant operational decisions made in relation to executive functions, for example, the Council's fleet procurement programme is now the subject of one annual decision authorising the necessary expenditure for each municipal year and consequential decisions, to purchase individual vehicles or groups of vehicles, are batched and recorded by publishing as significant operational decisions.

3.24 Performance Monitoring

Publication of agendas

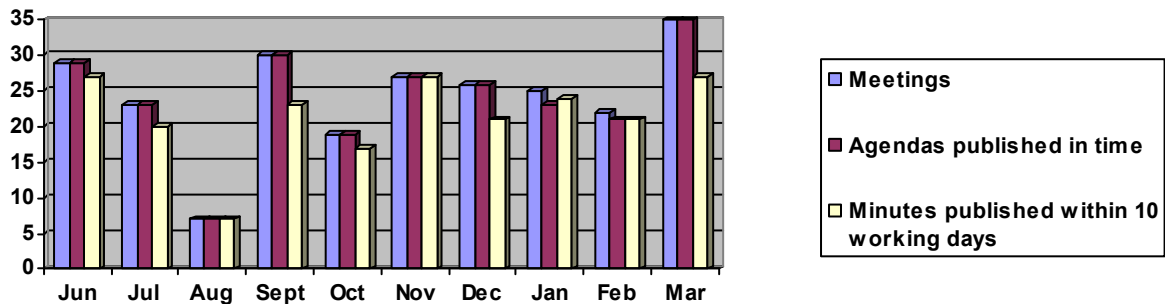
- 3.25 The Council is required to publish agendas and reports for committees five clear working days in advance of a meeting. This requirement is contained within Section 100B of the Local Government Act 1972 for Council Committees and in the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012 for Executive committees. Both pieces of legislation also contain exception provisions for meetings to be called at short notice.
- 3.26 The Head of Governance Service has established a target for 99% of agendas to be issued and published within the five day statutory deadline; this being a reasonable measure of timely transparency and an indication of the extent to which exception provisions are utilised to call meetings at short notice.
- 3.27 Of 243 meetings which took place within the reporting period covered by this report, only three agendas were not issued within the 5 clear day deadline. This gives a performance indicator of 99% agendas issued and published within the five day statutory deadline.
- 3.28 Members may wish to note that the three agendas not issued within the five day period were all for meetings of the licensing sub-committee which meets weekly. Clerks to the Licensing Sub-Committee seek to ensure that the agendas are published with all necessary documentation relating to the applications to be heard. On occasions agendas need to be issued with less than five days' notice to enable this to happen. Provision for this is contained within section 101(15) of the Local Government Act 1972 which disapplies the provisions of the section from functions of the Licensing Authority which fall instead to be discharged in accordance with the Licensing Act 2003 and the Licensing Act (Hearing) Regulations 2005.. The Head of Governance Services therefore has no concerns about the late publication of these agendas. Furthermore the Head of Governance Services has decided not to include meetings of licensing sub-committees in this performance indicator in future as it is not unusual or inappropriate that these agendas are issued outside the target timescale.

Publication of minutes

- 3.29 There is no statutory framework stipulating the time period for the publication of committee minutes. To enable the decisions of the Council to be accessible and transparent the Head of Governance Service has established a local target; this being for 100% of draft minutes to be published on the Council's internet site within ten working days.
- 3.30 Of 243 committee meetings which have taken place within the period covered by this report, 29 sets of draft minutes were published outside of this locally established target. This gives a performance indicator of 88% draft minutes published within the required period.
- 3.31 Of the 29 minutes published outside the ten day target period, 13 were published within twelve days, and 20 within fifteen days of the meeting. The longest period

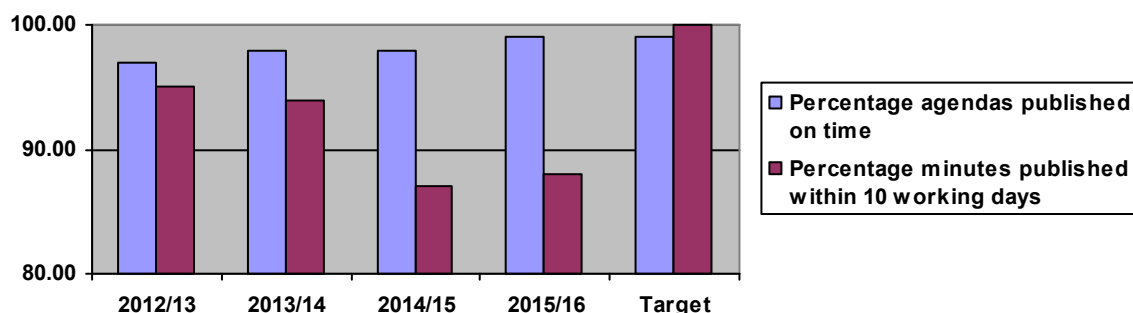
to publication was six weeks in relation to the minutes of one licensing sub-committee meeting. On this occasion the minutes had been written but due to a clerical error had not been published to the Council's public website. It should be noted that the decisions of that sub-committee, as with all licensing sub-committees, would have been notified to the applicants shortly after the meeting.

3.32 The table set out below shows the number of agendas and minutes published in accordance with the appropriate timescales against the numbers of meetings for each month in the reporting period.



3.33 The table below shows performance indicators for agenda and minute publication for the previous 3 years (April to March) measured against the indicator for this reporting period (June to March). Members will see that there has been steady and sustained improvement in the percentage of agendas published in accordance with the statutory requirement. In addition Members may wish to note that minutes for all meetings of Executive Board in the reporting period have been published within the timescale of two working days stipulated by the Executive and Decision Making Procedure Rules, thus allowing prompt availability of Executive Board decisions for call-in and minimising the delay to implementation necessary to allow for the call-in process.

3.34 However there has been a decline in the percentage of minutes published within the locally determined target period. The Head of Governance Services has considered the reasons for delays in publication which include delays in drafting minutes and delays in receiving responses from officers and Members approving draft minutes prior to publication. Paragraph 41 of Schedule 12 to the Local Government Act 1972 requires that the "minutes of proceedings of a meeting of the local authority shall ... be drawn up ... and signed at the same or next suitable meeting of the authority". The Head of Governance Services is aware that some authorities choose only to publish the minutes of a previous meeting as an agenda item for the next meeting at which they will be approved but on balance considers that the earlier publication of draft minutes promotes the Council's value of being 'open, honest and trusted'. It is therefore his intention to maintain this performance indicator as a measure of accountability to the Council's decision making but adjust the target to 90% of draft minutes to be published within the ten day period. The Head of Governance Services will continue to work with committee clerks to identify ways of working which support them in achieving this target.



Key Decisions on List of Forthcoming Key Decisions

- 3.35 As Members are aware, a significant element of the decision making framework concerns requirements surrounding the pre-notification of an intention to take a Key decision. These provisions seek to ensure transparency of decision making and allow representations from and engagement with Members, partners, stakeholders and the general public.
- 3.36 Regulations require that a Key decision is included on the List of Forthcoming Key Decisions for no less than 28 clear calendar days prior to the decision being taken. The Head of Governance Services has set a local target of 89% of Key Decisions to be included on the List of Forthcoming Key Decisions, and monitors inclusion of Key Decisions on this list..
- 3.37 During the period covered by this report, of 105 Key decisions taken by officers, 7 were not included on the List of Forthcoming Key Decisions as appropriate, and of 61 Key decisions taken by Executive Board 2 were not on the List. This gives a total performance indicator of 95% Key decisions on the List of Forthcoming Key Decisions.

General Exception

- 3.38 The General Exception is a statutory provision which permits a decision to be taken at shorter notice where it is impracticable to delay the decision until such time as 28 clear calendar days have elapsed. Such decisions must be the subject of five clear working days' notice, and must give the reason why it is impracticable to delay. As all Members receive notification by email of all Key Decisions taken the statutory requirement that the relevant Scrutiny Chair is notified of General Exception decisions prior to the decision being taken is complied with.
- 3.39 Of the nine Key Decisions which were not on the List of Forthcoming Key Decisions for the required 28 day period, five (three officer and two Executive Board decisions) were taken under the General Exception³. The reasons given for using the General Exception in each case are set out in the table below.

³ The remaining four were taken under Special Urgency provisions as detailed below.

| | |
|-----------------------------|---|
| Officer Decisions | |
| August 2015 D42642 | This decision was planned as a significant operational decision consequential on a previous authority to spend and procure, however the tender price was more than £250,000 below the estimate given in that previous key decision necessitating a new key decision. At this stage in the process it was impracticable to delay the project pending a further 28 period with the decision on the List of Forthcoming Key Decisions. |
| October 2015 D42758 | This decision related to arrangements for the resettlement of Syrian refugees. The Council received detailed information relating to government requirements during the week commencing 5 th October which had to be actioned by the week commencing 19 th October. |
| November 2015 D42849 | This decision relates to a secondary call off from a four year framework contract for mixed dry recyclables processing. The secondary bids received represented a significant financial pressure for the council and considerable time elapsed in exploring clarification issues with contractors meaning that it was necessary to take the decision within the 28 day period for publication to the List of Forthcoming Key Decisions in order to re-procure before expiry of the existing contract. |
| Executive Board Decisions | |
| July 2015 Minute 34 | This decision related to an offer from Yorkshire County Cricket Club to repay a loan relating to the purchase of Headingley cricket ground. Given the significant time involved in establishing the relevant financial details it was impracticable to include the decision on the List of Forthcoming Key Decisions and to take a timely decision in relation to the offer of repayment. |
| December 2015 Minute 104 | This decision related to proposed consultation and next steps in accordance with the Delivering Better Lives Strategy. Due to an administrative error this decision was included on the List of Forthcoming Key Decisions one day late. 27 clear calendar days' notice were give of the Council's intention to take this decision. |

3.40 Members may wish to note that officers are encouraged to include forthcoming decisions in the list as soon as they are contemplated, even though the precise details of those decisions may not yet be known. This early publication of notice should help to reduce still further the number of decisions which need to be taken using the General Exception, and provide greater transparency over other decision making arrangements.

Special Urgency

- 3.41 Special Urgency is an alternative statutory provision which can be used where the decision must be taken with less than five clear working days' notice. The decision taker must demonstrate that the decision is urgent and either the authority or the public would be prejudiced by any delay in the decision being taken. The consent of the relevant Scrutiny Chair must be obtained prior to a decision being taken under the Special Urgency provisions. This written consent is published alongside the report and delegated decision notice relating to the decision.
- 3.42 In accordance with Rule 2.6.2 of the Executive and Decision Making Procedure Rules⁴, the Head of Governance Services, on behalf of the Leader, is able to confirm that, of the nine Key Decisions which were not on the List of Forthcoming Key Decisions for the required 28 day period, four were taken under Special Urgency.
- 3.43 All four special urgency decisions related to the provision of financial relief following Storm Eva, and each was taken with the consent of the relevant Scrutiny Chair. All four consents were published alongside the relevant decision.

In Summary

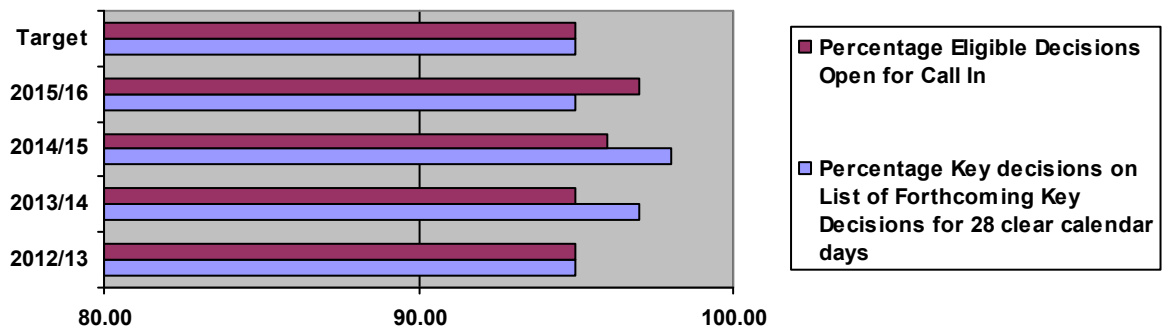
- 3.44 The table below sets out numbers of Key decisions taken in the reporting period

| Key Decisions on List of Forthcoming Key Decisions | | | |
|--|-------------------|---------------------------|-------|
| | Officer Decisions | Executive Board Decisions | Total |
| 28 clear calendar days' notice given | 98 | 59 | 157 |
| General Exception | 3 | 2 | 5 |
| Special Urgency | 4 | 0 | 4 |
| Total | 105 | 61 | 166 |

⁴ Regulation 19 Executive Arrangement Regulations 2012

Eligible Decisions open for Call In

- 3.45 The Council has established arrangements for significant Executive decisions⁵ to be available for Call In. This allows for Overview and Scrutiny Committees to request that a decision, which has been taken, but not yet implemented, be considered by the relevant Scrutiny Committee. This mechanism is an important element of democratic accountability arrangements in place at Leeds and is monitored by the Head of Governance Services, with a target of 95% of all eligible decisions being available for Call In.
- 3.46 Of 222 eligible decisions taken during this reporting period seven (six decisions taken by officers and one taken by Executive Board) were not open for call in. This gives a performance of 97% Key decisions being available for Call In. The Head of Scrutiny and Member Development has confirmed that there have, however, been no decisions called in during the current reporting period.
- 3.47 The table below shows performance indicators for decisions on the List of Forthcoming Key Decisions and eligible decisions open for Call In for the previous 3 years (April to March) measured against the indicator for this reporting period (June to March).



- 3.48 The committee's attention is drawn to the increase in the percentage of eligible decisions open for Call In.
- 3.49 The fact that legislation provides mechanisms for general exception and special urgency decisions is indicative that from time to time decisions need to be made responsively and it would not be appropriate to comply rigidly with the requirements for prior publicity in relation to those decisions. Whilst the Head of Governance Services notes that a lesser percentage of Key decisions were included in the List of Forthcoming Key Decisions than the preceding two years⁶, he is satisfied that there were good reasons why those decisions were not included in the List and that they represent an appropriate use of the relevant statutory mechanisms.

⁵ All decisions of Executive Board and all Key decisions of officers are eligible for Call In provided that they have not been the subject of a previous call in.

⁶ In 2013/14 of 242 key decisions 231 were included in the list (97%), in 2014/15 of 179 key decisions 173 were included in the list (98%)

- 3.50 In addition the Head of Governance Services notes that if the four decisions taken under the Special Urgency provisions following Storm Eva are set aside then 97% of key decisions taken during 2015/16 were included in the List of Forthcoming Key Decisions for a minimum of 28 clear calendar days as required.

Decisions not treated as Key

- 3.51 Rule 6 of the Executive and Decision Making Procedure Rules provides for the scrutiny of decisions which appear to have been wrongly treated. This provides a mechanism by which Members are able to challenge the categorisation of decisions which they feel should have been treated as Key. Although it does not prevent implementation of the decision, the mechanism ensures that the executive is required to account for the categorisation of the decision.
- 3.52 During the reporting period there have been no instances of Members requesting scrutiny of decisions which appear to have been wrongly treated.

Embedding the decision making framework

- 3.53 The Head of Governance Service takes a number of steps to ensure that the decision making framework is embedded and routinely complied with. For example:-
- Advice is provided to officers across the council as and when required in relation to their particular decision making questions. This can relate to the categorisation of decisions, the application of the decision making framework, the planning of a project approach to large decisions, and the need and means by which to expedite urgent decisions;
 - Key decisions published on the council's website are routinely checked to ensure that published dates are accurately calculated and any necessary provisions in relation to decisions taken under General Exception or Special Urgency are complied with;
 - Regular training sessions are provided in relation to Council Structures and Decision Making with training having been provided to 113 staff during the reporting period. The course sessions, which are open to all Council employees, are well attended and feedback is very good, the following comment is representative of those received:-
"This was really useful training and although a dry subject it was made interesting by the good delivery and enthusiasm of the trainer. The training is key to my understanding and governance processes and confirmed and added to my existing knowledge. This will be put into practice on a regular basis managing programme office and projects where decisions are required at all levels."
This and other comments indicate that the training delivered relates well to day to day decision making as it is undertaken in the authority and enables delegates to understand their roles within the framework in place, and within the context of working in a political environment.
- Work has been undertaken with colleagues in human resources to provide bespoke input into the Graduate Programme.

- 3.54 Internal Audit carried out two decision making audits in the 2015/16 year. Members received feedback in relation to these two audits in the last report. The Head of Governance Services is advised that further decision making audits are planned for the 2016/17 year. Members will be provided feedback in relation to these in the 2017 decision making assurance report and within the routine update reports provided to committee from Internal Audit.

Looking Forward

- 3.55 Members will recall that consultation had taken place in relation to updating and amending the Local Government (Functions and Responsibilities Regulations) (England) 2000. The resultant amendment to the regulations is still awaited.

Decision Making Governance Assurance Statement

- 3.56 From the review, assessment and on-going monitoring carried out, the Head of Governance Services, has reached the opinion that, overall, decision making systems are operating soundly and that arrangements are up to date, fit for purpose, effectively communicated and routinely complied with.

4 Main Issues – Regulation of Investigatory Powers Act

- 4.1 Since the June 2015 meeting, colleagues in Environmental Action have indicated that they may wish to make use of the powers to acquire communications data, and therefore full training has been provided for potential applicants in relation to these powers. In anticipation of these powers being used, arrangements have also been made with National Anti-Fraud Network for provision of SPoC (Single Point of Contact) services, as required by the relevant Code of Practice. In addition, refresher training on all the RIPA (Regulation of Investigatory Powers Act) powers has been provided to the Council's authorising officers, and to the network of practitioners which covers all Council services. Training has also been provided to Internal Audit, and refresher training will shortly be provided to the City Solicitor who acts as Senior Responsible Officer, and who can act as authorising officer in exceptional circumstances.
- 4.2 Also since the June 2015 meeting, the Guidance and Procedure document issued by Legal Services has been updated. In addition, considerable work has been undertaken with colleagues in Environment & Housing in relation to updating the LeedsWatch Code of Practice. Although efforts were made in 2015 to raise awareness generally about the legal rules governing surveillance, by placing an item in 2 editions of "Essentials", this has not led to an increase in queries about these powers. Members will recall that in relation to any surveillance being carried out by Directorates which cannot be authorised under RIPA, practitioners have been asked to ensure that the proper auditable process set out in the Guidance and Procedure document is being followed, namely that Human Rights Audit forms are being completed, and that any such surveillance is only carried out where it is necessary and proportionate, and where it is for the purpose of one of the permitted grounds of interference with the right to private and family life, in Article 8. Guidance in relation to how the RIPA rules could impact on use of social

media, prepared by Legal Services, has been approved by Information Management Board, and disseminated to practitioners.

- 4.3 There have been no applications for directed surveillance or CHIS (Covert Human Intelligence Source) authorisations, since the June 2015 meeting. There has been no use of the powers to obtain communications data, over the same period. Given that the grounds for authorising surveillance are limited to preventing or detecting serious crime, and approval by a Justice of the Peace is now also required in both cases, it is unlikely that the use of directed surveillance or CHIS authorisations will increase. It is possible that Environmental Action may use the powers to acquire communications data in some serious cases, and preparations have been made so as to ensure that the Council is fully compliant with the RIPA rules and the relevant Code of Practice.
- 4.4 Members are asked to consider whether they require any changes to the RIPA policy appended to this report. No changes are recommended at this time. Although there is little use of these powers currently, officers will continue to update Members periodically on their use, and on any changes in policy or procedure which may be required as a result of legislation, or relevant Codes of Practice.

5 Main Issues – Planning Matters

- 5.1 The Chief Planning Officer has responsibility to ensure that the council's arrangements for dealing with and determining planning matters are up to date, fit for purpose, effectively communicated, routinely complied with and monitored.
- 5.2 Planning Services has internal arrangements in place to provide assurance in the decision making process and to mitigate any potential risk of challenge on the grounds of partiality or bias. The service is firmly committed to a programme of continuous improvement, ensuring that processes take into account best practice and from learning from past errors. A number of actions and improvements have taken place over the last year and these are described below.

Decision making framework for planning matters

- 5.3 The framework for decision making in relation to planning matters in England and Wales is plan-led. This involves the authority preparing plans that set out what can be built and where. All decisions on applications for planning permission should be made in accordance with the Development Plan unless material planning considerations indicate otherwise.
- 5.4 The decision on whether to grant permission is within the context of the development plan and other material considerations which includes national and local planning policy and guidance. Material considerations cover a wide variety of matters including impact on neighbours and the local area.

Delegation and sub delegation schemes

- 5.5 The Chief Planning Officer is authorised to carry out specific functions on behalf of the council. All planning applications are considered to fall within the delegation scheme and will be determined by officers under the sub-delegation scheme, unless they fall into defined exceptional categories which were detailed in previous reports to this Committee. The Chief Planning Officer's delegation scheme was last reviewed and approved by Full Council in May 2016.
- 5.6 The sub delegation scheme sets out which functions have been sub-delegated by the Chief Planning Officer to other officers and any terms and conditions attached to the authority sub-delegated by the Chief Planning Officer. The latest sub delegation scheme was approved on 20th May 2016.
- 5.7 The Chief Planning Officer's sub-delegation scheme ensures that decision making is undertaken at the appropriate level of seniority and experience. For example, only officers at planning team leader level and above have the authority to determine major applications. Other applications can only be signed off by officers at PO4 level and above. No officer can 'sign off' their own applications and therefore an appropriate level of external scrutiny is brought to bear on each proposal before it is finally determined.

Audit of decision making

- 5.8 Internal Audit undertook a review of the processes and systems in place for undertaking planning decisions in February 2016. The scope of the review was to obtain assurance that there was a robust system in place to ensure decisions in respect of planning applications were taken promptly and in accordance with all relevant legislation and guidance and that appropriate levels of income are collected and recorded. The audit concluded that Substantial Assurance was provided for the control environment.

Planning performance April 2015-March 2016

- 5.9 The service collects a range of information and data to monitor its performance. The majority of the information is collected on a quarterly basis, therefore there is a disconnect between the reporting period covered in this report to Corporate Governance and Audit Committee and the in service datasets available. Therefore, in the interests of clarity, the time period of each dataset will be clearly stated and wherever possible comparisons will be made between the same period the previous year in order to identify trends.
- 5.10 In 2015-16, April 2015 to March 2016, there were 4,692 applications received by the local planning authority (LPA) a 4% increase from the previous year. There were 4,384 decisions made between April 2015 to March 2016, this is an increase of 6% from the previous year where 4,119 decisions were made. Most decisions are made by officers under the delegation scheme and in 2015-16, 97.8% of all decisions on applications were made by officers.

5.11 The method of calculating the number of applications deemed to be in time changed under the provisions of The Growth and Infrastructure Act. Applications are counted as being in time if they meet the statutory determination timescales for different categories of applications; major applications in 13 weeks, minors and others in 8 weeks or where an extension of time agreement is in place. An extension of time agreement needs to be agreed by both the applicant and local planning authority and can be a useful tool for project managing larger and more complex applications, in order to ensure greater certainty of timescales. Extensions of time agreements were brought in in 2014-15 and the table below shows performance over the last few years, including the financial year 2015-16.

| | % Majors in time | % Minors in time | % Other in time |
|---------|------------------|------------------|-----------------|
| 2015-16 | 96.6% | 90.6% | 93.5% |
| 2014-15 | 88.7 | 85.1 | 91.8 |
| 2013-14 | 73.3 | 70.3 | 83.3 |
| 2012-13 | 61.3 | 77.4 | 88.9 |

5.12 Clearly, there has been a significant improvement in performance of applications determined in time across all categories of applications. Overall 93% of the total application workload is determined within agreed timescales. The latest national figures covering the period October to December 2015 showed that LPAs had decided 81% of major applications in 13 weeks or the agreed time. Therefore not only is Leeds performance continuing to improve, it is also significantly above the national average determination rate.

5.13 Members heard last year about the planning guarantee where applications over six months old submitted after 1 April 2013, where there is no extension of time agreement, can have the planning fee refunded. Since 1st October 2013 when fee returns became liable, a total of £14,399 has been refunded, £8,280 of this was refunded between April 2015 and March 2016 and relates to four schemes. Whilst this is a relatively small amount officers have been instructed to try to negotiate extension of time agreements for those applications reaching six months old, wherever possible, to mitigate the risk of returning the fees.

Plans Panel decision making- decisions contrary to officer recommendation

5.14 From time to time, especially where decisions are finely balanced, the Plans Panels may attach different weight to the potential planning considerations and may take a decision which is contrary to the officer recommendation. Where this occurs there is the need to provide a robust and defensible basis for taking an alternate view, so that as far as possible, it will be capable of surviving a legal challenge or appeal. A high number of decisions taken that are contrary to the officer recommendation may give the appearance that elected members and officers are not working well together, which has the potential to show a lack of confidence in the planning system in Leeds.

- 5.15 In 2015- 16, the three Plans Panels decided 127 applications. Four decisions were contrary to officer recommendation, two at North and East Panel and two at South and West Panel. Of those decisions two have led to appeals-one where the decision is not yet known and one where the appeal was allowed. A third case is awaiting the outcome of a public inquiry which has just taken place in March 2016.
- 5.16 The reduction in the number of decisions contrary to officer recommendation in 2015-16 is a significant improvement from the position last year where 14 decisions were contrary to officer recommendation. The table below shows progress over a number of years:

| Year | Decisions | Overturns (% overturns) | Appeals Against Refusal | Dismissed | Allowed | Costs awarded |
|---------|-----------|-------------------------|-------------------------|-----------|---------|---------------|
| 2015-16 | 127 | 4 (3%) | 2 | 0 | 1 | 0 |
| 2014-15 | 191 | 14 (7%) | 9 | 4 | 5 | 0 |
| 2013-14 | 136 | 7 (5%) | 0 | 0 | 0 | 0 |
| 2012-13 | 127 | 8 (6%) | 3 | 0 | 3 | 2 |
| 2011-12 | 171 | 11 (6%) | 5 | 1 | 4 | 0 |

- 5.17 The continuing improvement year on year is significant, especially in the context of 2006-7 performance, where a quarter of decisions made at Panel were contrary to the officer recommendation with 67% of those decisions allowed at appeal.

Appeals and complaints

- 5.18 The service uses several indicators to determine the quality of decision making: number of lost appeals, number of ombudsman complaints received and numbers upheld.
- 5.19 The table below shows that performance on the number of appeals dismissed has improved in the period April 2015 to March 2016 compared to the previous year. A continuous review of appeal decisions takes place to ensure that any common themes are highlighted and measures put in place to mitigate the risk of appeals occurring on similar grounds. However, there is a careful balance to be made between refusing an application with the risk of a subsequent appeal and maintaining design quality, without being unreasonable.

| Year | Appealed Decisions | Dismissed | Costs awarded against Council | Costs awarded to Council |
|---------|--------------------|-----------|-------------------------------|--------------------------|
| 2015-16 | 231 | 74.1% | 3 partial, 1 full | 1 partial, 1 full |
| 2014-15 | 237 | 66% | 5 | 0 |
| 2013-14 | 251 | 71% | 4 | 0 |
| 2012-13 | 187 | 67% | 3 | 0 |
| 2011-12 | 254 | 69% | 7 | 2 |

- 5.20 In financial year 2015-16 appeal costs of just over £12,500 have been paid on four claims. The Council has gained two cost awards in 2015-16; one settled at £385, the other following the withdrawal from a public inquiry is still under negotiation, but the latest offer from the appellant to settle is £37,500.

Ombudsman

- 5.21 In the reporting period from April 2015 to March 2016, the LPA received notification that the Local Government Ombudsman (LGO) had investigated 22 complaints on planning matters.
- 5.22 Seventeen of these cases arrived closed with the Council being informed by the Ombudsman that no further action was required. From the enquiries made by the Ombudsman they were satisfied there was no evidence of an injustice being caused.
- 5.23 Five cases required a written response from the LPA. Two cases were subsequently closed by the LGO, finding no maladministration. On three cases the LGO, after considering information submitted by the LPA, concluded there was evidence of maladministration causing an injustice, suggesting a settlement in each case. Like appeal decisions, complaints are continuously reviewed and analysed; appropriate procedural changes are put in place to mitigate the risk of reoccurrence and such changes are fed back to planning officers to ensure consistency of approach.

Embedding the framework for planning matters

Officer training

- 5.24 As mentioned in previous reports to this Committee, the service places emphasis on ensuring that planning officers are up to date with current legislation, best practice and government initiatives. This ensures the decision making process is based on the most current and accurate information possible.
- 5.25 The governments planning reform agenda shows little sign of a slowdown. Fixing the Foundations report, July 2015, the November Autumn Statement and The Housing and Planning Bill 2015-16 all contain a number of planning measures. The Housing and Planning Bill in particular, which is currently working its way through the legislative process, has significant implications both in terms of technical detail, but also in challenging the way development management services are delivered by local authorities.

- 5.26 It has therefore been a time of significant change and necessary to ensure that officers are up to date and have received training to support decision making. Officers have received training and updates at the planning case officers' meeting which takes place every 6 to 8 weeks. The Head of Development Management provides a regular update of government reforms and changes that will impact on the way officers work. Guest speakers are also invited who provide information on planning and planning related information. The meetings facilitate two way communications to ensure agreement is reached on operational issues and a consistent approach is adopted across the service.

Member Training

- 5.27 In order to sit on the Plans Panel, members are required to receive compulsory training, as per the requirements in Article 8 of the Council's Constitution. In the reporting period, all members have undertaken the compulsory annual planning update session.
- 5.28 A further member training session was provided by planning services in February 2016 on health and planning, where the contribution of development management in combatting health inequalities was considered.

Joint Members Officer Working Group (JMOWG)

- 5.29 JMOWG is a cross party and council officer working group which meets to discuss and find solutions to operational matters relating to planning. The group has not met for a number of years, but was reformed in December 2015, to consider several issues which had arisen at the Plans Panel meetings and needed to be worked through. Two meetings have taken place and are proving to be an effective forum for discussing issues and finding workable solutions. Further areas to be dealt with are viability discussions at Panel meetings- should they continue to be held in camera or with public participation, consideration of site visits and effective ward member notifications and communications. A further meeting will be scheduled for after the Council elections in May.

Public Speaking protocol

- 5.30 Public speaking at the Plans Panels has been a feature of the decision making process in Leeds for a number of years and the Council has adopted a Public Speaking Protocol, which is within part 5, Codes and Protocols of the Council's Constitution.
- 5.31 An issue arose at the North and East Plans Panel, which highlighted that some types of items requiring a decision, on Panel agendas were not currently covered by the public speaking protocol. In order to maintain transparency and probity in dealing with matters at Panel meetings, the service felt this needed addressing in terms of adopting a consistent approach. The service also took the opportunity to review the whole of the protocol, which had not been reviewed since the last significant changes in 2013. The Joint Member Officer Working Group undertook work on behalf of the Joint Plans Panels and made a number of recommendations for the consideration of the Joint Plans Panel at its meeting in January 2016.

- 5.32 The working group recommended changes three main areas; increased speaking time on matters for determination or on any matter requiring a decision to four minutes from three minutes, reducing the time for pre-application presentations and speaking to 10 minutes and introduce a new speaking opportunity on position statements for both the applicant or supporters and objectors, allowing a maximum of four minutes each side.
- 5.33 It was agreed that a limit on the time available was necessary to avoid excessively lengthy meetings, running the risk of affecting the quality of decision making. However, the changes will continue to ensure that there is equal time to those wishing to speak for or against a proposal, ensuring fairness and parity of the approach. The Joint Plans Panel agreed to all the recommended changes which took effect from March 2016.

Relationship with partners and customers

Household agents' conference

- 5.34 As part of the proactive work with customers to improve the planning process in Leeds, a household agents' conference was held in Leeds in October 2015. The top fifty agents (in terms of numbers submitted) were invited to the conference. Topics for discussion included reducing the number of invalid applications, use of the Planning Portal for more efficient submissions, permitted development changes and ensuring high quality design. Additionally there were round table discussions on what customers and the LPA can do to make the planning process more effective and deliver high quality outcomes.
- 5.35 The conference was well attended and feedback has been very positive. From the session an action plan is now being delivered to address the highlighted issues.
- 5.36 It is anticipated that this will become an annual event, providing ongoing dialogue with the agents who submit these types of applications.

Parish and Town Council electronic working

- 5.37 The service had a statutory requirement to notify Parish and Town Councils (PTC) of new applications in their area. In the past the service has gone beyond what is statutorily required by sending large format hard copy plans and application forms, by first class post to PTC. This has been provided at no charge to PTC, although the true cost in terms of staff time, consumables and postage has been significant.
- 5.38 Following the annual review of the planning supplement to the Council's Charter in 2015, the service recommended to move to electronic working. This would mean that instead of the service sending hard copy plans and documents, PTC would receive an email notification of new applications, with a link to the application on Public Access. The move to electronic working has the benefit of speed, currency and ease of communicating about schemes; it also generates operational and financial efficiencies.

- 5.39 Some concerns about this move were expressed by the PTC and therefore a working group with representatives from the PTC was established to work through the issues. The working group recommended a solution where small applications would be notified electronically, but plans and applications forms for major and minor applications would still be sent in hardcopy, but in a reduced format- A3 and A4. It was agreed to run this process as a pilot.
- 5.40 In January 2016, the pilot was reviewed and the PTC were consulted through an email survey. There was a 32% response rate to the survey. Many PTC indicated there were few problems, others indicated there were issues about printing their own large format plans. However, the review concluded that the service should move to full electronic working. The service hosted a conference with the PTC in early April 2016 and demonstrated Public Access and shared the rationale of the move to electronic working. The new notification process will commence in July 2016 and the service will monitor its implementation.

Pre-application review

- 5.41 Following the implementation of the new pre-application changes in February 2015, it was agreed that a review would be conducted after six months operation. This took place over the summer of 2015 and comprised analysis of the volumetric data and wide scale consultation with customers who had used the new service and with council officers and internal consultees.
- 5.42 The outcome of the review resulted in a number of changes to make the pre-application process more efficient by providing greater clarity of the service and timescales and also the removal of the free services. Better communication and interaction with applicants was also required and a commitment to improve the content on the Council's website allowing customers to self-serve more easily by providing the relevant information for applicants, if they choose not to pay for a pre-application enquiry. These recommendations were agreed by the Executive Board member and Plans Panel Chairs and have been in place since 1 January 2016. Pre-application fees are becoming an increasingly valuable income stream and the service will continue to monitor and periodically review the pre-application enquiry service.

CSE reaccreditation

- 5.43 The customer services section within planning services has been the holder of the Customer Services Excellence standard (CSE) since 2009. This is a national government standard awarded to organisations which demonstrate that they are a customer centric organisation. The scope was broadened to include the wider planning service and the whole service was awarded CSE in 2014. CSE is not a one-off activity as the standard has been designed to drive continual improvement.
- 5.44 In March 2016, the service was reassessed against two categories of the standard and was rewarded the CSE standard with no non-compliances. The service will continue to be externally assessed on an annual basis.

Web refresh

- 5.45 Following consultation with customers, elected members and officers, about the content on the planning webpages on the Leeds City Council, a refresh of the pages is now in progress. The service is working closely with the corporate web team to ensure that the content is organised and arranged in the most effective way possible.
- 5.46 There will be further testing work with focus groups prior to going live, to ensure the content is easily understandable and accessible.

6 Main Issues – Licensing Matters

- 6.1 The annual work programme for Licensing Committee includes the submission of performance reports for both sections of the Council's Licensing Service (Entertainment Licensing and Taxi and Private Hire Licensing.) The information submitted to Licensing Committee is identical to that which has in the past been detailed in this report, but for a different date range. In order to avoid duplication of work by officers the Chair of Licensing Committee has agreed with the Chair of this committee that licensing performance information will be submitted to Licensing Committee annually in respect of a January to December reporting period, with these two reports being available to Members on request to support this annual decision making assurance report.
- 6.2 Minutes for Licensing Committee held on the 9th February 2016 show that both reports were discussed in detail.
- 6.2.3 The Section Head for Taxi and Private Hire Licensing responded to questions and queries in relation to:
- The number of licences issued;
 - Refusal and revocation decisions;
 - Suspension decisions;
 - Complaints received;
 - Appeals received;
 - Changes to policy; and
 - Annual DBS
- 6.2.4 The Section Head for Entertainment Licensing responded to questions and queries in relation to:
- Licensing Act 2003: application statistics
 - Licensing Act: reviews
 - Licensing Act: appeals
 - Statement of licensing policy
 - Gambling Act 2005: application statistics
 - Gambling Act 2005: Statement of licensing policy
 - Large casino
 - Sexual establishments
 - Update of the Liaison and Enforcement Team
 - Outdoor Events.

6.3 Licensing Committee resolved to note the contents of both reports.

Safeguarding in Taxi and Private Hire Licensing

6.4 Safeguarding continues to be a priority for Taxi and Private Hire Licensing and the service submitted an update report to Executive Board on 16 December 2015 in regard to further improving safeguarding arrangements in Taxi and Private Hire Licensing. Furthermore, the report also recommended the approval of a new policy in respect of the 'fit and proper' person assessment for applicants born outside of the EU.

6.5 Executive Board Members received further information on the key aspects of the submitted report and welcomed the ongoing work which was being undertaken with West Yorkshire Police in order to address concerns following the introduction of the Common Law Police Disclosure guidance.

6.6 In conclusion, the Chair of the Executive Board thanked those officers and Elected Members involved for the considerable work which had been undertaken in this crucial area of safeguarding.

6.7 Executive Board resolved:-

- (a) That the direction officers and Members of Licensing Committee are taking with regard to improvements for safeguarding in Taxi and Private Hire Licensing, be noted and endorsed;
- (b) That the new 'fit and proper' person character assessment policy, as recommended to Executive Board by Licensing Committee, and as outlined within the submitted appendix 3, be approved; and
- (c) That it be noted that such matters will be implemented immediately (following the conclusion of any eligible 'Call In' timeframes) by the Section Head of Taxi and Private Hire Licensing.

Licensing Assurance Statement

6.8 From the review, assessment and on-going monitoring carried out and detailed in the reports received by Licensing Committee, the Head of Elections, Licensing and Registration has reached the opinion that, overall, decision making systems in relation to licensing are operating soundly and that arrangements are up to date, fit for purpose, effectively communicated and routinely complied with.

7 Corporate Considerations

7.1 Consultation and Engagement

7.1.5 The information contained in this report has been shared with the Corporate Leadership Team and with the Executive Board Co-ordination Group in order that information can be further disseminated as appropriate within directorates.

7.1.6 Further consultation which has taken place in relation to particular matters is detailed as appropriate within the body of this report.

7.2 Equality and Diversity / Cohesion and Integration

7.2.1 There are no implications for this report.

7.3 Council policies and Best Council Plan

7.3.1 The Best Council Plan maintains the Council's ambition to become the best Council in the UK, using a civic enterprise leadership style, in which the council is more enterprising, businesses and partners more civic, and the citizens of Leeds more actively engaged in the work of the city.

7.3.2 The appropriate use of the systems and processes in place to govern decision making, RIPA, planning and licensing secure appropriate sharing of information and engagement with Members, officers, partners and public in the Council's significant decisions.

7.4 Resources and value for money

7.4.1 Given the assurances made by the Head of Governance Services, the Head of Elections, Licensing and Registration and the Chief Planning Officer as a result of the implementation and monitoring of the Council's decision making framework it is considered that the systems and processes in place continue to represent an appropriate use of resources and good value for money.

7.5 Legal Implications, Access to Information and Call In

7.5.1 The Head of Governance Services, Head of Elections, Licensing and Registration and Chief Planning Officer are satisfied that the arrangements put in place through the Council's decision making framework meet all legal requirements.

7.5.2 The decision making framework seeks to ensure that Leeds City Council is open, honest and trusted. Access to information is promoted with all efforts being made to ensure that information withheld from the public domain is either confidential, or passes the public interest test for the restriction of exempt information.

7.6 Risk Management

7.6.1 The Head of Governance Services, Head of Elections, Licensing and Registration and Chief Planning Officer give assurance that the systems and processes that form part of the Council's decision making framework are functioning well and that there are no risks identified by this report.

8 Conclusions

8.1 From the review, assessment and ongoing monitoring carried out the Head of Governance Services has reached the opinion that, overall, decision making systems are operating soundly and that there are no fundamental control weaknesses.

9 Recommendations

9.1 Members are requested to consider and note the positive assurances provided in this 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.

10 Background documents⁷

10.1 None

⁷ 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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Regulation of Investigatory Powers Act 2000 (RIPA) Policy

1.0 Extent

This policy applies to the authorisation of directed surveillance under Section 28(1) of RIPA. This policy also applies to authorisations and notices for the purposes of obtaining communications data, under Section 22(3) and 22(4) of RIPA. This policy does not cover the authorisation of covert human intelligence sources under Section 29 of RIPA, nor does this policy cover intrusive surveillance (which the Council is not entitled to authorise under RIPA).

2.0 Safeguards

2.1 The Council will apply a presumption in favour of overt investigation methods. The Council will always consider using a variety of overt investigatory tools, before considering whether the use of these powers is required. Covert surveillance or investigation will be used only when other reasonable options have been considered, and ruled out.

2.2 In order to comply with the duties in Section 28(2) of RIPA, that a person shall not grant an authorisation for the carrying out of directed surveillance unless they believe that the authorisation is “necessary” for the purposes of preventing or detecting crime punishable by a maximum term of at least 6 months imprisonment or for the purpose of preventing or detecting certain other specified offences, and “proportionate”, in accordance with the Covert Surveillance and Property Interference Code of Practice, the Council will

- balance the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence, or disorder;
- explain how and why the methods to be adopted will cause the least possible intrusion on the target and others;
- consider whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- evidence, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

2.3 The Council will only use covert surveillance when the problem is serious and/or persistent, and where overt surveillance would not provide evidence and/or might displace the problem elsewhere.

2.4 The Council will use covert surveillance proportionately, and will not use covert surveillance to address minor matters, but instead will focus on those issues which are of greatest concern to the community.

- 2.5 The Council will only use covert surveillance either to obtain evidence that can be presented at court, or where another positive outcome relating to the prevention or detection of crime as referred to above has been identified, for example through the positive identification of perpetrators.
- 2.6 The Council will give responsibilities to a single member of its Corporate Leadership Team, the City Solicitor, as Senior Responsible Officer, to ensure that designated authorising officers meet the standards required by the Office of Surveillance Commissioners.
- 2.7 The Council will ensure that the quality of authorisations is monitored by Legal Services.
- 2.8 The Council will ensure applicants and authorising officers receive an appropriate level of training.
- 2.9 The Council will ensure that in accordance with The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 as amended, directed surveillance authorisations will only be granted by 2 or 3 Heads of Service appointed from within Strategy & Resources Directorate. This will avoid any perception that a Head of Service is agreeing to “their” investigation within their own service, or is directly involved with the investigations they authorise. Authorising officers will therefore be able to apply more independently reasoned judgment of the issues. No authorisation will be put into effect until an order has been made by the Magistrates Court approving that authorisation.
- 2.10 In order to comply with the duties in Section 22(1) and 22(5) of RIPA that a designated person will not grant an authorisation or give a notice for the acquisition of communications data unless they believe this is “necessary” for the purpose of preventing or detecting crime as referred to above, and “proportionate” to what is sought to be achieved, the Council will balance the extent of the intrusiveness of the interference with an individual’s right to respect for their private life against a specific benefit to the investigation or operation being undertaken by the Council in the public interest.
- 2.11 The Council will only use powers to acquire communications data when investigating serious incidents, (such as vehicles causing nuisance within communities, and illegal advertising) and where overt investigation methods would not provide the necessary evidence.
- 2.12 In accordance with the Acquisition and Disclosure of Communications Data Code of Practice, the Council has appointed the City Solicitor as senior responsible officer, who will be responsible for the integrity of the process within the Council to acquire communications data, compliance with the relevant provisions of RIPA and the Code, oversight of the reporting of errors to IOCCO and the identification of both the cause of errors and the implementation of processes to minimise the repetition of errors, engagement with IOCCO inspectors, and overseeing the implementation of post inspection action plans.

2.13 In accordance with the Acquisition and Disclosure of Communications Data Code of Practice, the Council will not acquire communications data without using the SPoC services of NAFN, who will monitor the quality of notices and authorisations.

2.14 The Council will ensure that applicants, the designated person, and the senior responsible officer receive an appropriate level of training.

2.15 The Council will ensure that in accordance with The Regulation of Investigatory Powers (Communications Data) Order 2010 as amended, the designated person will be a “Director, Head of Service, Service Manager or equivalent”, or someone in a more senior position. The Council will ensure that the designated person is at Head of Service level as a minimum. No authorisation will be put into effect until an order has been made by the Magistrates Court approving that authorisation.

3.0 **Review**

3.1 This policy will be reviewed, and reports on the use of these RIPA powers will be considered on an annual basis, by Corporate Governance and Audit Committee.



Report author: A.Hodson

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Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual Governance Statement

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

Summary of main issues

1. The Council has a duty to undertake an annual review of the effectiveness of its system of internal control. Following that review a committee, in our case the Corporate Governance and Audit Committee, must approve an annual governance statement.
2. The review of effectiveness of the Council's Governance arrangements, has been informed by matters considered by;
 - Executive Board
 - Corporate Governance and Audit Committee (particularly assurance reports from officers reporting to the committee)
 - Reports and opinions from;
 - Internal Audit
 - External Audit
 - Inspectorates
 - Appropriate enquiries of management and staff with relevant knowledge and experience.
3. The attached draft Annual Governance Statement has been prepared in accordance with proper practices specified by the Accounts and Audit Regulations 2015.

Recommendations

Corporate Governance and Audit Committee is asked to;

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

1 Purpose of this report

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

2 Background information

- 2.1 The Annual Governance Statement is a public statement on the adequacy of the Council's governance arrangements, and, as directed by the Accounts and Audit (England) Regulations 2015, must accompany the statement of accounts.
- 2.2 The Regulations, specifically Regulation 6 requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with 'proper practices'¹. These proper practices have been used as the basis for preparing the AGS which appears at Appendix 1.

3 Main issues

- 3.1 This year, as last, the review of effectiveness has been undertaken on an ongoing basis including internal and external audit of our internal control processes, and matters that have been the subject of reports to Corporate Governance and Audit Committee, the Executive Board and other member forums. In addition Directors have reviewed the attached statement and have confirmed that, to the best of their knowledge and belief, all matters of significance have been disclosed.
- 3.2 KPMG have yet to review the draft Annual Governance Statement and the comments of the External Auditor are usually contained within the 'Report to those Charged with Governance' due to be issued by KPMG in September. However as a result of requirements contained in Accounts and Audit Regulations 2015 the Authority must release an approved Annual Governance Statement (or a draft) to accompany the Accounts when they are placed on deposit.
- 3.3 Corporate Governance and Audit Committee is asked to agree the attached draft Annual Governance Statement and authorise the Chair to agree any additions/amendments to the Statement that may be necessary following the receipt of the External Auditor's opinion.

4 Corporate Considerations

4.1 Consultation and Engagement

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

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

4.3.1 The draft Annual Governance Statement reports that whilst progress has been made in agreeing policies and implementing procedures to govern the management of data and information, a number of incidents of data loss have occurred during the year.

4.3.2 Following approval of the statement a review of the Council's Code of Corporate Governance will be undertaken.

4.4 Resources and Value for Money

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

4.5 Legal Implications, Access to Information and Call In

4.5.1 The draft Annual Governance Statement is a public statement on the adequacy of the Council's governance arrangements, and as directed by the Accounts and Audit (England) Regulations 2015, must accompany the statement of accounts.

4.6 Risk Management

4.6.1 The Accounts and Audit (England) Regulations 2015, specifically Regulation 6, requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with proper practices. The system of internal control, including arrangements for the management of risk, assists the Council in effectively exercising its functions.

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

5 Conclusions

5.1 The draft Annual Governance Statement, subject to any views which may be received from the External Auditors, concludes that key systems are generally operating soundly and, where weaknesses have been identified arrangements, arrangements are in place to resolve them.

6 Recommendations

6.1 Corporate Governance and Audit Committee is asked to;

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

7 Background documents

7.1 None



Annual Governance Statement

DRAFT

2016

1. SCOPE OF RESPONSIBILITY

- 1.1 For Leeds City Council our governance framework comprise the policies, plans, systems and processes and culture and values (our system of 'internal control') that we have in place to ensure that our intended outcomes for stakeholders are defined and delivered. To deliver good governance our objectives must be achieved whilst also acting in the public interest.
- 1.2 We must conduct a review, at least once a year, of the effectiveness of our system of internal control and report our findings in an annual governance statement. The statement must be prepared in accordance with proper practices and be reported to a committee of Councillors. This document comprises our annual governance statement for 2016.

Context

- 1.3 Our ambition continues to be at the forefront of those local authorities that are able to demonstrate that they have the necessary corporate governance to excel in the public sector. We aspire to be the best local authority in the UK, for Leeds to have a strong economy and be a compassionate, caring city that helps all its residents benefit from the effects of the city's economic growth.
- 1.4 We will focus on creating the right conditions for the economy in Leeds to prosper and hand in hand with that, ensure a consequence of that growth is a reduction in the inequalities that exist in Leeds.
- 1.5 The changing needs of our citizens and communities, ongoing significant reductions in resources and central government reforms continue to present a challenge to all councils (for example in school governance and health and social care). In addressing these challenges we must ensure that governance arrangements support the effective delivery of services and management of risk. Whether this be by direct service provision, in partnership, by alternative innovative service delivery mechanisms or simply by influence.
- 1.6 By applying our values and local codes of conduct for Members and employees, we commit to devising and delivering services to the citizens of Leeds in a way that demonstrates accountability, transparency, effectiveness, integrity, and inclusivity.

2. THE GOVERNANCE FRAMEWORK

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

2.2 Our governance framework in Leeds comprises our policies, plans, systems and processes and culture and values that allow us to achieve our strategic objectives and provide services in an appropriate and cost effective way and can be summarised as:

- Our vision - that is our shared priorities and intended outcomes for citizens and service users documented in the Vision for Leeds, Best Council Plan and other documents contained in our Budget and Policy Framework;
- The committees, boards and panels we have established to ensure democratic engagement and accountability is central to our decision making;
- Our arrangements for the oversight and scrutiny of decisions and policy development by councillors;
- Delegation and sub delegation arrangements which document the roles and responsibilities of executive and non-executive councillors and our statutory (and other senior) officer functions;
- Our risk management arrangements that help us mitigate threats and make the most of opportunities which present themselves;
- Our performance, safeguarding and accountability arrangements that help us analyse and act on performance information as a means of improving services and delivering better outcomes for the citizens of Leeds;
- Our People and Culture Strategy, Member Development Strategy, Values and codes of conduct which underpin how Members and employees work;
- Our arrangements for consultation and engagement with the community, particularly focussed to help ensure inclusivity;
- Our arrangements to safeguard our most vulnerable citizens including fully embracing the role of independent chairs of safeguarding boards for children and adults;
- A high performing and independent Internal Audit service that is well regarded by our External Auditors;
- Independent oversight and challenge provided by our External Auditors, Government Inspectorates and the Local Government Ombudsman;
- Our procedure rules and internal management processes for:
 - Financial management
 - Procurement
 - Information governance and data security
 - Health and safety
 - Decision making
 - Whistleblowing and complaints handling
 - Anti-fraud & corruption

3. REVIEW OF EFFECTIVENESS

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

A self-assessment of our effectiveness

Effective planning, risk and performance management arrangements

- 3.3 Our planning, risk and performance management arrangements have enabled members and senior management to **focus effectively on the Council's purpose and community** needs. Internal Audit carried out reviews of the central control arrangements for 'achievement of strategic objectives' and 'corporate risk management' and judged these to provide substantial and good assurance respectively.
- 3.4 Through consultation with staff and elected members, the Best Council Plan was refreshed for 2016-17 and sets out our strategic objectives and priorities. This continues the aim previously set out in the 2015-16 Plan of reducing inequalities, but articulates this more firmly around the integrated concepts of promoting economic growth and of being a compassionate city. In-year performance is reported to elected members and senior management quarterly against a Best Council Plan scorecard of the most significant key performance indicators (and subsequently published on the council's intranet and internet sites. Scrutiny Boards receive regular performance reports on services within their portfolios.
- 3.5 A year-end performance report, that highlights the progress made throughout 2014-15 in delivering the six strategic objectives set out in the Best Council Plan was considered by our Executive Board. A similar report looking back on 2015/16 will be presented to Executive Board this summer. Producing this annual performance report is in line with best practice and the authority's performance management framework. The report draws on and links with a range of supporting council and partnership plans against which performance is regularly assessed and reported: these include the Annual Financial Plan; Children & Young People's Plan; Health & Wellbeing Strategy; Core Strategy and Adult Social Care Local Account.

- 3.6 An accompanying annual risk management report has also been considered by our Executive Board; the report summarised how the authority manages its most significant risks. As part of our decision making arrangements, all reports for key and major decisions consider risk management. This is a vital component of our governance arrangements as, to deliver our Best Council objectives, it is essential that we understand, manage and communicate the range of risks that could threaten the organisation and the vital services the council provides.
- 3.7 Of vital importance to us, is ensuring that we have arrangements in place to ensure our critical services can recover quickly from serious untoward incidents. Our Corporate Governance and Audit Committee led a concerted effort to ensure that business continuity plans are in place for all our critical and non-critical services. The Boxing Day floods tested the robustness of these plans and we have updated our arrangements from the lessons learned.
- 3.8 Following our review last year we considered the arrangements in place for reporting and responding to serious untoward incidents within Public Health. Further work has been undertaken to ensure that there is a composite overview of these incidents across the council and to ensure that lessons learnt are captured. The review found that there were varying levels of awareness across the council of when to report and take action. Our Corporate Leadership Team have now adopted a Serious Untoward Incident (SUI) policy and SUIs are to be considered within existing directorate risk/performance and reporting frameworks to enable improved learning from incidents that occur.
- 3.9 The Chief Officer Strategy and Improvement, having reviewed these arrangements, can confirm that there are appropriate systems and procedures in place to ensure effective planning, risk and performance management takes place.
- 3.10 Significant work on information management and information governance has been undertaken to strengthen management of our information assets, to respond to external requirements and to identify opportunities for efficiency and other value gains in the management of information. A key element of this has been the establishment of a cyber-resilience working group to deliver against the government's recently published guidance and build on existing control and contingency plans.
- 3.11 The remaining outstanding work required to address the recommendations of the Information Commissioners Audit report is being carried out by a small team of information governance staff with completion due in March 2017.
- 3.12 Whilst the council continues to lead in proactively making datasets available for re-use, via the Leeds Data Mill, thereby providing continued commitment to the council's value of being open and transparent, there is a growing risk around the council's ability to meet the INSPIRE Regulation requirements within the prescribed timescales.
- 3.13 Our vision remains to continually improve the relationship between the citizen and the state, and in so doing improve trust in public services and ensure the delivery of local integrated and responsive services for local people. Our Community Committees are integral to that vision.

- 3.14 Where no town or parish council exist Community Committees have responsibility for the allocation of Community Infrastructure Levy funding decisions – new guidance has been introduced during the year to govern how these funds are administered.

Effective financial planning and management

- 3.15 Despite the 2015-16 budget again including some challenging decisions and risks – effective financial management across the Council culminated with a surplus of £0.7m against the General Fund budget (after the creation of a number of earmarked reserves). The Section 151 Officer has continued to ensure that effective budget monitoring and reporting arrangements (involving the Executive Board and Scrutiny) are in place. The Council's arrangements around financial accountability and responsibility have also been strengthened with clearer accountability for budget holders to keep expenditure within the approved budget. In addition, simplified Financial Regulations have been introduced that establish principles and rules relating to our systems of financial control.
- 3.16 The Corporate Governance and Audit Committee reviewed these arrangements in June 2016, noting that there were appropriate systems and procedures in place to ensure sound financial planning and management and that the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The committee also noted that a new budget management accountability framework was introduced in May 2015 to ensure arrangements remained proportionate and fit for purpose. In addition the Corporate Governance and Audit Committee undertook an assessment of our Treasury Management arrangements (January 2016) – the committee being assured that the arrangements complied with updated CIPFA guidance notes for practitioners contained within the Prudential Code for Capital Finance in Local Authorities.

Effective arrangements for accountability

- 3.17 Our Constitution, including the delegation scheme for Council and Executive responsibilities, has been regularly reviewed and updated to reflect various legislative and organisational changes. Sub delegation arrangements are in place and provide a clear description of decision-making responsibilities below director level. The way in which services are delivered continues to evolve with more services being commissioned and delivered in partnership.
- 3.18 Partnerships and other joint working arrangements with external bodies form an increasing element of our activities, providing challenges in terms of transparency, demonstrating accountability and managing risk. The Corporate Governance and Audit Committee also considered assurances in respect of financial and control arrangements that are place for partnerships and other joint arrangements where the authority has a financial governance role. The committee received assurances that the partnerships identified have appropriate arrangements in place and make due regards to expected standards. Work is in hand to further develop toolkits, linked to our Financial Regulations, to strengthen and reinforce the arrangements in place.

- 3.19 Further to our Safeguarding issues considered in our 2015 Annual Governance Statement we have worked with other West Yorkshire authorities to improve the consistency of taxi and private hire monitoring and enforcement activities across the region. The introduction of provisions under the Deregulation Act 2015 has prompted the authorities to seek to move to formal arrangements for cross authority working. Since 1st October 2015 the Deregulation Act permits private hire firms nationally to sub contract bookings outside of their own licensing district.
- 3.20 This has presented this authority and other West Yorkshire authorities with concerns in relation to how this might be monitored, including for safeguarding reasons, and how enforcement should be carried out effectively. Full Council has approved the delegation of Taxi and Private hire enforcement functions from this authority to the other West Yorkshire authorities and to similarly receive delegated taxi and private hire enforcement functions. Both the Executive Board and our Licensing Committee are each receiving regular assurance reports in respect of safeguarding from the service.
- 3.21 In addition our Executive Board has considered annual reports on our safeguarding arrangements for both children and adults. The reports have concluded that systems and practices to safeguard adults at risk continue to be firmly established and that for children all the available management and third party analysis indicates that good attention is paid to managing risk appropriately and safely with the frameworks in place.
- 3.22 Our Health and Wellbeing Board has completed its third year of work and has provided an open and transparent forum through which joint work on improving health and wellbeing is progressed, including in January 2016 approving the Leeds Health and Wellbeing Strategy for 2016-2021. The Health and Wellbeing Board has also reported to NHS England on the Performance of the Better Care Fund; the governance arrangements for which are set out within a partnership agreement. Our full Council meeting has now introduced a new defined element of business to consider the minutes of the Board to enable wider member engagement.
- 3.23 We have fully participated in the work of the **West Yorkshire Combined Authority**, and in doing so have, with our neighbouring local authorities, reviewed and streamlined other aspects of regional governance. Collaborative working is taking place across the region to support negotiations with HM Treasury for a devolution deal for the region. Given the importance of this, full Council receives a regular update report on the devolved matters; allowing cross party engagement and debate on this evolving area.
- 3.24 Our community committees have a crucial role in improving the way we work locally and form a vital part of our commitment to involving our residents more closely with the priorities for their local area and decision-making on funding and services. The committees have played an important part in meeting our ambition to bring place, people and resources together by:
- ensuring that we spend money and work more intelligently and flexibly than before;
 - making it easier for people to do business with us; and
 - improving the way we make decisions locally with residents.

- 3.25 Effective whistleblowing procedures are a key part of good governance, establishing a culture of openness, probity and accountability across all aspects of the Council's work. Ensuring that employees, workers (agents and contractors), Members and the wider public are able to raise concerns through the correct channels allows the Council to address any risks as early as possible. We have two policies that set out the means by which serious concerns can be brought to the attention of Internal Audit. The Whistleblowing Policy sets out the correct channels through which serious issues can be appropriately escalated from within the organisation and the Raising Concerns Policy provides guidance and direction to the wider public. Assurances that the policies are routinely complied with are gained through regular reporting of the policy outcomes delivered through the regular Internal Audit Update reports provided to Corporate Governance and Audit Committee.
- 3.26 We have during the year been working with the Local Government Boundary Commission for England as part of the Commissions review of our council size and composition of our electoral divisions. The Commission agreed with our submission that our council size should remain at 99 councillors. Work will continue in 2016-17 to review imbalances in some of our ward boundaries.

Effective Conduct Arrangements

- 3.27 Registers of Interest for elected members and employees have been maintained and arrangements are in place for the declaration of appropriate interests when decisions are taken. Following a review (by Internal Audit) of the central control arrangements in place to manage employee conduct (which provided good assurance), an annual report is now compiled by the Chief Officer HR to give assurance that key policies and procedures are fit for purpose, effectively communicated, working as intended and have been regularly reviewed. This report has been considered by our Corporate Governance and Audit Committee (June 2016).
- 3.28 The Standards and Conduct Committee has operated in accordance with the terms of reference approved by full Council and reported on its activities by way of an annual report in March 2016. No Leeds City Councillor, nor any Parish or Town Councillor (in the Leeds area), has been found to have failed to comply with the Code of Conduct adopted.

Effective decision making arrangements

- 3.29 Our decision-making arrangements are one of our key governance controls, linking to all the governance principles that are set out in our Code of Corporate Governance. The annual report to our Corporate Governance and Audit Committee (June 2016) in relation to our principle decision making processes provided substantial assurance that the arrangements are up-to date, fit for purpose and are functioning well.
- 3.30 The City Solicitor has provided assurance to our Corporate Governance and Audit Committee (June 2016) concerning our compliance with the requirements of the Regulation of Investigatory Powers Act 2000 – both as regards directed surveillance and the use of covert surveillance sources and also as regards the acquisition and disclosure of communications data.

- 3.31 In addition the proper officer for Scrutiny has confirmed that scrutiny arrangements are operating in accordance with the terms of reference and procedures agreed by full council with inquiries both adding value to the delivery of the council's objectives and providing challenge to the Executive. This will be reported to members of the authority by way of an annual report to the full Council.
- 3.32 The Council sees Scrutiny as a key performance tool in ensuring that the Council meets its best city ambitions. The proportion of work undertaken by Scrutiny Boards that relates to pre-decision Scrutiny and the development of new policy is testament to the trust placed upon Scrutiny Boards by the Executive to help inform what are often high profile and sensitive decisions to be made. Scrutiny Boards have also continued to demonstrate their unique strength in bringing together a wide range of sectors and service users to identify solutions in addressing complex and cross cutting issues.
- 3.33 The reviews undertaken are a key element of the continuous review of our arrangements and ensuring that they are up-to-date and fit for purpose.

Of particular note have been the reviews of:

- Non Contract Spend
- Career Families
- Commissioning arrangements
- ICT prioritisation of projects and project governance arrangements
- Fees and Charges
- Digital Inclusion

Effectively developing skills and capacity

- 3.34 Our Best Council Plan sets out our ambitions to become a more efficient and enterprising council. We are progressing this by improving our organisational design, developing our people and working with partners to effect change. Key strands of our work are to simplify, standardise and share our internal processes and develop an agile, skilled and diverse workforce with the ability to work flexibly.
- 3.35 We have recognised that this programme of change can only be delivered with colleagues and so we have invested in a number of initiatives, such as the Manager Challenge and Leadership Development programmes, to help create the flexibility, capacity and skills necessary to continue to meet our statutory responsibilities and provide front line services in a time of significant budget restraint.
- 3.36 We also recognise the importance of undertaking 'quality' appraisals with colleagues (for the last two years over 97% of staff received an annual appraisal) and in ensuring, through online and bespoke training that colleagues are equipped with the necessary equalities and health and safety knowledge they need to carry out their roles.
- 3.36 As community leaders, it is vital that our councillors are supported to be as effective as possible. A variety of learning programmes is in place and is continually monitored and evaluated. Where needed, new learning programmes are developed and implemented quickly and effectively.

Effective Engagement

- 3.37 The delivery of Our Best Council Plan recognises the importance of effective engagement with the public, partners and staff and taking account of this in decisions that we take. A central theme running throughout our Best Council Plan is to tackle inequalities and so we also recognise the importance of taking account of equality considerations in the decisions we take.
- 3.38 As reported in our Annual Governance Statement in 2015, we sought reaccreditation at the 'Excellent' level to the Equality Framework for Local Government. The framework is a national standard for measuring an organisation's commitment and ability to mainstream equality. In January 2016 confirmation was received that our reaccreditation at the 'Excellent' level had been successful with the peer group assessment team commenting that they were "impressed by what it saw and had no hesitation about awarding the 'Excellent' level to Leeds City Council and looks forward to working with the council in future to help the rest of the sector continue to meet diverse needs and address inequalities".
- 3.39 There has been increased effort in using digital channels to reach audiences with an improved website and a greater use of social media by a growing number of colleagues. Work is on-going to ensure that there are sufficient policy and technological safeguards to protect both employees and the council's reputation as social media use continues to grow.
- 3.40 We have embraced these new opportunities by webcasting our full council meetings and opening up meetings of our committees, boards and panels by enabling third party recording. Since introducing this engagement tool there has been in excess of 38,000 views of our council meetings. From March 2016 Webcasting coverage has been extended to meetings of our Executive Board.
- 3.41 We have worked with our trade union colleagues to make significant reductions in staffing costs through: changing employment terms and conditions; a pause on agency, overtime and external recruitment; more flexible movement of staff across the council; and challenging spend as appropriate. In addition we have introduced the Manager Challenge programme to help embed excellent manager habits. Our staff survey results tell how we are performing on levels of staff engagement; we scored 7.2 out of 10 for our key engagement measure, which is 'If a friend asked you to give a score working for Leeds City Council from 1-10 (with 10 being the best), what would it be?'. We have also retained our status as an 'Investors in People' employer, as part of which over 7000 colleagues (45% of the workforce) shared their views in our annual employee engagement survey – our ambition is to continue to prioritise how we improve on engagement activities.

Internal Audit Opinion

- 3.42 The annual report, from the Acting Head of Internal Audit, objectively examined, evaluated and reported on the control environment within the council and provided an opinion about the adequacy of the systems and processes in place.
- 3.43 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) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit.
- 3.44 The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

An Independent opinion of effectiveness

- 3.45 External audit have again evaluated the Council's key financial systems as part of their interim audit work in respect of the 2015/16 accounts and have confirmed that nothing has come to their attention which they would be required to communicate to the authority. This work involved;
- Understanding accounting and reporting activities,
 - Evaluating design and implementation of selected controls,
 - Testing the operating effectiveness of selected controls,
 - Assessing the control risk and risk of the accounts being misstated.

4. SIGNIFICANT GOVERNANCE CHALLENGES

- 4.1 Our organisational control environment is effective overall, with no significant issues or areas for improvement. However we face a number of significant and ongoing challenges which will impact upon our governance arrangements and how we operate as a provider of public services.

Changes in Proper Practice from 2017

- 4.2 The Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives have recently collaborated in producing a redefined Good Governance Framework for Local Government and associated guidance. The new framework is different in a number of ways, in particular the positioning of the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.
- 4.3 The preparation and publication of an Annual Governance Statement in accordance with this new framework will apply from 2017 and will fulfil the statutory requirement for us to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with our Statement of Accounts. During the forthcoming year we will need to review our Code of Corporate Governance to ensure that it reflects the new arrangements.
- 4.4 However as part of our transition to the new reporting arrangements this part our Statement for 2016 includes references to some of the challenges we are facing around the factors that are contained in the new framework.

Financial Pressures

- 4.5 Between the 2010/11 and 2015/16 budgets, our core funding from Government has reduced by around £180m and in addition we have faced significant demand-led cost pressures. We have responded successfully to the challenge and have marginally underspent in every year since 2010. Over the next four years we will see further reductions in core funding from government, expected to be in the order of £87m.
- 4.6 Adding spending pressures will require the Council to deliver an even greater level of savings, which will be significantly front-loaded over the first two years of the period with the level of savings in just 2016/17, being in excess of £76m. This will have implications for which services we deliver, how we deliver them and for our workforce and will necessitate a further step change in the pace of change already in progress. Our vision is to have an integrated local workforce, with local leadership working in multi-disciplinary teams. These teams will work to engage and understand local assets and needs, manage demand, improve outcomes and have a very strong and effective link with local democratic leadership.

- 4.7 The government have announced that by 2020 local government will be able to retain 100% of business rates, estimated to be £26 billion nationally, at which time government will withdraw its core funding of local government completely. In order to ensure that its impact is fiscally neutral in terms of the national finances, the government propose to transfer a number of new functions to local government. This will be a fundamental change in the way local government is financed. Specifically the increasing number of children and young people in the city brings with it an increasing number of children with special and very complex needs. In budgetary terms this specifically impacts on placements budgets for children looked after.
- 4.8 Approximately £3.5m of savings in the 2016/17 budget hinges on Children's Services continuing to safely and appropriately reduce both the number of children looked after and more expensive external placements. That said the service continues to face significant demographic and demand pressures in terms of:
- High birth rates, particularly within the most deprived clusters within the city.
 - Increasing inward migration into the city, particularly from BME groups from outside the UK.
 - Increasing population of children & young people with special and very complex needs.
 - Greater awareness of the risks and prevalence of child sexual exploitation.
 - Growing expectations of families and carers in terms of services offered.
 - Changes in government legislation, including "Staying Put" arrangements which enable young people to remain with their carers up to the age of 21.
- 4.9 The increased birth rate and migration is also impacting on our duty to ensure sufficient school places, with a major expansion programme that has been underway since 2009. Over 1400 new reception places have been created with around 600 more still necessary. The impact on secondary school places is also now being experienced and is in the process of being resolved. Although, current projections indicate that, there will be a shortfall in government funding that may amount to £67.5m over the next three years.
- 4.10 These factors continue to put increased pressure on children in care placements budgets, spending on children and young people with complex needs and transport budgets, particularly for those vulnerable children with particularly complex needs.

Cities and Local Government Devolution Bill

- 4.11 We are convinced that there is a compelling case for devolving to the Leeds City Region. The Leeds City Region has the UK's largest city region economy outside London, with an economic output of £57.7bn. Over 92% of its 2.8m population work within its area and over 50,000 people commute between the areas of Craven, Harrogate, Selby and York and West Yorkshire.

- 4.12 At the time of writing this submission the outcome of the bid has not been announced. What though is clear is that in light of whatever agreement is reached there will be enhanced roles for Leeds councillors, whether that is as members with decision making responsibilities, as scrutiny members with oversight of mayoral decision making or possibly as part of a wider Assembly of members.

Welfare Reform and Work Act 2016 & Housing & Planning Bill 2015

- 4.13 The Welfare Reform & Work Act (2016) requires the Council to reduce its dwelling rents by 1% for each of the 4 years (2016/17 to 2019/20). This equates to a £2.2m cash reduction each year (£20.5m over the 4 year period). The rollout of Universal Credit in Leeds commenced in February 2016 and once fully implemented it will require the Council to collect rent directly from around 24,000 tenants. This will have implications for the level of rental income receivable.
- 4.14 The Housing & Planning Bill 2015 proposes fundamental changes to the nature and provision of social and affordable housing. Although details are not yet known it is anticipated that the proposals for the sale of high value properties and “pay to stay” will not only further reduce income to the Council’s Housing Revenue Account (HRA) but will add an extra administrative burden.
- 4.15 The cumulative impact of these changes will need to be carefully managed in addition to other pay, price and service pressures through a combination of identifying efficiencies, implementing cost reductions in the HRA and reviewing charges.

Our Best City Ambitions

- 4.16 Maintaining provision of good quality, efficient services that communities in the city need is essential, while finding new ways of delivering the best for Leeds. Innovative approaches developed with service users, citizens and partners are already changing relationships and shifting responsibilities.
- 4.17 Our Best Council Plan for 2016/17 continues the aim set out in the Best Council Plan 2015/16 of reducing inequalities but articulates this more firmly around the integrated concepts of promoting economic growth and of being a compassionate city. We will use the Joint Strategic Needs Analysis and analysis of Index of Multiple Deprivation to evidence where any differential level of service or investment is needed and in particular focus where outcomes are currently poor and costs are high.
- 4.18 This approach recognises the challenges that the city and the council are facing: 2016/17 will bring continued reductions in the council’s funding and this is set to continue to 2020; Leeds has a growing and ageing population with increasingly complex needs; some communities are not benefiting from the economic growth the city has experienced and welfare changes could make the inequality gap bigger. Having a clear, strategic vision centred firmly on tackling poverty and inequalities will help tackle these challenges.

The Local Development Framework

- 4.19 As a local planning authority Leeds has a significant responsibility to put an appropriate planning framework in place, not only to provide direction and certainty for investment decisions but also to lead by example. Our Core Strategy provides a 16 year spatial plan for the district, which sets the overall priorities for regeneration, environmental protection and the scale and distribution of housing and economic growth. This document is underpinned by a substantial evidence base (which includes the Strategic Housing Land Availability Assessment and Strategic Housing Market Assessment). These plans will be used as a basis to allocate land for development.

Public Health

- 4.20 Despite the reduction in the ring-fenced public health funds provided by central government, our statutory functions for public health remain and our clear objective is that the citizens of Leeds enjoy a happy, healthy, active life. At a strategic level this will be driven through our Health and Wellbeing Board and at a local level through community committees and neighbourhood forums

Adult Social Care

- 4.21 Demographic changes including an ageing society, increased life expectancy of people with long term conditions and the increasing number of family carers are factors that need to be taken into account when planning for the future. The financial and 'system' challenge in this respect in Leeds is substantial.
- 4.22 Adult social care services are responding to this and the legislative changes arising from the introduction of the Care Act in April 2015. The Care Act (2014) represents a radical redesign of adult social care services. The Act consolidates all existing legislation for adult social care into one statute. The Act places an individual's wellbeing at the heart of social care with the aim of preventing, reducing or delaying the need for care and support and also introduces new duties on councils responsible for adult social care.
- 4.23 These include: the promotion of wellbeing, compliance with a national assessment and eligibility criteria, recognising and responding to individual carers' rights, focusing resources on prevention, integrating services with the NHS, offering a comprehensive advice and information service, widening access to personal budgets (to include carers), ensuring safeguarding procedures are in place and overseeing and shaping the care market.
- 4.24 The introduction of the Care Act (2014) requires changes to the way in which our services are currently delivered with executive members, scrutiny members, community champions, local ward members and officers playing a lead role in the development, delivery and oversight of the service. The next phase of our Better Lives strategy is to focus on rolling out a model of community-led social work which will devolve greater responsibility and flexibility to our integrated neighbourhood teams.

Air Quality

- 4.25 The Department for Environment, Food and Rural Affairs has recently published a consultation document that identified Leeds as one of seven locations in England that currently is not expected to be fully compliant with aspects of the European Directives for Air Quality by 2020.
- 4.26 A West Yorkshire Low Emission Strategy 2016 to 2021 (WYLES) has been developed through collaboration between the Councils of Bradford, Calderdale, Kirklees, Leeds and Wakefield Council as well as Public Health England and West Yorkshire Combined Authority. The WYLES therefore provides the framework for the specific activity that Leeds Council plans to undertake to improve air quality. The Council has developed a high level plan supported by a detailed action plan to meet the specific targets contained within the WYLES.

Energy Efficiency

- 4.27 Although the national policy context for energy efficiency is difficult, we are continuing to identify opportunities that will enable us to improve the fabric of the city's homes, lower residents' bills, reduce CO2 emissions and tackle fuel poverty. It is however almost inevitable that the installation rate and linked improvements to bills, CO2 and fuel poverty will slow down.
- 4.28 The council will continue to bid for any suitable funding that becomes available but the most efficient way to be able to continue to reduce emissions at a city level is to focus on getting energy efficiency included within a strong devolution deal for LCR. We have signed the European Covenant of Mayors which commits us to publishing a Sustainable Energy Action Plan which will aid our public reporting on this issue.

Community Committees and Community Hubs

- 4.29 Our community based approach remains a high priority, particularly ensuring that we;
- focus on 'local', making sure that services join up effectively and really meet the needs of local people;
 - develop community committee's quality improvement and assurance role, essentially how the committees act as the eyes and ears for the delivery of local services, and making recommendations back to the Executive Board where necessary;
 - continue to improve local decision making with better intelligence gathered at the local level;
 - use communications and social media more strategically, moving from broadcast to conversation and engagement; and
 - introduce a robust system of local performance management to demonstrate where positive discussions with residents have led to services changing and projects delivered to meet needs.

- 4.30 Part of our approach is to develop a Community Hub network based on 3 'types' of provision: Community Hub 'Extra', Community Hub 'Local' and Community Hub 'Mobile'. Our aim is to have provision in each ward based on one or more of the Community Hubs outlined above and for local ward members and community committees to direct and influence the final proposals on the Community Hub network. The success of this vision relies on engagement with local school clusters, neighbourhood networks and CCGs to ensure there is full integration at a local level and all local governance structures are working together to meet the full range of needs within local communities.

Data Protection

- 4.31 The General Data Protection Regulation (GDPR) which will replace the current Data Protection Act 1998, will pass directly into Member State law taking effect from 25 May 2018. The new data protection rules are designed to give citizens across the EU more control of their personal data, and to create a high, uniform level of data protection across the 28 members states, fit for the digital era. The GDPR imposes new and significantly more stringent requirements for the handling of personal data on all organisations which use personal data. These requirements will affect most parts of the Council.
- 4.32 The Information Commissioner's advice is for organisations to immediately begin preparations to implement the GDPR, and they have produced a 12 step checklist to aid organisations do this. An officer group has analysed the provisions set out in the GDPR, and has advised that the impact on the Council is likely to be significant. Corporate Leadership Team has received a preliminary report on the GDPR, and has approved the setting up of a project board to oversee implementation across the Council.
- 4.33 It is clear that new procedures will need to be put in place to deal with the GDPR provisions relating to transparency and individuals' rights, and this could have significant budgetary, IT, personnel, governance and communications implications. In addition, the GDPR places greater emphasis on the explicit design of organisational and technical measures to secure compliance with the principles (privacy by default and design).
- 4.34 We will need to be able to demonstrate that it has put in place appropriate technical and organisational measures, to ensure and to demonstrate compliance with all aspects of the GDPR. All of these processes will be monitored and audited to ensure on-going effectiveness. These more exacting requirements mean we will need to review its approach to governance, and how data protection compliance is managed as a corporate issue.
- 4.35 Staff will need to complete the council's Information Governance Level 1 training. This is an e-learning for PC users with a brochure with relevant information for non-PC users. This training is mandatory for all staff as it's vital that everybody working with personal information knows their responsibilities and is aware of the things which should and shouldn't be done when handling personal data.

5. ASSURANCE SUMMARY

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

Signed

Signed

Date

Date

Councillor Judith Blake
Leader of the Council

Councillor Pauleen Grahame
Chair, Corporate Governance and
Audit Committee

Signed

Signed

Date

Date

Tom Riordan
Chief Executive

Alan Gay
Deputy Chief Executive and
Section 151 Officer

Signed

Date

Catherine Witham
City Solicitor & Monitoring Officer

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Report author: Tim Pouncey/
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Tel: 74214

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Internal Audit Update Report 1st March to 31st May 2016

| | |
|--|---|
| 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. This report provides a summary of the internal audit activity for the period 1st March to 31st May 2016 and highlights the incidence of any significant control failings or weaknesses.

2. The Corporate Governance and Audit Committee also considers the council’s arrangements relating to internal audit requirements, including monitoring the performance of internal audit. The Public Sector Internal Audit Standards require that an external assessment of the internal audit function should be carried out at least once every five years. The proposed Terms of Reference for this assessment is included for review and approval by the Corporate Governance and Audit Committee.

Recommendations

3. The Corporate Governance and Audit Committee is asked to receive 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.

4. The Corporate Governance and Audit Committee is asked to review and approve the proposed Terms of Reference for the external assessment of the internal audit function.

1 Purpose of this report

1.1 The purpose of this report is to:

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

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.

2.2 The Committee also considers the council's arrangements relating to internal audit requirements, including monitoring the performance of internal audit. The Public Sector Internal Audit Standards (PSIAS) require that an external assessment of the internal audit function should be carried out at least once every five years. The outcome of this assessment will provide a key source of information to the Committee on the performance of the internal audit function in relation to conformance with the PSIAS.

3 Main issues

3.1 The report details the work undertaken by the internal audit section for March to May 2016 and contains a summary of completed reviews along with their individual audit opinions.

3.2 There are no issues identified by internal audit in the March to May 2016 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

3.3 During the reporting period, three audits resulted in a limited assurance opinion. In each case, an action plan is in place to address the issues identified.

3.4 The internal audit function 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.

3.5 The March to May 2016 Internal Audit Update Report includes the proposed Terms of Reference for the external assessment of the internal audit function for consideration by the Committee.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and Best Council Plan

4.3.1 The Terms of Reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The Internal Audit Plan has links with each of the council's strategic objectives and has close links with the council's value of spending money wisely.

4.4 Resources and value for money

4.4.1 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the council's value of spending money wisely.

4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

4.5 Legal Implications, Access to Information and Call In

4.5.1 None.

4.6 Risk Management

4.6.1 The Internal Audit Plan 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.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

5 Conclusions

5.1 There are no issues identified by internal audit in the March to May 2016 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

5.2 The Public Sector Internal Audit Standards require that an external assessment of the internal audit function should be carried out at least once every five years. The Internal Audit Update Report includes a proposal that will satisfy this requirement.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from March to May 2016 and note the work undertaken by internal audit during the period covered by the report.

6.2 The Corporate Governance and Audit Committee is asked to review and approve the proposed Terms of Reference for the external assessment of the internal audit function.

7 Background documents

7.1 None.



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

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Individual Reviews**

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Section 1

INTRODUCTION

1.1 Background

1.1.1 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 council's governance, risk management and control arrangements.

1.1.2 This update report provides stakeholders, including the Corporate Governance and Audit Committee, with a summary of internal audit activity for the period 1st March to 31st May 2016.

1.2 Assurance Definitions

1.2.1 There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.

1.2.2 However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

1.2.3 The third element is assessing the corporate impact of the findings of the first two elements. This then determines whether any further substantive work is required and the level of escalation needed.

1.2.4 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 | There are some control weaknesses that present a |

| Control Environment Assurance | | |
|-------------------------------|-------------------|---|
| Level | | Definitions |
| | ASSURANCE | 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. |

- 1.2.5 Organisational impact will be reported as either major, moderate or minor. All reports with a major organisational impact will be reported to the 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. |

1.3 Progress against the Operational Plan – Individual Reviews

- 1.3.1 The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken. The following table includes reports issued between 1st March and 31st May 2016 (reports issued up to 29th February 2016 have been included in previous update reports to Corporate Governance and Audit Committee.) Each of these pieces of work

relate to the Internal Audit Plan for 2015/16 and therefore also feature in the Internal Audit Annual Report for 2015/16.

| Report Title | Audit Opinion | | | Directorate |
|---|-------------------------------------|----------------------|-----------------------|--|
| | Control Environment Assurance | Compliance Assurance | Organisational Impact | |
| Key Financial Systems and Other Financial Risks | | | | |
| Housing Benefits Reconciliation | Substantial | N/A | Minor | Strategy and Resources |
| Local Welfare Support Scheme | Good | Substantial | Minor | Strategy and Resources |
| Income Management System | Substantial | Substantial | Minor | Strategy and Resources |
| Central Sundry Income | Substantial | Substantial | Minor | Strategy and Resources |
| Capital Programme Central Controls | Substantial | N/A | Minor | Strategy and Resources |
| Essential Car User Allowances | Good | Good | Minor | Strategy and Resources |
| Grants to third party organisations | Good | Good | Minor | City Development |
| Housing Benefits Assessment and Payments | Substantial | Substantial | Minor | Citizens and Communities |
| Financial Management Central Controls | Substantial | N/A | Minor | Strategy and Resources |
| Treasury Management and Bankline | Substantial | Substantial | Minor | Strategy and Resources |
| Central Payments System | Substantial | Substantial | Minor | Strategy and Resources |
| Environment and Housing Creditor Payments | Substantial | Good | Minor | Environment and Housing |
| Schools Central Controls | Good | N/A | Minor | Children's Services |
| Kirkgate Market follow up review | Good | Acceptable | Minor | City Development |
| Budget Action Plans | N/A identification of best practice | | | Strategy and Resources |
| Procurement and Spending Money Wisely | | | | |
| Spending Money Wisely Challenge Children's Services | N/A | Limited | Minor | Children's Services |
| Neighbourhood Networks Contract Review | Good | Acceptable | Minor | Adult Social Care |
| Enforcement Agencies | Acceptable | Good | Minor | Strategy and Resources / Environment and Housing |
| Joint Venture – professional property and building services follow up | Acceptable | N/A | Minor | City Development |

| Other Risks | | | | |
|--|--|-------------|----------|-------------------------|
| Safeguarding – Disclosure and Barring Service Checks and Health Care Professions Council | Acceptable | Acceptable | Moderate | Strategy and Resources |
| Passenger Transport Contract Follow-up Review | Acceptable | Good | Moderate | Civic Enterprise Leeds |
| Arrangements for the implementation of the Care Act 2014 | Good | Substantial | Minor | Adult Social Care |
| Administration of Client Monies | Limited | Limited | Moderate | Adult Social Care |
| Information Governance and ICT | | | | |
| ICT Benefits Realisation Review: PSN Initiative Project and LLN Transition Project | Substantial | Good | Minor | Strategy and Resources |
| Bankline and LATIMA Business Application | Substantial | N/A | Minor | Strategy and Resources |
| FMS Business Application | Good | N/A | Minor | Strategy and Resources |
| Information Security Management System Requirements (ISO 27001:2013) | Assessment of LCC's current position against the Information Security Management System Standard ISO 27001:2013. | | | Strategy & Resources |
| Housing Partnerships Assurance Framework | | | | |
| Managed Stores | Acceptable | Acceptable | Minor | Environment and Housing |
| Void Management | Good | Acceptable | Minor | Environment and Housing |
| Requests for Information | Good | Acceptable | Minor | Environment and Housing |
| Schools | | | | |
| Primary School | Limited | Limited | N/A | Children's Services |
| Grants and Other Head of Internal Audit Assurances | | | | |
| St Matthews Primary School Voluntary Fund | Certification of account balances | | | Children's Services |
| Bramley St Peters School Voluntary Fund | Certification of account balances | | | Children's Services |
| Lord Mayors Charity Accounts | Independent examination of accounts | | | Strategy and Resources |

Section 2

SUMMARY OF AUDIT ACTIVITY AND KEY ISSUES

2.1 Key Financial Systems and Other Financial Risks

2.1.1 With the exception of the Community Care Finance (CCF) audit, all key financial systems work has been completed. Each of these reviews have resulted in good or substantial assurance opinions.

Community Care Finance (CCF)

2.1.2 The objective of the CCF audit is to provide assurance that payments made to providers of residential and nursing care are properly authorised, calculated and recorded within the payments system. The audit of CCF was delayed due to the implementation of a new IT system (Client Information System) and staffing commitments within CCF to ensure that the service is embedding the new arrangements and any issues are being appropriately resolved. The CCF audit is currently in progress alongside a review of the implementation of the Client Information System. The results of both of these reviews will be reported to the Committee at a future meeting.

Kirkgate Market follow up review

2.1.3 During the reporting period, we have undertaken a follow up review of Kirkgate Market. The purpose of the review was to assess progress against the recommendations made in a previous audit that had resulted in a limited assurance opinion. The key issues identified in the earlier audit were in respect of cash handling and income collection. The follow up audit has resulted in an improved opinion as the majority of the audit recommendations have been implemented and the risks associated with cash handling are no longer relevant as cash collection at the external market has now been discontinued, with all traders at the market now required to pay by card.

2.1.4 The audit found some issues, however, with the accuracy of invoicing at the external market, which would have caused a loss of income to the council had the errors not been identified. Assurance has been provided by the service that these cases have now been rectified and additional income sought where appropriate. We will follow up progress in this area during 2016/17 to ensure that the issues identified have been addressed.

2.2 Procurement and Spending Money Wisely

Spending Money Wisely Challenge

- 2.2.1 Spending money wisely is one of the council's five values and is about using the council's limited resources in the right way. The council's Contract Procedure Rules (CPRs) support staff in demonstrating that they have given due consideration to this value as CPRs set out the key responsibilities and actions that must be followed when undertaking procurements. The Spending Money Wisely Challenge reviews assess how well staff are complying with the requirements of CPRs and tests whether value for money can be evidenced for payments that are not linked to a contract.
- 2.2.2 It is important to note that the majority of the council's expenditure is made on-contract with assurance taken that the primary considerations of achieving value for money have been addressed during the procurement of the contract. The Spending Money Wisely Challenge reviews specifically target a restricted population of payments that are not linked to a contract.
- 2.2.3 The latest Spending Money Wisely Challenge included a sample of payments made by four directorates. We have previously reported limited assurance for three of the four directorates reviewed due to low levels of compliance with CPRs. The final of the four directorate reports was issued during this reporting period. The largest single reason for non-compliance with CPRs in our sample was that the supplier chosen was of a specialist nature or sole provider of the goods or services purchased. A direct appointment was made without the relevant written record or waiver to support the action.
- 2.2.4 The Corporate Governance and Audit Committee has previously requested copies of the individual audit reports that have been issued to directorates. Each of the four directorate reports, including their management action plans to address the issues identified have been circulated to the Committee. We will undertake further follow up work in this area over the coming year to assess progress on the implementation of our recommendations.

Professional property and building services joint venture review

- 2.2.5 In the Internal Audit Update Report 1st June to 31st July, we reported to the Committee that limited assurance was provided for compliance with the control environment in our review of the professional property and building services joint venture. We made a number of recommendations regarding the performance management regime and information flow and we have recently completed a follow up review to assess the progress made in these areas. The

follow up review has found that the recommended controls have recently been implemented or are in the process of being implemented, but have yet to become embedded. A further follow up review will be conducted later in the year to assess the level of compliance with the new controls and their effectiveness.

2.3 Other Risks

Administration of client monies

- 2.3.1 Following a visit to one of our area offices last year we identified weaknesses in the cash handling arrangements for clients for whom we are either an appointee or deputy. We highlighted that improvements were required to procedures, including spot checks to ensure that monies were fully accounted for, and to formalise guidance on the retention and storage of all accounting records, including receipts.
- 2.3.2 In our Update Report to the Committee in January 2016 we reported that a follow-up review was being undertaken at the area office and that testing had verified significant improvement in the evidencing of cash transfers between Leeds City Council staff and service users or their carer. We also advised that we would be undertaking a review of the cash handling process across other area offices.
- 2.3.3 We have now completed our review of the cash handling arrangements at the other area offices and the review has resulted in a limited assurance audit opinion. Weaknesses in receipting and evidencing the transfer of cash between staff and the service user means that we are unable to fully account for 12 cash withdrawals with a value of £5,328.36. The review also found that spot checks were not being evidenced to provide assurance that expected controls were being complied with.
- 2.3.4 The necessary action plans are now in place for the Service to provide an update to the Corporate Governance and Audit Committee on both the investigation of the discrepancies identified and the remedial actions around procedures and current compliance at the next meeting.

Safeguarding Disclosure and Barring Service (DBS) Checks and Health Care Professions Council (HCPC)

- 2.3.5 The scope of the audit was to provide assurance over the process for ensuring that all eligible staff have undergone the DBS and / or HCPC procedure in line with our policy requirements. Overall, an acceptable assurance opinion was provided as DBS checks had generally been completed in line with agreed policy and eligible employees were registered with the Health and Care Professions

Council. However, the audit found instances where evidence was not available to demonstrate that risk assessments had been completed where a disclosure had been made on the DBS check. We will undertake a follow up review of this element of the process during the next reporting period and provide an update to the Committee at the next Corporate Governance and Audit Committee meeting.

2.4 Schools

- 2.4.1 LCC maintained schools are selected for audit review on a risk basis. During the period, we have audited one school. This was undertaken at the request of the Headteacher to assist in improving controls in key areas. The review resulted in a limited assurance opinion, with improvements being required in respect of ensuring compliance with financial and contract procedure rules, checking procedures and the administration of the school voluntary fund. The school provided a robust response to the audit, with each of the recommendations being agreed for implementation.

2.5 Counter Fraud and Corruption

- 2.5.1 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. We have issued two such investigation reports during this period.
- 2.5.2 During the reporting period, an external fraudulent request to amend bank account details was received by the Central Payments team. The controls in place were successful in identifying this fraudulent request and no monies were lost.

Section 3

AUDIT PERFORMANCE 2016/17
At 31st May 2016

3.1 ENSURING QUALITY

- 3.1.1 Internal audit is committed to delivering a quality product to the highest professional standards that adds value and improves the council's operations. We actively monitor our performance in a number of areas and encourage feedback.
- 3.1.2 All our work is undertaken in accordance with our quality management system and we have been ISO accredited since 1998.
- 3.1.3 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's 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.
- 3.1.4 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.
- 3.1.5 Between 1st March to 31st May 2016, 10 completed Customer Satisfaction Questionnaires had been received. CSQs received between 1st April 2015 to 31st March 2016 have been included in the annual report for 2015/16.

Results from Customer Satisfaction Questionnaires for the period 1st March to 31st May 2016

| Question | Actual to date 1 st March to 31 st May 2016 - % Score 3 or above | Average Score 1 st March to 31 st May 2016 |
|--------------------------------------|---|--|
| Notice | 100% | 4.6 |
| Scope | 100% | 4.5 |
| Understanding | 100% | 4.6 |
| Efficiency | 100% | 4.6 |
| Consultation | 100% | 4.8 |
| Professional/Objective | 100% | 4.6 |
| Accuracy of Draft | 100% | 4.8 |
| Opportunity to comment | 100% | 4.7 |
| Final Report - Clarity & Conciseness | 100% | 4.7 |
| Final Report – Prompt | 100% | 4.2 |
| Recommendations | 100% | 4.5 |
| Added Value | 100% | 4.8 |
| Overall Average Score | | 4.6 |

3.2 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 3.2.1 The Public Sector Internal Audit Standards require that an external assessment of the internal audit function should be carried out at least once every five years. As previously reported to this Committee, our external assessment is due to be undertaken in October 2016. The proposed Terms of Reference for this assessment is attached below at Appendix A for review and approval by the Corporate Governance and Audit Committee.

Appendix A

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments.

It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Background Information

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

External Assessments

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor. This is the Section 151 Officer for LCC.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as Conforms, Partially Conforms or Does Not Conform to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should

be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain;
 - Relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
 - details of responsibilities, resources, structure and activities;
 - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be require
 - the completed self-assessment and supporting evidence; and
 - Obtain evidence of how quality is maintained and performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take 5 days in total.



Report author: Tim Pouncey
/Sonya McDonald
Tel: 0113 247 4227

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Review of the Anti-Money Laundering Policy

| | |
|--|---|
| 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. Money Laundering describes offences involving the integration of the proceeds of crime, or terrorist funds, into the mainstream economy. To ensure compliance with legislation, the council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.
2. The Anti-Money Laundering Policy is published on the intranet and sets out the procedures which must be followed to enable the council to comply with its legal obligations in seeking to prevent or identify money laundering.
3. Incorporating advice and guidance provided by Legal Services, the Anti- Money Laundering Policy is being reviewed and updated to ensure that it reflects the correct legislative and reporting arrangements.
4. The revised Anti-Money Laundering Policy is attached with this report at Appendix A.

Recommendations

5. Members are requested to note the contents of this report, and provide comment on the proposed Anti-Money Laundering Policy. 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.

1 Purpose of this report

- 1.1 To inform Corporate Governance and Audit Committee of the revisions and to provide an opportunity to comment on the proposals.

2 Background information

- 2.1 Money Laundering describes offences involving the integration of the proceeds of crime, or terrorist funds, into the mainstream economy. To ensure compliance with legislation, the council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.
- 2.2 Legislation concerning money laundering (the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007) has broadened the definition of money laundering and increased the range of activities caught by the statutory framework. As a result, the obligations impact on areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.
- 2.3 To ensure compliance with money laundering legislation, the council is required to:
- appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity;
 - implement a procedure to enable the reporting of suspicions of money laundering;
 - maintain client identification procedures in certain circumstances; and
 - maintain record keeping procedures.
- 2.4 The council's Anti-Money Laundering Policy is published on the intranet and sets out the procedures to be followed when reporting suspicions of money laundering activity to enable the council to comply with its legal obligations. The policy offers clear guidance on how to bring concerns to the attention of the MLRO.
- 2.5 The Terms of Reference of the Corporate Governance and Audit Committee establish the authority of the committee to:
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance
 - Review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management)

3 Main issues

- 3.1 The Anti-Money Laundering Policy is in place to set out appropriate and proportionate anti-money laundering safeguards and reporting arrangements. Internal Audit has reviewed the Anti-Money Laundering Policy with assistance

from Legal Services and updates have been proposed to reflect the prevailing legislative and reporting arrangements. No further material alterations have been made to the content or direction of the policy. The revised policy is attached with this report at Appendix A.

- 3.2 The purpose of the policy is to maintain the high standards of conduct which currently exist across the council by preventing or identifying money laundering. The policy sets out the procedures which must be followed when reporting suspicions of money laundering activity and covers all employees, agency workers and Members of the council.
- 3.3 To satisfy its obligations in respect of receiving and reporting suspected instances of money laundering, the council is required to nominate a Money Laundering Reporting Officer (MLRO). The officer nominated to receive disclosures about money laundering activity within the council is the Head of Audit, with the Principal Audit Managers authorised to deputise. The policy has been updated to reflect the reporting arrangements in place.
- 3.4 The policy has been revised to make the definitions and references clearer and more concise with the objective of making the key aims and requirements of the policy more accessible to the reader. Legislative references have been updated to reflect the transfer of functions from the Serious Organised Crime Agency (SOCA) to the National Crime Agency (NCA) in addition to incorporating the provisions of the Terrorism Act 2000, to which all of the council's employees and Members are subject. The Terrorism Act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism.
- 3.5 The council is obliged to implement effective and proportionate reporting, client identification and record keeping procedures to ensure that all instances of suspected money laundering activity are addressed appropriately. These sections of the policy have been reviewed and retained with no material alterations, thus ensuring that robust procedures remain in place and are clearly set out within the policy.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Through this report, Members of the Corporate Governance and Audit Committee have been informed of the policy revisions and provided with the opportunity to review and provide comment in accordance with the committee's authority to:
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance.
 - Review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management).

4.1.2 Training is available upon request from Legal Services regarding recognition and awareness of money laundering risks.

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and City Priorities

4.3.1 The Council takes a zero tolerance approach to fraud and corruption and the Anti-Money Laundering Policy is a key element of the policy framework.

4.4 Resources and value for money

4.4.1 There are no implications upon resources or value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 Updates to the policies take account of advice provided by Legal Services. The report does not require a key decision and is therefore not subject to call in.

4.6 Risk Management

4.6.1 There are no risk management implications

5 Conclusions

5.1 The review of the Anti-Money Laundering Policy has been undertaken to ensure that the policy is up to date and fit for purpose, offering clear, consistent and relevant guidance upon how to report any suspicions of money laundering activity. The revisions made to the policy will ensure that appropriate and proportionate anti-money laundering safeguards are in place that reflect current legislative and reporting arrangements.

6 Recommendations

6.1 Members are requested to note the contents of this report, and provide comment on the proposed Anti-Money Laundering Policy. 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.

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.

1.0 INTRODUCTION

1.1 Leeds City Council is committed to the highest standards of openness, probity and accountability. In line with this commitment, the council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

2.0 WHAT IS MONEY LAUNDERING

2.1 Money laundering describes offences involving the integration of the proceeds of crime, or terrorist funds, into the mainstream economy. The Proceeds of Crime Act 2002 makes it an offence to:

- conceal, disguise, convert, transfer or remove criminal property from the UK (section 327 of the Act); and/or
- enter into or become concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); and/or
- acquire, use or have possession of criminal property (section 329).

These are the primary money laundering offences and thus prohibited acts under the legislation.

2.2 Other offences apply to individuals or organisations acting in the “regulated sector” for the purposes of the Money Laundering Regulations 2007. The “regulated sector” includes anyone carrying out the following activities “by way of business”:

- Credit or financial services;
- Auditing, insolvency services, external accountancy and tax advice;
- Independent legal professionals
- Trust or company services;
- Estate agency services;
- High value dealing;
- Casino services.

2.3 The following offences apply to the “regulated sector”:

- failure to disclose one of the offences listed at 2.1 above, where there are reasonable grounds for suspicion; and/or
- tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation.

2.4 The council and its employees and Members are also subject to the full provisions of the Terrorism Act 2000. The Terrorism Act 2000 made it an offence to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism.

2.5 All employees and Members must be familiar with their responsibilities in respect of reporting any suspicions around money laundering activity, as serious criminal sanctions may be imposed for breaches of the legislation. This Policy sets out how any concerns should be raised.

3.0 SCOPE OF THE POLICY

3.1 This policy applies to all employees, agency workers and Members of the council.

3.2 The policy aims to maintain the high standards of conduct which currently exist within the council by preventing or identifying money laundering. The policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the council to comply with its legal obligations.

4.0 WHAT ARE THE OBLIGATIONS OF THE COUNCIL

4.1 To ensure compliance with money laundering legislation, the council is required to:

- appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees and Members of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and

- maintain record keeping procedures.

4.2 The following sections of this Policy provide further detail about the council's arrangements in respect of these requirements. All employees, agency workers and Members are required to comply with the reporting procedure set out within section 6.

5.0 THE MONEY LAUNDERING REPORTING OFFICER

5.1 The officer nominated to receive disclosures about money laundering activity within the council is the Head of Audit, who can be contacted at:

Head of Audit
Internal Audit
Civic Hall, Third Floor West
Leeds
LS1 1JF

Telephone: 0113 2474214

5.2 In the absence of the MLRO, the Principal Audit Managers are authorised to deputise and can be contacted at the above address or on 0113 2474153.

6.0 DISCLOSURE PROCEDURE

Reporting to the Money Laundering Reporting Officer

6.1 Where you know or suspect that money laundering activity is taking/ has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under sections 327 – 329 of the Act, you must disclose this as soon as practicable to the MLRO.

6.2 When disclosure is to be made to the MLRO the proforma report attached at Appendix 1 should be used. The report must include as much detail as possible, for example:

- Full details of the people involved (including yourself, if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc;
- Full details of the nature of their/your involvement;

- If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 – 329 of the Act, then your report must include all relevant details, as you will need consent from the National Crime Agency (NCA), via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given.
 - You should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline;
 - The types of money laundering activity involved. If possible, cite the section number(s) under which the report is being made e.g. a principal money laundering offence under section 327 – 329 of the Act.
 - The dates of such activities, including whether the transactions have happened, are ongoing or are imminent;
 - Where they took place;
 - How they were undertaken;
 - The (likely) amount of money/assets involved;
 - Why, exactly, you are suspicious – the NCA will require full reasons.
- 6.3 The report should include any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering. This will help to enable the MLRO to prepare a report to the NCA, where appropriate. You should also enclose copies of any relevant supporting documentation.
- 6.4 Once you have reported the matter to the MLRO you must follow any directions that the MLRO may give you. You must NOT make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.
- 6.5 Similarly, at no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, or any other third party, even after consent may have been given to a transaction

proceeding. Alerting the individual to the fact that a referral has been made may result in you committing the criminal offence of “tipping off.”

- 6.6 Do not, therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

Consideration of the disclosure by the Money Laundering Reporting Officer

- 6.7 Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. The MLRO should also advise you of the timescale within which they expect to respond to you. This should be within three days.
- 6.8 The MLRO will consider the report and any other available internal information that they think is relevant e.g.:
- reviewing other transaction patterns and volumes;
 - the length of any business relationship involved;
 - the number of transactions and linked one-off transactions;
 - any identification evidence held;

The MLRO will undertake such other reasonable enquiries that they think are appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.

- 6.9 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:
- there is actual or suspected money laundering taking place; or
 - there are reasonable grounds to know or suspect that is the case; and
 - whether they need to seek consent from the NCA for a particular transaction to proceed.

- 6.10 Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless they have a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).
- 6.11 In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to the NCA.
- 6.12 Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.
- 6.13 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- 6.14 All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 6.15 The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

7.0 CLIENT IDENTIFICATION

- 7.1 Please note that unlike the reporting procedure, the client identification procedure is only obligatory to those operating within the “regulated sector” (see paragraph 2.2 above). Where the Council is acting in any capacity which may fall within the “regulated sector” described at paragraph 2.2, and:
- a) forms an ongoing business relationship with a client; or
 - b) undertakes a one-off transaction involving payment by or to the client of €15,000 or more by any payment method; or
 - c) undertakes a series of linked one-off transactions involving total payment by or to the client(s) of €15,000 or more by any payment method; or

- d) it is known or suspected that a one-off transaction (or a series of them) involves money laundering or terrorist financing;

then this Client Identification Procedure must be followed before any business is undertaken for that client.

- 7.2 In the above circumstances, staff in the relevant unit of the Council must obtain satisfactory evidence of the identity of the prospective client, as soon as practicable after instructions are received (unless evidence of the client has already been obtained). This applies to existing clients, as well as new ones.
- 7.3 Once instructions to provide relevant business have been received, and it has been established that any of paragraphs 7.1 (a) to (d) apply, evidence of identity should be obtained as follows.

Internal Clients:

- 7.4 Client identification procedures are not required for internal clients.

External Clients:

- 7.5 For external clients of the council, appropriate evidence of identity, particularly from new clients or in relation to further instructions from clients not well known to you will be obtained. Such correspondence should then be placed on the council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
- 7.6 In all cases, the evidence should be retained for at least five years from the end of the business relationship or one-off transaction(s).
- 7.7 ***If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.***

8.0 RECORD KEEPING PROCEDURES

- 8.1 Each unit of the council conducting relevant business must maintain records of:
- client identification evidence obtained; and
 - details of all relevant business transactions carried out for clients

for at least five years. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

- 8.2 The precise nature of the records is not prescribed by law, however they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

9.0 OWNERSHIP, REVIEW AND MONITORING

- 9.1 This policy is owned by the Money Laundering Reporting Officer, who will ensure the accuracy and appropriateness of content and efficient operation by means of a periodic review.

10.0 CONCLUSION

- 10.1 This Policy has been written so as to enable the council to meet the legal requirements concerning anti-money laundering procedures in a way that is proportionate to the level of risk of contravening the legislation.
- 10.2 Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO.

CONFIDENTIAL

**REPORT TO MONEY LAUNDERING REPORTING OFFICER
RE: SUSPECTED MONEY LAUNDERING ACTIVITY**

To: Head of Audit, Money Laundering Reporting Officer
From: [Name of employee]
Department: [Post title and Service Area]
Ext / Tel No:

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:
[If a company / public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please include full details e.g. what, where, how. Continue on a separate sheet if necessary]

Nature of suspicions regarding such activity:

[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)? *[Please tick relevant box]*

Yes

No

If yes, please include details below:

Have you discussed your suspicions with anyone else? Yes No
[Please tick relevant box]

If yes, please provide details of who the discussions took place with and explain why such discussion was necessary:

Have you consulted any supervisory body guidance re: money laundering (e.g. the Law Society) Yes No
[Please tick relevant box]

If yes, please specify below:

Do you feel you have a reasonable justification for not disclosing the matter to the NCA? (e.g. are you a lawyer and wish to claim legal privilege?) Yes No
[Please tick relevant box]

If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act under sections 327-329 of the act and which requires appropriate consent from the NCA

Yes No

[Please tick relevant box]

If yes, please include details below:

Please set out below any other information you feel is relevant:

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment.

Signed:

Dated:



Report author: P Garnett

Tel: (0113) 395 1632

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

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 for the 2016/17 year. 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 draft work programme attached at Appendix 1 and determine whether any additional items need to be added to the work programme.

3.2 Members are asked to consider and note the provisional dates for meetings of the Committee in the 2016/17 municipal year; these have been set out in such a way as to enable the Committee to fulfil its functions and responsibilities in a reasonable and proportionate way.

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.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE
WORK PROGRAMME**

| 16th September 2016 | | |
|--|---|---|
| KPMG – Report to Those Charged With Governance | To receive a report giving the opinion on the financial statements, value for money conclusion and audit certificate. | Chief Officer (Financial Services) Doug Meeson |
| Approval of LCC Accounts | To receive a report requesting approval of the LCC Accounts | Chief Officer (Financial Services) Doug Meeson |
| Internal Audit Update Report | To receive the Internal Audit update report | (Acting Head Of Internal Audit) Sonya McDonald |
| 27th January 2017 | | |
| KPMG – Annual Audit Letter – including opinion | To receive a report certifying grants and returns and to consider the Audit Fee letter. | Chief Officer (Financial Services) Doug Meeson |
| KPMG – Certification of Grant Claims and Returns | To receive a report certifying grants and returns and to consider the Audit Fee letter. | Chief Officer (Financial Services) Doug Meeson |
| KPMG – Approval of External Audit Plan | To receive a report requesting approval of the external audit plan | Chief Officer (Financial Services) Doug Meeson |
| Customer Contact and Satisfaction Annual Report | To receive the annual customer contact and satisfaction annual report | Chief Officer (Customer Access) Lee Hemsworth |

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

| | | |
|--|--|--|
| Internal Audit Update Report | To receive the Internal Audit quarterly report | (Acting Head Of Internal Audit) Sonya McDonald |
| Treasury Management Annual Report | To receive the annually Treasury Management Report providing assurance on the processes used by the department | Chief Officer (Financial Services) Doug Meeson |
| 7th April 2017 | | |
| Internal Audit Plan | To receive a report informing the Committee of the Internal Audit Plan for 2013/14 | (Acting Head Of Internal Audit) Sonya McDonald |
| Internal Audit Update Report | To receive the Internal Audit quarterly report | (Acting Head Of Internal Audit) Sonya McDonald |
| Information Security Annual Report | To receive a report on the Council's Information Security arrangements. | (Chief Officer Strategy and Improvement) Mariana Pexton |
| Annual Business Continuity Report | To receive the annual report reviewing the Councils Business Continuity planning. | (Chief Officer Strategy and Improvement) Mariana Pexton |
| Annual Management Report (Incorporating Capital) 2016/17 | To receive the annual report reviewing the Financial Planning and Management Arrangements at the Council | Chief Officer (Financial Services) |