

Corporate Governance and Audit Committee

Friday, 27th January, 2017

PRESENT: Councillor P Grahame in the Chair
Councillors R Wood, J Bentley, P Harrand,
N Dawson, A Sobel and J Illingworth

35 Appeals Against Refusal of Inspection of Documents

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

36 Exempt Information - Possible Exclusion of the Press and Public

There were no items identified where it was considered necessary to exclude the press or public from the meeting due to the nature of the business to be considered.

37 Late Items

There were no late items

38 Declaration of Disclosable Pecuniary and Other Interests'

There were no declarations of disclosable pecuniary interest made at the meeting.

39 Apologies for Absence

Apologies for absence were received from: Councillor K Bruce, Councillor K Groves and Councillor G Hussain.

40 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 16th September 2016 were accepted as a true and correct record.

41 Matters Arising from the Minutes of the Previous Meeting

The Head of Governance and Scrutiny Support referred to the following issues under matters arising:

- (i) Minute No.29 – Approval of the Audited Statement of Accounts and KPMG Audit Report – With reference to Resolution (v) and the request that further information be circulated on the reasons for the significant changes in employee expenditures reported in some directorates. The Head of Governance and Scrutiny Support

reported that the requested information had been circulated to Members on 18th October 2016.

- (ii) Minute No.34 – Work Programme – With reference to Resolution (b) and the establishment of a cross-party Business Rates Working Group. The Head of Governance and Scrutiny Support confirmed that the Working Group had been established and that the recommendations arising from the working group's meeting with the Valuation Office Agency were before the Committee for agreement.

42 Business Rates - Working Group Recommendations

The City Solicitor submitted a report which set out the recommendations of a working group established by this Committee in September 2016 to consider Business Rates issues raised during the consideration of the 2015/16 Accounts – particularly the deterioration of the collection fund for business rates arising from the need to cover the costs for successful appeals against business rates.

The Head of Governance and Scrutiny Support together with the Business Rates Manager, Strategy and Resources presented the report and responded to Members' questions and queries.

In particular the working group wished to understand the reasons for the volatility and uncertainty

Detailed discussion ensued on the contents of the report which included:

- The Valuation Office Agency's (VOA) role
- Leeds City Council's Role
- Collaborative Working between the VOA and the Local Authority
- Business Rates Retention - The position in Leeds
- Business Rate Appeals
- Monitoring the financial impact of Appeals
- The New 2017 Ratings List and the Proposed Check, Challenge Appeal

The Chair confirmed the Committee's intention to continue to keep this matter under review and undertook to visit the Valuation Office Agency to discuss the Committee's continued interest.

RESOLVED – That Corporate Governance and Audit Committee approve the recommendations the Working Group on Business Rates, as follows:

- (i) **Recommendation No.1** - The Chief Officer (Financial Services) advises the Executive Board on the implications of the 2017 Ratings List early in 2017.
- (ii) **Recommendation No.2** - That the Chief Officer (Financial Services), provides a quarterly update to Executive Board on the status of

business rates appeals and the impact that successful appeals are having on the council's financial position.

- (iii) **Recommendation No.3** - That the Chief Officer (Financial Services), by way of the annual financial management assurance report to Corporate Governance and Audit Committee, keeps the committee advised of ways by which the local authority's exposure to financial risks arising from successful business rates appeals is being managed.
- (iv) That in addition to receiving the report set out in Recommendation No.3 the committee maintain a watching brief on governance issues associated with Business Rates, including continuing a dialogue with the Valuation Office Agency

43 Customer Contact and Satisfaction - Annual Report.

The Chief Officer, Customer Access submitted a report which provided the annual update on customer contact and customer satisfaction with Council Services. The report set out information and data covering the scale and scope of customer contact, levels of customer satisfaction with the provision of customer services and data pertaining to the council's formal compliments and complaints process.

Appended to the report was a copy of the following document:

- Compliments and Complaints – Date and Information covering the period November 2015 to October 2016 (Appendix 1 referred)

The Assistant Chief Executive / Lead Officer, Customer Access presented the report and responded to Members' questions and queries.

Detailed discussion ensued on the contents of the report which included:

- An overview of customer contact
- Customer Satisfaction for Customer Access
- Compliments and Complaints – Council Wide
- Actions taken in the past 12 months to improve customer access and satisfaction
- Community Hub Development
- Corporate Review of Compliments and Complaints
- Citizens and Communities Inquiry into Failure Demand
- Improving customer satisfaction with the Complaints process
- Actions to be taken in the next 12 months to improve customer access and satisfaction.

Members welcomed the report and the progress that had been made from the last Annual Report in presenting information in a comprehensive and informative way.

The issue of record management was raised, with Members suggesting that record management arrangements operated differently in each directorate and access to past records was sometimes difficult.

In responding the Head of Governance and Scrutiny Support said that the Annual Information Governance Assurance Report was due to be considered by this Committee in April 2017. Members requested that the issues raised by Members, including reviewing the records retention periods operating in each directorate be addressed within the report.

RESOLVED –

- (i) That the contents of the report be noted
- (ii) That the issues around record retention arrangements be included within the Annual Information Governance Assurance Report due to be considered by this Committee in April 2017

44 Treasury Management Governance Report 2016

The Deputy Chief Executive submitted a report which outlined the governance framework for the management of the Council's Treasury function.

The report also reviewed compliance with updated CIPFA guidance notes for practitioners on the Prudential Code of Capital Finance in Local Authorities issued in 2011, and provided assurance in respect of Lenders Option Borrowers Option loans used by the authority.

Appended to the report was a copy of the following documents:

- Treasury Management Governance Framework (Appendix A referred)
- Leeds City Council – Prudential Indicators 2016/17 – 2018/19 (Appendix B referred)

The Head of Finance provided assurance to the committee that Treasury Management:

- Operate within the governance framework established by the council and that all borrowing and investments had been undertaken in with the approved governance framework and were in line with the Treasury Management Policies and Practices.
- Comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management

RESOLVED –

- (i) To note that Treasury Management continue to adhere to its governance framework including the CIPFA Code of Practice,

the Prudential Code and revised CIPFA guidance notes issued in 2013.

- (ii) To note that all borrowing and investments undertaken had been compliant with the governance framework

45 KPMG Certification of Grants Report 2015/16

The Deputy Chief Executive submitted a report which sets out details of the outcomes of the work of auditors in respect of the certification of grant claims in 2015/16.

Appended to the report was a copy of the following documents:

- KPMG's Certification of Grant Claims and Returns report 2015/16 (Appendix A referred)
- 2015/16 Certification of Claims and Returns Action Plan (Appendix 1 referred)
- Follow up of 2014/15 Certification of Claims and Returns Recommendations (Appendix 2 referred)

The Principle Financial Manager together with Mr Richard Lee from KPMG presented the report and responded to Members' questions and queries.

Commenting on the report Mr Lee informed the committee that the audit followed a set of prescribed tests with a zero threshold in terms of claims qualified.

Mr Lee's presentation highlighted:

- The 2015/16 Housing Benefit Subsidy claim was the only grant KPMG were required to audit
- KPMG's audit of the Housing Benefit Subsidy claim had identified a number of very minor errors which increased the value of the claim by £2

The Chair thanked Mr Lee for his attendance and contribution.

RESOLVED –

- (i) To receive KPMG's Certification of Grant Claims and Returns report
- (ii) To note the conclusions and recommendations arising from their 2015/16 audit work

46 KPMG IT Audit 2015/16

The Deputy Chief Executive submitted a report which provided the results of KPMG's audit work in 2015/16 in respect of IT controls.

Appended to the report was a copy of the following documents:

- KPMG's IT Audit Report – November 2016 (Appendix A referred)

The Principle Financial Manager together with Mr Richard Lee from KPMG confirmed the recommendations arising from the Audit related to:

- The structure of passwords for the SAP (payroll) system and for the IT platforms on which the system and the FMS (financial management system) are held
- The structure for the authorisation of system amendments within SAP and FMS
- Administrator and privilege user accounts within SAP and FMS
- Review arrangements for user access levels within SAP

RESOLVED –

- (i) To receive KPMG's IT Audit Report
- (ii) To note the conclusions and recommendations arising from their 2015/16 audit work

47 KPMG Annual Audit Letter 2015/16

The Deputy Chief Executive submitted a report which provided a summary of the key external audit findings in respect of the 2015/16 financial year.

Appended to the report was a copy of the following document:

- KPMG's Annual Audit Letter 2015/16 (Appendix 1 referred)

The Principle Financial Manager together with Mr Richard Lee from KPMG presented the report and confirmed that during 2015/16:

- KPMG had concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources
- KPMG had issued an unqualified opinion on the 2015/16 Statement of Accounts, and concluded that the Council's whole of Governance Accounts return was consistent with the audited accounts
- KPMG's review of the council's Annual Governance Statement found that it was consistent with their understanding of the council
- KPMG's further audit work on the valuation of the Waste PFI scheme had concluded
- KPMG had started work on the on the External Audit Plan for 2016/17 and it was anticipated it would be the subject of a report at the next meeting of the Committee.

Members queried if there were any implications for the council's reserves as a consequence of successful Business Rate appeals.

In responding officers said Business Rate appeals would be monitored and reported on to Members in accordance with the recommendations agreed

RESOLVED -

- (i) To receive the Annual Audit Letter 2015/16
- (ii) To note the conclusions and recommendations arising from the 2015/16 external audit process

48 Procurement of External Auditor

The Deputy Chief Executive submitted a report which set out details of the changes to the arrangements for appointing the council's external auditor, and sought Members opinion on the options available, with a view to making a recommendation to Council to consider at the meeting to be held on 22nd February 2017.

Appended to the report was a copy of the following document:

- Public Sector Audit Appointments – Frequently Asked Questions (Appendix 1 referred)

The Head of Corporate Finance presented the report and highlighted:

- Changes to the arrangements for appointing the council's external auditor
- The need for an external auditor to be appointed by 31st December 2017
- The options available to the council in order to comply with its statutory obligations under section 7 of the Local Audit and Accountability Act 2014

After due consideration Members expressed the view that option 3 was the preferred option

RESOLVED - That option 3 (That the Council opts into the Local Government Association (LGA) established sector - led body for the appointment of external auditors following the close of the 2017/18 accounts) be the recommendation of this Committee to full Council

49 Internal Audit Update Report 1st September to 31st December 2016

The Deputy Chief Executive submitted a report which provided a summary of the Internal Audit activity for the period 1st September to 31st December 2016 and highlighted incidence of any significant control failings or weaknesses.

The Chief Officer (Audit and Investment) together the Acting Head of Internal Audit presented the report and responded to Members' questions and queries.

In the discussion that ensued the following issues were highlighted:

- Summary of Audit Activity and Key Issues
- Follow up Reviews
- Counter Fraud and Corruption
- Proactive Fraud
- Plan for 2016/17
- Internal Audit Performance

Referring to paragraph 3.2.25 of the submitted report and the successful prosecution of two individuals following fraudulent creditor payments at the Leeds Grand Theatre, Members queried if any monies had been recovered following the prosecutions.

In responding Acting Head of Internal Audit said investigations were ongoing and every effort was being made to retrieve any outstanding monies.

In paying tribute to the Audit Team, the Chair said some outstanding work had been carried out to identify fraudulent credit payments and to subsequently support the Police and Crown Prosecution case leading to the successful conviction.

RESOLVED –

- (i) To receive the Internal Audit Update Report covering the period 1st September to 31st December 2016.
- (ii) To note the work undertaken by Internal Audit during the period covered by the report
- (iii) To note there had been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period

50 Public Sector Internal Audit Standards - External Assessment of Leeds City Council Internal Audit

The Deputy Chief Executive submitted a report which provided the outcome of Nottingham City Council's assessment of the extent to which Internal Audit comply with the Public Sector Internal Audit Standards (PSIAS)

A copy of the final report prepared by Nottingham City Council – External Assessment of Leeds City Council Internal Audit dated November 2016, appeared at Appendix 1 of the submitted report

The Chief Officer (Audit and Investment) together with Mr John Slater, Group Auditor, and Nottingham City Council presented the report and responded to Members' questions and queries.

Mr Slater confirmed that Leeds City Council's Internal Audit Service conforms to the requirements of the PSIAS

Commenting on the report Mr Slater said that in carrying out the assessment, the Nottingham Review Team had been impressed with the professionalism and support of the LCC Audit Section.

In summing up the Chair commended the Audit Team on the results of the assessment and commented that the report was a great credit to the Internal Audit Team.

The Chair thanked Mr Slater for his attendance and contribution

RESOLVED –

- (i) To note that the Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards
- (ii) That further updates be prepared on the implementation of the recommendations of the external assessment

51 Work Programme

The City Solicitor submitted a report which notified Members of the Committee of the draft work programme for the 2017/18 Municipal Year. A copy of the draft work programme was attached to the report at Appendix 1.

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

RESOLVED –

- (i) That the contents of the work programme be noted.
- (ii) That the requested information in respect of record management arrangements would be included in the Annual Information Governance Assurance Report (7th April 2017)

52 Date and Time of Next Meeting

To note that the next meeting will take place on Friday, 7th April 2017 at 2.00pm in the Civic Hall, Leeds.