



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Friday, 27th January, 2017
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

Item No	Ward	Item Not Open		Page No
1			<p>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</p> <p>To consider any appeals in accordance with Procedure Rule 15.2 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</p> <ol style="list-style-type: none"> 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. 2 To consider whether or not to accept the officers recommendation in respect of the above information. 3 If so, to formally pass the following resolution:- <p>RESOLVED – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-</p>	

Item No	Ward	Item Not Open		Page No
3			<p>LATE ITEMS</p> <p>To identify items which have been admitted to the agenda by the Chair for consideration</p> <p>(The special circumstances shall be specified in the minutes)</p>	
4			<p>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</p> <p>To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13 -16 of the Members' Code of Conduct.</p>	
5			<p>APOLOGIES FOR ABSENCE</p> <p>To receive any apologies for absence</p>	
6			<p>MINUTES OF THE PREVIOUS MEETING</p> <p>To receive and approve the Minutes of the previous meeting held on 16th September 2016.</p> <p>(Copy attached)</p>	1 - 8
7			<p>BUSINESS RATES - WORKING GROUP RECOMMENDATIONS</p> <p>To consider a report by the Head of Governance and Scrutiny Support/ Business Rate Manager which presents recommendations for approval by Corporate Governance and Audit Committee following consideration of issues relating to Business Rates by a Working Group appointed by the Committee in September 2016.</p> <p>(Report attached)</p>	9 - 18

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8			<p>CUSTOMER CONTACT AND SATISFACTION - ANNUAL REPORT.</p> <p>To consider a report by the Chief Officer, Customer Access which provides an annual update on customer contact and customer satisfaction with Council services. The report provides 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.</p> <p>The report also provides a high-level update on actions taken in the past 12 months to improve access and customer satisfaction and outlines actions that have been agreed for the next 12 months to standardise processes across the council with regard to customer contact and satisfaction as a result of the recent internal audit report.</p> <p>(Report attached)</p>	19 - 38
9			<p>TREASURY MANAGEMENT GOVERNANCE REPORT 2016</p> <p>To consider a report of the Deputy Chief Executive which outlines the governance framework for the management of the Council's Treasury Management function.</p> <p>The report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2011.</p> <p>(Report attached)</p>	39 - 48

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10			KPMG CERTIFICATION OF GRANTS REPORT 2015/16 To consider a report by the Deputy Chief Executive sets of details of the outcomes of the work of auditors in respect of the certification of grant claims in 2015/16. (Report attached)	49 - 58
11			KPMG IT AUDIT 2015/16 To consider a report by the Deputy Chief Executive which provides the results of KPMG's audit work in 2015/16 in respect of IT controls. (Report attached)	59 - 72
12			KPMG ANNUAL AUDIT LETTER 2015/16 To consider a report by the Deputy Chief Executive which provides a summary of the key external audit findings in respect of the 2015/16 financial year. (Report attached)	73 - 84
13			PROCUREMENT OF EXTERNAL AUDITOR To consider a report by the Deputy Chief Executive which sets out details of the changes to the arrangements for appointing the council's external auditor, and to consider the options available, with a view to making a recommendation to Council to be consider at the meeting to be held on 22 nd February 2017. (Report attached)	85 - 106

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14			<p>INTERNAL AUDIT UPDATE REPORT 1ST SEPTEMBER TO 31ST DECEMBER 2016</p> <p>To consider a report by the Deputy Chief Executive which provides a summary of the Internal Audit activity for the period 1st September to 31st December 2016 and highlights the incidence of any significant control failings or weaknesses.</p> <p>(Report attached)</p>	107 - 122
15			<p>PUBLIC SECTOR INTERNAL AUDIT STANDARDS - EXTERNAL ASSESSMENT OF LEEDS CITY COUNCIL INTERNAL AUDIT</p> <p>To consider a report by the Deputy Chief Executive, which provides the outcome of Nottingham City Council's assessment of the extent to which Internal Audit comply with the Public Sector Internal Audit Standards (PSIAS)</p> <p>(Report attached)</p>	123 - 146
16			<p>WORK PROGRAMME</p> <p>To receive a report of the City Solicitor which notifies Members of the of the Committee's draft work programme for the 2016/17 year.</p> <p>(Report attached)</p>	147 - 150
17			<p>DATE AND TIME OF NEXT MEETING</p> <p>To note that the next meeting will take place on Friday 7th April 2017 at 2.00pm in the Civic Hall, Leeds.</p>	

Item No	Ward	Item Not Open		Page No
			<p data-bbox="676 181 991 219">Third Party Recording</p> <p data-bbox="676 255 1382 472">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 data-bbox="676 510 1310 584">Use of Recordings by Third Parties– code of practice</p> <ul style="list-style-type: none"> <li data-bbox="724 622 1401 840">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. <li data-bbox="724 878 1401 1205">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. 	

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Corporate Governance and Audit Committee

Friday, 16th September, 2016

PRESENT: Councillor P Grahame in the Chair

Councillors P Harrand, N Dawson, A Sobel,
J Illingworth, K Groves, G Hussain and
B Flynn

21 Appeals Against Refusal of Inspection of Documents

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

22 Exempt Information - Possible Exclusion of the Press and Public

The agenda contained no exempt information.

23 Late Items

No formal late items of business were added to the agenda, however prior to the meeting, the Committee had received a supplementary document in the form of revised pages 10, 13 and 21 of the KPMG report included within the "Approval of the Audited Statement of Accounts and KPMG Audit Report" (minute 28 refers).

24 Declaration of Disclosable Pecuniary and Other Interests'

No declarations were made.

25 Apologies

Apologies were received from Councillors K Bruce, J Bentley and R Wood. Councillor B Flynn attended the meeting as substitute for Councillor Wood.

26 Minutes - 24th June 2016

RESOLVED – That the minutes of the meeting held 24th June 2016 be approved.

27 Matters Arising

The Head of Governance Services provided updates on the following matters:

Minute No. 9 KPMG Interim Audit report and Technical Update - A 'web-link' was provided to Members by email on the 28th June 2016 enabling the Committee to access the details of spending over £500, following which, a briefing note detailing how members of the public can access the draft

Draft minutes to be approved at the meeting
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statement of accounts and draft annual governance statement was circulated to Members on the 13 July 2016 by email. It was additionally noted that a report on the agenda for today's meeting provided the Committee with further assurance concerning the Council's compliance with its duties under the Transparency Code.

Minute No.10 Publication of Draft Statement of Accounts 2015/16 - A briefing document was circulated to Committee Members in respect of Sundry debtors and non-housing capital receipts on the 13th July 2016 followed by a briefing document on the Gains and losses on the disposal of Assets on 22nd July 2016. In response to queries' raised, two reports were included within the agenda for today's meeting - arrangements for outstanding debt provision in respect of Housing Benefit overpayments; and the arrangements in respect of business rates.

Minute No.11 Internal Audit report and Opinion 2015/16 - A briefing note was circulated on the 4th August 2016 in relation to a Members' query concerning off-contract spend.

Minute No.12 KPMG Report – Corporate Risk Register Analysis - In response to queries raised at the last meeting, a report was included within the agenda for today's meeting to provide assurance that arrangements are in place to ensure the risks to the authority arising from the vote to leave the European Union are being managed.

Minute No.15 Annual Assurance Report on employment policies and procedures and employee conduct - Members had received further details of the appraisal rate on the 31st August 2016 – the completion rate being confirmed as 96.7% - currently a fall compared with last year (99.8%) although without outstanding appraisals having been 'chased up'.

Minute No. 17 Annual Governance Statement - Following the conclusion of the Value for Money work done by KPMG, and in line with the resolutions made by the Committee in June, the Chair had now signed the Annual Governance Statement and a copy had been circulated to all Members of the Committee.

Minute No.19 Review of the Anti-Money Laundering Policy - It was reported that the Chief Officer (Audit & Investment) took a delegated decision to approve the new Anti-Money Laundering Policy on 23rd August 2016

28 Sundry Debtors - Outstanding Housing Benefit Overpayments

The Chief Officer, Welfare and Benefits Services, presented a report providing information on how and why Housing Benefit overpayments occur. The report also provided information on the financial implications for the Council arising from Housing Benefit overpayments.

Following the meeting held 24th June 2016, the Committee received a briefing note presenting a breakdown of the £76.3m 'Other – Sundry Debtors' figure

which had been included in the draft statement of accounts. This identified the largest amount within this figure as £25.2m relating to Housing Benefit overpayments.

As at March 2016 the Council had £25.2m in outstanding Housing Benefit invoices. The latest statistics from DWP showing the levels of official error overpayments were included in the report. These statistics showed that Local Authorities had lower levels of Official Error than DWP itself. The various recovery methods which could be employed to recover the debt were described; 62% of outstanding debt is on some form of weekly arrangement to settle the outstanding account, in excess of £10M currently being accounted for by deduction from ongoing housing benefit or DWP related entitlement.

Members queried whether there were any instances where overpayments were collected directly from the landlord, rather than the tenant. The response was noted that, where housing benefit was paid directly to a private landlord, then recouping from the landlord was first choice. However, this was not an option in relation to Housing Leeds because the benefit is rebated directly to the rent account rather than paid to the landlord. In the case of these tenants, overpayments had to be recouped directly from the tenants, mainly by using deductions from other benefits including Housing Benefit. This process was complex and long and the Housing Benefit regulations set maximum amounts that can be recovered each week from Housing Benefit. Additionally, it was noted that for those in very difficult circumstances, the Council could choose not to recover the overpayment.

The impact of the roll-out of Universal Credit was considered in terms of the impact on the Bad Debt provision within the Council's budget, noting that Leeds was home to 70,000 claimants. The Committee also noted the indirect impact that an increase in Bad Debt provision within the Council's Budget could have on the Council's ability to fund services.

RESOLVED – To note the information contained in the submitted report and to recognise the assurance provided through regular audit, both internal and external, of the Benefits Service

29 Approval of the Audited Statement of Accounts and KPMG Audit Report

Further to minute 10 of the meeting held 24th June 2016 where the Committee considered the unaudited 2015/16 Statement of Accounts, the Deputy Chief Executive submitted a report seeking approval to the Council's final audited Statement of Accounts for 2015/16. The report also sought consideration of any material amendments identified by the Council or recommended by the auditors.

The report set out the key findings of the external audit undertaken by KPMG. A copy of the "Management Representation Letter" dated 16th September 2016 was attached as Appendix A of the report along with the full KPMG External Audit Report 2015/16. Prior to the meeting, the Committee received a supplementary pack containing revisions to pages 10,13 and 21 of the report from KPMG

The Principal Financial Manager presented the report and highlighted the following issues:

- KPMG anticipated being able to issue an unqualified opinion on the 2015/16 Statement of Accounts;
- There were no unadjusted audit differences affecting the financial statements;
- KPMG's review of the Annual Governance Statement had concluded that it was not misleading or inconsistent with information they were aware of from their audit of the financial statements;
- KPMG's review of Value For Money (VFM) arrangements had concluded that the Council had made proper arrangements to ensure it takes properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people
- Post balance sheet events and other adjustments had been recognised since the draft accounts were considered by the Committee as detailed below. These resulted in a revised increase in the Council's net worth for the year of £65m (in comparison to the £66m shown in the draft accounts) :
 - an increase in the level of the provision for appeals against business rates valuations to £23.2m
 - the levy payable to the Leeds City Region Pool had reduced by £0.3m
 - a small number of corrections to revaluations of the Council's fixed assets had been identified during the summer, resulting in an increase of £2.6m in General Fund assets and a £2.3m reduction in the value of HRA dwellings classed as "assets for sale"
 - no further post balance sheet events had occurred since the Committee papers were circulated
- The accounts had been certified by the Responsible Finance Officer as a true and fair view of the Council's financial position as at 31st March 2016.

Mr R Walker, KPMG attended the meeting and presented KPMG's report to the Committee, highlighting the overall positive opinions which they anticipated being able to issue. On the outstanding matter of the audit of the PFI valuation, he provided the Committee with assurance that this was not a material issue and would not delay completion of the Accounts.

Discussions considered the following matters:

- Business Rate risks - noting Central Government's assurance that Local Authorities without Devolution powers should not be disadvantaged
- Whether disclosure requirements for related party transactions are greater for those Members who are responsible for portfolios. It was confirmed that the related party disclosure requirements for the Statement of Accounts are the same for all Members
- The analysis of expenditure and income for individual directorates - in particular the comparison figures for employee expenses for the periods 2014/15 and 2015/16 – further information was requested to explain the differences

- The Council's reserves total – noting that consideration of financial resilience was included within the KPMG report. The Head of Corporate Finance reported that the level of council reserves was considered in the medium term financial strategy to be reported to Executive Board in September and thereafter by Full Council through the annual budget setting process
- Revaluation gains and losses on fixed assets and pensions liabilities

RESOLVED -

- i) To receive the report of the Council's external auditors on the 2015/16 accounts and to note that there are no unadjusted audit differences required to the accounts.
- ii) To approve the final audited 2015/16 Statement of Accounts and the Chair be authorised to sign the appropriate section within the Statement of Responsibilities on behalf of the Committee.
- iii) That on the basis of assurances received, the Chair be authorised to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
- iv) To note KPMG's Value For Money (VFM) conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- v) To request that further information be circulated on the reasons for the significant changes in employee expenditures reported in some directorates

(Councillor Flynn left the meeting at this point)

30 Local Transparency Code

The Deputy Chief Executive submitted a report containing information on the Local Government Transparency Code and how it impacts on the Council. The report provided the Committee with assurance that the Council is substantially compliant with the Code and can respond promptly to any future changes. Additionally, clarification was provided on how members of the public can access data and information highlighted in the Code.

Appendix 1 of the report set out what the Council published and indicated those areas where the Council is exceeding the requirements of the Code.

The Senior Information Governance Officer presented the report which illustrated that the Council does comply with 99% of the mandatory requirements and in some cases goes beyond the requirements.

In response to a Member query regarding whether there were any changes proposed to publication requirements and was the Council in a position to respond to them, officers responded that consultation was ongoing about making the system more robust rather than changes to specific datasets. During discussions it was noted that the opening of the Leeds Data Mill was a contributing factor in the reduction in the number of Freedom of Information Requests.

RESOLVED –

- a) To note the contents of the report and the comments made.
- b) To note the assurance provided in respect of the council's substantial compliance with the Code and in providing access to published data and information.

31 Review of Current Business Rates Issues

Further to minute 10b) of the meeting held 24th June 2016, the Deputy Chief Executive submitted a report on current business rates, in order to enable Members to fully understand the risk environment around business rates. The report also provided assurance that arrangements were in place to manage those risks where applicable. Additionally, the report provided an update on progress towards 100 per cent retention of business rates and discussed a number of related issues.

Attached at Appendix 1 was a briefing note which detailed the main identified issues and relevant assurances:

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

The Head of Corporate Finance presented the report, highlighting the forthcoming changes to the business rates regime; and responded to Members queries with the Business Rates Manager regarding:

- Business rates appeals outcomes and their impact on the local authority's finances
- The timetable for the national re-evaluation of commercial properties prior to the new Business Rates regime 2017 start date
- The impact of changing demographics and shopping trends on retail premises
- The fact that the Valuation Office Agency (VOA) is part of HMRC and is responsible for calculating rateable values. The VOA also makes the initial decision in respect of any appeals received against the rateable value. Where the VOA is unable to agree to a settlement with the ratepayer. The appeal is then determined by the Valuation Tribunal which is an independent body. The Local Authority has no role in this process.

The Committee was also directed to two consultations being undertaken by DCLG and summarised at Annex 6 entitled "Self Sufficient Local Government: 100% Business Rates Retention Summary of Questions" – and at Annexe 7 "Fair Funding review: Call for Evidence Summary of Questions".

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(Councillor G Hussain withdrew from the meeting for a short while at this point)

The Committee agreed with a suggestion for a small cross-party group of Committee Members (comprised of one member from each political group represented on the Committee) to meet with a representative of the local Leeds Valuation Office Agency to discuss these matters.

RESOLVED

- a) To note the issues and concerns identified in this report;
- b) To note the assurances provided that appropriate action is being taken to mitigate the risks arising where possible.

32 Risks and Opportunities Associated with the EU Referendum Result

Further to minute 12b) of the meeting held 24th June 2016, the Deputy Chief Executive submitted a report which provided assurance to the Committee that the council has effective arrangements in place to identify and manage the risks – including potential opportunities – associated with the vote to leave the EU.

The Principal Risk Management Officer presented the report and provided the Committee with re-assurance that arrangements were in place to identify and manage the risks and opportunities emerging as a consequence of the vote to leave the European Union with a focus on the areas of:

- Economic uncertainty
- Community Cohesion and Hate Crime
- Council's Financial Position
- The legal and regulatory framework

This drew on the report considered by the Executive Board on 27th July 2016 setting out the Council's initial response to the referendum on the UK's membership of the European Union. The Executive Board report was attached as Appendix 1.

RESOLVED – To note the assurances provided in this paper and the related reports referenced on the organisation's arrangements in place to manage the risks associated with June's EU referendum result.

33 Internal Audit Update Report 1 June to 31 August 2016

The Committee considered the report of the Deputy Chief Executive which provided a summary of the Internal Audit activity for the period 1st June to 31st August 2016 and highlighted the incidences of any significant control failings or weaknesses

The Chief Officer (Audit & Risk) presented the report and outlined that 34 reports had been issued during the previous three month period – of these, three resulted in a limited assurance opinion for all or part of the audit coverage. These three areas would be considered further and reported back

to Committee in due course. It was noted that no issues required Committee intervention. The Chief Officer (Audit & Risk) highlighted that the format of the report had been altered, following consultation with the Chair, such that it would be easier for the Committee to track follow-up audit work where the previous work had resulted in limited or no assurance.

Additionally, the outcome of consultation conducted with those service areas which had been audited was reported - with the audit team performance rated 4.7 out of 5.

During discussions the following comments were noted:

- Leeds Cycling Ambition would be considered for inclusion within the audit plan along with all the risks faced by the Council, as part of the risk based approach to audit planning
- The Chair asked if an annual report on the Council's procurement policies and practices should be added to the work programme as no annual assurance statement was currently available to the Committee on these aspects of the Council's governance arrangements. The Chief Officer (Audit & Risk) confirmed that the addition of such an annual assurance report to the work programme would provide additional assurance to the Committee in agreeing the Annual Governance Statement

The Committee welcomed the change of format to the report and

RESOLVED – To receive the Internal Audit Update Report covering the period from 1st June to 31st August 2016 and to note the work undertaken by Internal Audit during the period covered by the report.

34 Work Programme

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

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

In respect of the Internal Audit Peer Review, there was a request from Councillor Harrand for it be included within the scheduled interviews

RESOLVED –

- a) To note the contents of the work programme as attached at Appendix 1 of the report.
- b) To add the following additional items to the work programme:
 - The establishment of a cross-party Business Rates working group
 - An annual assurance report on the Procurement, Policies and Practices from the Chief Officer PPPU for 7th April 2017 Committee meeting

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: Business Rates – Working Group Recommendations

Are specific electoral wards affected? If yes, 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. During the consideration of the accounts for 2015/16, Corporate Governance and Audit Committee learned that considerable sums of public money are needed to cover costs of successful appeals against business rates. The position within the Collection Fund for business rates has 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.
2. The committee wished to understand the reasons for this volatility and uncertainty as it places considerable strain on both the Leeds City Council budget and the ability of the authority to plan over the short to medium term. The committee were also concerned that should that volatility continue when local authorities become responsible for retaining 100% of local business rates – that volatility and pressure on funding services and delivering outcomes for the people of Leeds will continue to increase.
3. A small working group was established by the committee, with representation from each political group serving on the committee, to explore these matters with Leeds City Council officers and representatives from the Valuation Office Agency.

Recommendations

Corporate Governance and Audit Committee is asked to agree to the recommendations made by the committee's Working Group on Business Rates, namely.

Recommendation 1

The Chief Officer (Financial Services) advises the Executive Board on the implications of the 2017 Ratings List early in 2017.

Recommendation 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.

Recommendation 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.

1. Purpose of this report

- 1.1 This report presents recommendations for approval by Corporate Governance and Audit Committee following consideration of issues relating to Business Rates by a Working Group appointed by the Committee in September 2016.

2. Background information

- 2.1 During the consideration of the accounts for 2015/16, Corporate Governance and Audit Committee learned that considerable sums of public money are needed to cover costs of successful appeals against business rates. The position within the Collection Fund for business rates has 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.
- 2.2 The committee wished to understand the reasons for this volatility and uncertainty as it places considerable strain on both the Leeds City Council budget and the ability of the authority to plan over the short to medium term. The committee were also concerned that should that volatility continue when local authorities become responsible for retaining 100% of local business rates – that volatility and pressure on funding services and delivering outcomes for the people of Leeds will continue to increase.
- 2.3 A small working group (Cllr Grahame, Cllr Harrand and Cllr J Bentley) was established by the committee to explore these matters with Leeds City Council officers and representatives from the Valuation Office Agency.
- 2.4 In particular the working group sought to understand:
- The roles, responsibilities and decision making processes of the Council and the Valuation Office Agency;
 - The risks to the Council's budget setting process associated with business rates retention;
 - Current and future trends in respect of business rate income and liabilities arising from business rate valuation appeals;
 - Any impact arising from the publication by the Valuation Office Agency of the new ratings list and of the new arrangements for the dealing with Business Rate appeals.
- 2.5 A meeting took place with the Valuation Office Agency on the 14th November 2016.

3. Main issues – The Working Group's Findings

The Valuation Office Agency's (VOA) role

- 3.1 The VOA told us that their fundamental role is to establish and maintain a 'Fair and Accurate' Ratings List which details the rateable value of each business/commercial entity. In doing this the VOA sets the rateable value of non-domestic properties. We now understand that the Ratings List is taken at a snap shot in time and is based in rental value as if premises were vacant and ready to let – there is no consideration permitted to the profitability or turnover of an individual business.

- 3.2 We have also been advised that the current Ratings List, which became operational in 2010, is based on circumstances that were prevalent in 2008 and that a new Ratings List, based on the prevailing circumstances in 2015, will be operational from April 2017.

Leeds City Council's Role

- 3.3 The role of the Council is to:

- Identify the party liable for business rates at each property in the rating list and issue accounts in accordance with the rateable value in the list.
- Ensure any relevant mandatory or discretionary reliefs are applied to the accounts.
- Take appropriate action to recover payment of the business rates due.
- Notify the Valuation Office of any potential additions to the rating list or amendments to existing entries.

Collaborative Working between the VOA and the Local Authority

- 3.4 We have been assured that the local Leeds VOA Office and the Local Authority work collaboratively to ensure that the Ratings Lists remains up-to-date – with Leeds City Council officers being commended by VOA colleagues for how proactive and professional they are in ensuring the list accurately reflects the circumstances within the City and that the rating list contains everything it should and at the correct rateable value.
- 3.5 We have been told that this collaboration typically includes the VOA giving notice to the local authority of appeals received and the local authority providing details relevant to the circumstances of appeals for the VOA to have regard to in determining those appeals, and routinely advising the VOA of new planning permissions in order that they can be reflected in the Ratings List.
- 3.6 The authority and the Rates Retention Team at the VOA are working closely in preparation of the move towards the planned 100% retention of Business Rates.

Business Rates Retention – The position in Leeds

- 3.7 Local authorities now act as both principal and agent, collecting business rates both to keep and to pass to central government.
- 3.8 Under the current business retention scheme, local authorities retain 50% of locally collected rates, including 50 per cent of any local growth, but also bear 50 per cent of the risk if business rates fall. So benefitting from growth but exposed to financial risks should business rates fall or fail to grow as expected or should market rents show a substantial reduction generating appeals. As a result they have needed to set aside funds to make provision to meet the cost of future repayments to ratepayers following successful appeals.

- 3.10 Business rate income is inherently volatile and the Council's financial position can be adversely affected by a range of factors. These include:
- Slower than forecast growth;
 - The impact of mandatory reliefs, particularly issues regarding charitable relief and empty rates relief;
 - Government policy – for example measures in the 2016 Budget, included permanently doubling Small Business Rate Relief (SBRR) and increasing thresholds, taking over 600,000 businesses out of business rates taxation and a further 250,000 out of the higher rate. As a result we have been advised that around a third of business ratepayers in Leeds will pay nothing at all.
 - Reductions in rateable value due to changes in local circumstances as determined by the Valuations Office Agency (VOA), for example the reductions applied to numerous retail properties in Leeds City Centre to reflect the impact of the opening of Trinity;
 - Reductions in rateable value arising as a result of a successful appeal in one part of the country, where the basis for appeal applies more widely. In these circumstances the VOA instructs billing authorities to reduce rateable values of relevant properties in their area, whether or not they have appealed. One such recent decision related to purpose-built medical centres;
 - Discounts applied due to flooding (although some grant income is received to partly offset this);
 - Empty property relief
 - But most significantly, reductions in rateable value due to appeals by ratepayers and their agents.
- 3.11 Local authorities are required by statute to account for council tax and business rates income in a 'Collection Fund', a separate accounting statement showing the amounts that each billing authority forecast it would collect and how that has been distributed. Leeds City Council complies with these requirements although forecasting the value of any appeals is complex and can't be wholly accurate due to factors beyond the council's control.
- 3.12 It is necessary to recognise in the budget the amount that is forecasted to be collected and any actual surplus or deficit is carried forward to the following year's budget: so a surplus one year will increase the amount of business rates income available to spend on services the following and vice versa. This approach is intended to give local authorities some time to plan for volatility in income rather than having to respond in year. By the end of this Parliament, the Government's proposals are that local authorities will be allowed to retain 100% of business rates, with an associated increase in exposure to business rate risk.
- 3.13 Prior to the introduction of the rates retention scheme all business rates collected were paid into a central pool and redistributed amongst all authorities on a needs based formula. Any change in rateable values had no direct financial impact on the authority.

- 3.14 Since April 2013 a 50% retention scheme has been in place. Leeds will collect £394 million in business rates in 2016/17, of this approximately £33 million is paid to central government as a 'tariff' – i.e. this is the amount by which the rates income exceeds the amount Leeds is deemed (by Central Government) to require. The authority can keep up to 50% of any growth. However it also has fund 50% of any loss in income due to appeals.

Business Rate Appeals

- 3.15 We have established that all ratepayers have the right to appeal to the VOA if they consider that their Rateable Value has been set too high at the time of the revaluation or if there has been "a material change of circumstance" that they consider should result in the Rateable Value of their property being reduced. Appeals can result in reductions being backdated to the point at which the valuation became effective. They can be made by a ratepayer, or their agent, at any time until a year after the next revaluation. Billing authorities have no right to present evidence at an appeal.
- 3.16 We have been learned about the basis upon which businesses can appeal the level of business rates that they are paying; we've also learned about the criteria used to assess and determine the grounds for Business Rate Appeals.
- 3.17 Businesses may appeal the business rates because; a) the compiled list is wrong; b) there is a material change in circumstances relating to the property; c) because of the outcome of a Land Tribunal Appeal; d) because the premises meets the criteria of an exemption; e) on receipt of a notice from the VOA advising of a change.
- 3.18 The VOA has told us that 28.4% of appeals in Yorkshire and the Humber are successful and these can be categorised into two main types.
- 3.19 The first involve reductions that are backdated to the time the valuation came into effect, i.e. the beginning of the current ratings lists. Fundamentally these are correcting valuation errors made by the VOA and have been termed "tone of the list" appeals.
- 3.20 Under the current list, these successful appeals result in backdated reductions to April 2010 with a refund stretching back seven years. Local authorities have to meet 50% of the costs of settling these backdated appeals back to 2010, despite the current business rates scheme only having being introduced in April 2013 so authorities had not shared the original benefit in full.
- 3.21 "Tone of the list" appeals are currently overshadowing Leeds' achievements in attracting growth to the city because of the 'gearing effect' of losses caused by backdating. If Leeds suffers a loss of £1 in RV from a successful appeal that is backdated to 1st April 2010 it must achieve approximately £6 in growth in RV to compensate for the cost.
- 3.22 The second main type of successful appeal is a "material change in circumstance" following a change in the specific building or the surrounding area. An example of this in Leeds is the reductions in RV following the opening of the Trinity shopping centre. The VOA consider that a city centre like Leeds has a certain capacity for retail and the provision of further retail space inevitably, therefore, leads to reductions in RV elsewhere in the city centre.

- 3.23 The working group does not support that view as this fails to take into account the unique 'regional capital' position of Leeds in both West Yorkshire and beyond. The working group does not support the premise that the city centre has either a fixed demand for retail space or a fixed supply capacity.
- 3.24 The working group understand that the consequent reductions in the RV of shops in the city centre are ongoing and are backdated to April 2013 when Trinity opened. These reductions include shops that have not lodged a formal proposal or appeal. We understand that the council currently holds provisions of £3.52 million, on the advice of the VOA, for all the properties that have not been dealt with by the VOA yet.
- 3.25 When Committee considered a report on Business Rates in September we were advised that at 31st July 2016 there were 6,194 outstanding appeals in Leeds, requiring the Council to set aside a provision of £23.38 million, funding that could otherwise be spent on services. When we met with the VOA in Mid-November we were advised that the number of appeals had fallen to around 5,500.
- 3.26 We asked the VOA whether the Council's role in securing improvements in infrastructure and public realm is a factor that is taken into account by them in the determination of appeals, particularly whether this helps them defend the Rateable Value which was initially established in the Ratings List. The VOA has been very clear. These are not factors which have an impact in the Appeal conclusions which they reach – there overriding consideration being what the market rent would command for that property if it were vacant to available to let.
- 3.27 We have learned that the local authority is required by statute to make provision within the budget/accounts to cover the cost of any successful Appeals – however there is no nationwide formulae to dictate what such provisions should be and nor is the Council able to make provision for income lost due to VOA decisions which are not appeals, as mentioned earlier it is not possible to reasonably estimate a provision accurately.
- 3.28 Collectively, local authorities have set aside around £1.75 billion in the past three years to cover the risk of backdated appeal. Successful appeals are most commonly backdated to the start of the current Valuation List, i.e. 1st April 2010, greatly increasing the in-year impact on local authorities – this being compounded due to the delay imposed by the then Chancellor of the Exchequer in reviewing and replacing the 2010 Ratings List. As a result of this backdating, the Council needs now around £6 of rateable value growth for every £1 of rateable value lost in 2016/17 just to maintain its level of income. Because of this there continues to be a key risk to the delivery of the council's objectives and the provision of services to vulnerable people.

Monitoring the financial impact of Appeals

- 3.29 We've been told that Business rates income is monitored in detail and reported to an officer Financial Performance Group on a monthly basis. That officer group then highlights any key issues that have emerged to Executive Board.
- 3.30 Our understanding is that since April 2013 the cost to the collection fund of settling appeals has been £90.11 million, Leeds' share of this cost being £44.16 million, although this has varied from £12.95 million in 2013-14 (Leeds' share £6.34 million) to £39.06 million in 2015-16 (Leeds' share £19.14 million). This volatility has further added to the difficulty of managing the costs of appeals in the city.

- 3.31 As a billing authority, Leeds City Council receives a refreshed list of all proposals and appeals lodged with the VOA and VTE every month. It is this list that forms the basis of the provision that the Council makes each year, holding back income for future repayments due to successful appeals. In line with accounting rules Leeds City Council only makes provisions for appeals and reductions in RV about which it has specific knowledge.
- 3.32 We've also been informed that both financial forecasting and the in-year budget are key risks which are monitored through the Council's Corporate Risk process.

The New 2017 Ratings List and the Proposed Check, Challenge Appeal System

- 3.33 We've been told that the Government has made attempts to reform information sharing between the VOA and billing authorities to help with the management of appeals risk but as yet this does not seem to have helped local government manage the risk they must carry.
- 3.34 The VOA informed us that the Government has recently proposed a major reform of the appeals system itself called "Check, Challenge, Appeal" to attempt to reduce the time lag between the lodging of an appeal and its outcome. The Government hopes that this will reduce the amount of backdated repayments that have to be made and has confirmed it will be introduced from April 2017.
- 3.35 The new procedure will involve three stages and the Government intends that if an appellant or the VOA do not introduce evidence at an early stage then they shall not be allowed to do so during the final appeals stage. The three stages are: -
- 3.36 Check – where the ratepayer can check the information held by the VOA and attempt to agree changes, or at least agree where they disagree.
- 3.37 Challenge – where the VOA and ratepayer, or agent, will enter into formal negotiations about the correct RV. The ratepayer will have to submit a proposed alternative RV with evidence and there will be penalties for providing misleading information. The VOA will respond only to a complete 'challenge'.
- 3.38 Appeal – where disagreement persists, the ratepayer will be able to submit an appeal to the VTE, but the right to submit new evidence will be restricted.
- 3.39 However we remain to be convinced that this system will alleviate the uncertainty and volatility and uncertainty in the council's finances caused by Appeals. Our understanding is that the first two stages alone will still be able to continue for up to 34 months before the formal appeal is to be lodged, and it cannot as yet be estimated what effect the new system will have on backdated appeals costs.
- 3.40 By way of comparison the properties subject to appeal in the city of Leeds as at 31st July 2016, only 275 (just over 6%) first entered the process more than 34 months ago.

Conclusions and Recommendations

- 3.42 The Gross Rateable Value for the city is now estimated to be £919 million, which is less than the value prior to the opening of Trinity Centre. Although there are now more rateable premises in the city, many have lower rateable values as a result of successful appeals or decisions by the VOA. We are concerned that even in relatively successful city with good growth and evidence of positive investment prospects that the ability of the authority to fund services is subject to the vagaries of a funding system that the council has little ability to influence or control.
- 3.43 As has been the case in the past, the 2017 revaluation is likely to bring a fresh wave of business rate appeals which will increase the financial volatility faced by councils further, particularly as the move towards a system based on 100% Business Rate retention will by definition expose the Council to greater volatility where appeals are successful.

Recommendation 1

The Chief Officer (Financial Services) advises the Executive Board on the implications of the 2017 Ratings List early in 2017.

- 3.44 Whilst satisfied that Business rates income and risks associated with volatility is monitored at an officer level - the working group's view is that further routine information should be available to Executive Members at Executive Board. We particularly feel that there is a gap in the in-year reporting of the financial risk of successful Appeals.

Recommendation 2

That the Chief Officer (Financial Services), provides a quarterly update on the status of business rates appeals and the impact that successful appeals are having on the council's financial position.

- 3.45 The working group also feel that the annual financial assurance report for Corporate Governance and Audit Committee also feature more information specific to managing business rate risks.

Recommendation 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.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The recommendations to the committee follow consideration of matters with the Valuation Office Agency, the Council's Business Rates Manager and following discussions with the Deputy Chief Executive
- 4.1.2 The Deputy Leader and the Deputy Chief Executive are supportive of the proposals and it is understood that the Chief Officer (Financial Services) will be responsible for implementing the recommendations.

4.2 Equality and diversity / cohesion and integration

4.2.1 There are no implications for this report.

4.3 Council policies and best council plan

4.3.1 There are no implications for this report.

4.4 Resources and value for money

4.4.1 There are no implications for this report.

4.5 Legal implications, access to information, and call-in

4.5.1 As a decision in relation to a Council function, this decision will not be eligible for Call In.

4.6 Risk management

4.6.1 This report seeks to address elements of the Council's Governance arrangements associated with the volatility of Business Rates income to the authority, particularly as a result of Business Rate appeals.

5. Recommendations

5.1 Corporate Governance and Audit Committee is asked to agree to the recommendations made by the committee's Working Group on Business Rates, namely.

Recommendation 1

The Chief Officer (Financial Services) advises the Executive Board on the implications of the 2017 Ratings List early in 2017.

Recommendation 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.

Recommendation 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.

6. Background documents¹

6.1 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 of the Chief Officer, Customer Access

Report to the Corporate Governance & Audit Committee

Date: 27 January 2017

Subject: Customer Contact and Satisfaction – Annual 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

- 1.1 This report provides the annual update on customer contact and satisfaction levels with customer services within the Council. The intention behind the report is to provide a range of information and data pertaining to customer access and satisfaction which together provides a more rounded picture of the Council's processes and procedures around customer contact.
- 1.2 Specifically the report covers:
 - An overview of customer contact through the Council's corporate customer services
 - A statement on customer satisfaction within customer services
 - An analysis of corporate compliments and complaints logged via the Council's Compliments and Complaints policy, including those that have progressed to the Ombudsman
 - High-level information pertaining to actions taken in the past 12 months by Customer Services to improve access and satisfaction levels; and
 - Actions to be taken in the next 12 months to address the issues raised as a result of the recent Internal Audit into customer contact and satisfaction.
- 1.3 Based on the information provided in this report, coupled with the recent findings from the Internal Audit report, it is the officer view that the council's processes and procedures around customer access and satisfaction are deemed adequate and acceptable. However there are areas where the processes and procedures can be improved to deliver a much more consistent experience for customers who contact

the Council. This will be addressed as part of the actions that are to be taken over the next 12 months to respond to the Internal Audit report and which are reported in para 3.35.

- 1.4 Further to this, it is important to note that Member enquiries are out of scope for this particular report given that there are no processes in place to monitor member enquiries consistently across the organisations. Again, the actions planned for the next 12 months to respond to the Internal Audit report do include the establishment of processes for monitoring the levels of Member enquiries so that this can be included within future reports.
- 1.5 It is felt that this is needed as it is recognised that there is a difference between the 'formal' data associated with contact and complaints as reported here and the experience of local Members who deal with issues raised with them by their constituents on a daily basis.

Recommendations

- 1.6 Corporate Governance and Audit Committee are asked to note the officer view that based on the information provided in this report, coupled with the recent findings from the Internal Audit report, the council's processes and procedures around customer access and satisfaction are working effectively. There is however further room for improvement and there is an agreed set of actions to be taken in the next 12 months to improve levels of assurance further.
- 1.7 Corporate Governance and Audit Committee are asked to consider any further information they wish to see added to future annual reports.

1 Purpose of this report

- 1.1 This report is intended to provide an annual update on customer contact and customer satisfaction with Council services. To do this, the report provides 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.
- 1.2 The report also provides a high-level update on actions taken in the past 12 months to improve access and customer satisfaction and outlines actions that have been agreed for the next 12 months to standardise processes across the council with regard to customer contact and satisfaction as a result of the recent internal audit report.
- 1.3 Based on the information provided in this report, coupled with the recent findings from the Internal Audit report, it is the officer view that the council's processes and procedures around customer access and satisfaction are working effectively. However there are areas where the processes and procedures can be improved to deliver a much more consistent experience for customers who contact the Council. This will be addressed as part of the actions that are to be taken over the next 12 months to respond to the Internal Audit report and which are reported in para 3.35.
- 1.4 It is important to note that Member enquiries are out of scope for this particular report given that there are no processes in place to monitor member enquiries consistently across the organisations. Again the actions planned for the next 12 months to respond to the Internal Audit report do include the establishment of processes for monitoring the levels of Member enquiries so that this can be included within future reports.

2 Background information

- 2.1 Corporate Governance and Audit Committee have received regular annual reports for a number of years on the Council's formal Compliments and Complaints policy and procedure.
- 2.2 At the previous Corporate Governance and Audit Committee meeting when the Compliments and Complaints report was discussed (early 2016), Members of the Committee felt that it did not fully address the areas they wished to receive information on and requested that future reports cover issues such as customer contact and levels of customer satisfaction alongside the compliments and complaints process. Member also asked for information pertaining to actions that had been taken during the previous 12 months to improve customer contact and satisfaction and any actions planned for the subsequent 12 months.
- 2.3 Alongside this, Members also requested an internal audit into customer contact and satisfaction to assess the level of assurance that could be given to existing processes and procedures. This report has taken account of the findings from this internal audit report and the actions identified have been built into the action plan for the next 12 months.

- 2.4 This report is therefore the first to bring this information together for consideration by the Corporate Governance and Audit Committee. To this end the report provides information on the following:
- An overview of customer contact through the Council's corporate customer services;
 - A statement on customer satisfaction with customer services;
 - An analysis of corporate compliments and complaints logged via the Council's Compliments and Complaints policy, including those that have progressed to Ombudsman;
 - High-level information pertaining to actions taken in the past 12 months by Customer Services to improve access and satisfaction levels; and
 - Actions to be taken in the next 12 months to address the issues raised as a result of the recent Internal Audit into customer contact and satisfaction.
- 2.5 As this is the first report of this nature presented to Corporate Governance and Audit Committee, any further information requests made as a result of consideration of this report will be met through in-year reports in 2017/18 and will be factored into future annual reports.

3 Main issues

- 3.1 To enable the organisation to have the assurance that the Council has robust policies and procedures in place to manage customer contact and satisfaction levels it requires an understanding of a range of factors which together can give an overall picture for Members to consider.
- 3.2 In this regard, this report seeks to provide this overall picture through the provision of data and information pertaining to:
- Levels of customer contact
 - Levels of customer satisfaction
 - Levels of formal compliments and complaints; and
 - Actions taken and planned to improve further the policies and procedures in place.
- 3.3 It is worth noting that the information and data provided for customer contact and customer satisfaction is based purely on that pertaining to Customer Services within the Council and cannot be deemed as wholly representative of all services within the Council. However, over 90% of customer contact with the Council is managed at the first point of contact through Customer Services, then it does provide the most appropriate proxy measure for the council as a whole.

An overview of Customer Contact

- 3.4 Customer Access provides customer service functions for over 90% of the Council's services through the following 'channels':
- Face to Face access through the Council's community hubs, one stop centres and community libraries.
 - Telephone access through the Council's corporate contact centre at Westgate.
 - Digital access through the Council's website, on-line transactions, e-mail and webchat.

3.5 Detailed below are the approximate 2016/17 YTD volumes and monthly averages for contacts received across all these channels:

Channel	16/17 Year To Date	Monthly Average
Face to Face Access		
Community Hubs / One Stop Centres	521,481	57,942
Community Libraries	1,644,431	182,715
Telephone Access		
Corporate Contact Centre	929,485	103,276
Digital Access		
Website	2,783,870	347,984
On-line transactions	1,231,394	153,924
E-Mail	82,365	9152
Webchat	14,568	1,821
Total	7,207,594	856,814

Please note the website data shows visits to Customer Service pages only for the period Apr-Nov.

3.6 As can be seen from the above table, to date in 2016/17, Customer Services has dealt with over 7 million customer contacts about Council Services through the full range of channels provided. This is a significant number of interactions with the citizens of Leeds on a daily basis; be that face to face, on the telephone or on-line.

Customer Satisfaction for Customer Access

3.7 Given the significant levels of customer contact being managed by Customer Services, levels of satisfaction with the service delivered by Customer Services is an important measure of whether the policies and procedures in place within the Council for managing customer contact are robust.

3.8 To this end, Customer Services has customer satisfaction surveys running on all of the contact channels outlined in para 3.5 and the results for each are highlighted below:

- For the past three years the average customer satisfaction score for telephone contact has been 98%.
- Likewise for Face to Face contact, the average customer satisfaction score for the past 3 years has been 99%.
- From October 2016 Customer Services introduced an email survey, and based on the first two months of data, email satisfaction is running at 71% with work already taking place to look at the comments made by customers and feed this into improving this service going forward.
- With regards to our digital access, we use a wide range of information from our customers to help us to continually improve our website and online services; for example
 - On the majority of our web pages there is a site survey questionnaire which asks customers if they found the information that they were looking for and also asks for any supporting comments. In December 2016, 56% of our customers who completed the survey said that they found the information that they required.
 - MyLeeds customers (Self-service portal for Highways and Environmental Services), receive a customer satisfaction questionnaire when their job

has been completed. The latest set of data shows that 59% of customers who have used their MyLeeds account to access Council services have been satisfied with the service they received.

- Via our Facebook and Twitter social media account we receive over 500 enquiries each month. We now have over 15,000 Facebook fans and 21,000 Twitter followers. Facebook's automated monitoring shows that we are 'very responsive'. To achieve this accolade we need to respond to customer enquiries within 15 minutes. We are not aware of any other council achieving this standard of service.
- As part of our programme of ongoing improvement, we have made changes to the way we work so that any new developments to the site are fully informed by customer research. This is achieved by having a number of our customers involved in reviewing and providing feedback on our website. Based on this and other feedback we will be making further refinements to the website content early in the New Year.

3.9 As the above information shows, levels of customer satisfaction are very high for telephone and face to face and relatively high for digital access. This slight dip for digital access is largely due to this being an emerging channel of choice and one where the Council lags behind companies who have invested significantly in their digital access channels. However this is an area where the Council has improved significantly over the past 3 years and will continue to do so as it provides much more digital and on-line capacity for accessing Council services.

3.10 Finally, it is worth highlighting that the satisfaction levels highlighted here are for the provision of customer services rather than satisfaction with the service provided. In this regard, and in the absence of any reported service level customer satisfaction data, we are reliant on the level of compliments and complaints made to the Council through the Council's published policy. The next section of the report provides details on the Council's performance in this regard.

Compliments and Complaints – Council Wide

3.11 Given the volumes associated with customer contact across the Council (see para 3.5), the levels of compliments and complaints within the Council are very low.

3.12 The table below provides a high level breakdown of the number of compliments, complaints (Stage 1 & 2) and Ombudsman Cases for all Council Directorates for the 12 months from October 2015 to November 2016.

Directorate	Compliments	Complaints (Stage 1)	Complaints (Stage 2)	Ombudsman Cases
Environment & Housing	380	2172	243	25
Citizens & Communities	297	413	40	17
City Development	206	314	28	33
Adult Social Care	504	275	105	14
Childrens Services	46	236	9	29
Strategy & Resources	196	105	17	0
Total	1,629	3,515	442	118

- 3.13 The following table shows the trend in compliments and complaints over the previous 4 years.

	12/13	13/14	14/15	15/16
Compliments	1031	1429	1196	2014
Stage 1 Complaint	5409	4795	4134	3792
Stage 2 Complaint	440	329	284	397
Ombudsman	88	145	129	135

- 3.14 As the data tables show the number of compliments has increased significantly in the four year to the end of 2015/16 with this year to-date showing continued strong levels. Likewise the number of complaints dealt with at Stage 1 has seen a significant drop in the four years to the end of March 2016, although results for the rolling 12 months to the end of November 2016 show similar levels to the 2015/16 levels.
- 3.15 Alternatively both the Stage 2 and Ombudsman cases have fluctuated in the four years to the end of March 2016, with both showing increase in 2015/16 on 2014/15 levels and again although comparison is not like for like, the rolling 12 months to the end of November 2016 do show increased levels of complaints at Stage 2 compared to previous years and relatively consistent levels of Ombudsman cases. Whilst it is unclear as to the reasons for this, there is an expectation that complaints will rise as a result of the impact of budget cuts on service delivery across the city.
- 3.16 With regard to the cases which have progressed to become Ombudsman cases in the period October 2015 to November 2016, the Ombudsman found fault with the Council in 20 cases; and of these 8 were awarded compensation which totalled over £30,000.
- 3.17 More detail on the compliments and complaints received by each Directorate is provided in Appendix 1 along with commentary as to trends identified with regards to complaints and any actions taken by the services to address these issues.

Actions taken in the previous 12 months to improve customer access and satisfaction

- 3.18 The above sections have highlighted a range of information and data pertaining to customer contact, satisfaction levels and compliments and complaints and together provide a more holistic picture of high levels of customer access with high levels of satisfaction and relatively low levels of complaints.
- 3.19 However we continue to take action to improve and have undertaken a number of improvements over the past 12 months which it is hoped further improve access to services and improve customer satisfaction. A number of these changes are highlighted below.

- 3.20 **Community Hub Developments.** The Council has embarked on an ambitious programme to develop community hubs which integrate services and deliver easy access to a range of Council services at the first point of contact. The initial three pathfinder Hub sites of Compton, Armley and St Georges Centre have been running since April 2014 and over the last 18 months have been joined by a number of other sites which were previously either One Stop Centres or community Libraries. These sites are now Hubs providing not only Customer Services, Libraries and Job Shops but are now also providing full front line services for Housing Leeds.
- 3.21 The full list of current community hubs across the city are:
- Middleton Hub
 - Armley Hub
 - Compton Centre
 - Reginald Centre
 - Moor Allerton Hub
 - Pudsey Hub
 - Yeadon Hub
 - Horsforth Hub
 - Kippax Hub
 - Rothwell Hub
- 3.22 Footfall at all of the above sites has increased since becoming Hubs due to the wider range of services customers can now access in these sites. Examples of increased footfall at some of these sites post-opening are; Horsforth 14%, Kippax 81%, Rothwell 30% and Yeadon 98%
- 3.23 Executive Board agreed further funding in June 2016 to develop the Hub network across the city and further sites are planned for delivery over the coming months with Bramley, Deacon House (Seacroft), Morley, Dewsbury Road, Headingley, Otley and Garforth all having works scheduled to deliver increased community facilities during 2017.
- 3.24 **Improving Customer Satisfaction with the Complaints process.** In quarter two of 2016/17 a pilot commenced in the Corporate Contact Centre looking at how we could improve the experience and outcomes for customers contacting the Council's Customer Relation (Complaints) Team.
- 3.25 Early results from this pilot are very encouraging and has led too;
- A reduction in call handling times on the customer relations line.
 - An improvement in the answer rate of the customer relations line.
 - A reduction in the number of complaints logged by email and the Customer Relations line.
 - An estimated saving of 1,200 hours on complaint investigation and response time for services.
- 3.26 These improvements have been achieved through the transfer of the customer relations telephone and email contacts to a small team of officers empowered to work with the customer and the relevant service to get resolution to the customers issue and stop a complaint being logged for investigation, resolution and response.

- 3.27 From the information captured by the Contact Centre over this three month period, it was identified that 293 potential complaints were prevented. This presents a saving of around 1,200 hours' investigation and response time for officers all over the Council, using a conservative estimate of 1 hour for administration and 3 hours for investigation and response for each complaint.
- 3.28 Further changes being made through the pilot are:
- Updating the complaints section of the Leeds City Council website to signpost customers to other forms of assistance rather than direct to formal complaint.
 - Assessing the viability of using webchat to further assist in guiding customers to information available on the website rather than submitting complaints.
 - Greater focus is now being given to looking at the root causes of complaints, in particular those resolved through calls to the Customer Relations line. Work is currently taking place to focus on the specific types of complaints received and the key services / areas identified that would benefit from process change/improvement.
 - Capturing the lessons learnt and best practice being carried out by the officers answering customer relations calls and emails to identify transferable skills and techniques which can be utilised by all officers when handling complaints.
- 3.29 Due to the success of this approach, the pilot has been extended to March 2017, so that sustainable processes can be put in place to ensure we continue to reduce the number of complaints in line with the findings from the pilot.
- 3.30 **Corporate Review of Compliments and Complaints.** A review is underway to look at how the compliments and complaints process across the whole Council can be delivered in a much more streamlined and efficient way. This review is part of the wider Support Services Review and has been tasked with identifying savings of £100-£150k in 2017/18 and 2018/19.
- 3.31 The review is still being undertaken with options being developed for discussion with Staff and Trade Union colleagues. The expectation is that there will be an integration of compliments and complaints teams across the Council to better reflect the new organisational structure and to bring the required consistency and process and procedure that is required and which has recently been highlighted by the Internal Audit report on Customer Access and satisfaction.
- 3.32 **Citizens and Communities Inquiry into Failure Demand.** The Citizens and Communities Scrutiny Board is in the process of undertaking an Inquiry into reducing failure demand within the corporate contact centre. This work is focussed on the high volume services – Housing and Council Tax and Benefits – and is looking at the causes of repeat contact to the Council for Council services. This work will help identify the factors which contribute to service failure and which often lead to increased complaints to the Council.
- 3.33 The outcomes from this inquiry (which is due to conclude at the end of February 2017), will help the authority address areas which are known to cause repeat contact to the Council and which therefore have a detrimental impact on customer contact and satisfaction.

Actions to be taken in the next 12 months to improve customer access and satisfaction

3.34 The following sections details the actions that are being taken in the next 12 months to further improve the processes and procedures associated with customer contact and satisfaction and increase levels of assurance from satisfactory to good. These actions have been identified through two review processes; the Internal Audit report on customer contact and satisfaction and the corporate review of compliments and complaints being undertaken as part of the broader Support Services Review.

3.35 Given this the actions being taken forward in the next 12 months to improve processes and procedures around customer contact and satisfaction are:

- To review the Compliments and Complaints Policy in line with the findings from the internal audit review and to ensure it is consistent with the new way of working developed as a result of the corporate review into compliments and complaints.
- To ensure that each Directorate has a Departmental Customer Relations Officer.
- To have clarity on roles and responsibilities for the enforcement of customer service standards and the investigation of complaints (including protocols for the independent investigation of complaints).
- To ensure the consistent roll-out to relevant officers of the 'Quality Complaints Handling and Investigation' training.
- Introduce a consistent approach to Quality Assurance to ensure that investigations and responses meet expected standards. This to include the development of best practice complaint response templates.
- To have clarity on any services where complaints are handled outside of the framework defined in the Compliments and Complaints policy and to maintain a register of processes and procedures in place for these exceptions.
- To consider the inclusion of Member enquiries and complaints into the processes and procedures around customer contact and satisfaction.
- To introduce a new set of corporate customer service standards to enable services to assess the overall approach to customer contact within their service
- Introduce robust monitoring and QA arrangements on performance data around customer contact and satisfaction (including compliments and complaints)
- Undertake an exercise to ascertain levels of customer satisfaction monitoring within services across the Council
- Agree processes for the reporting of performance associated with customer contact and satisfaction at service, directorate and organisational level and consider how a corporate measure of customer satisfaction can be developed and measured for the Best Council Plan.
- Introduce a more consistent IT system for the recording, management and monitoring of compliments and complaints across the Council.

3.36 These actions will be taken forward as part of the new ways of working which will be introduced as part of the corporate review of compliments and complaints. An update on each of the actions will be presented in the next annual report in January 2018.

3.37 The above information and data provides a more holistic view of the Council's approach to managing customer contact and satisfaction. Based on this and the findings from the Internal Audit report, it is the officer view that the council's processes and procedures around customer access and satisfaction are deemed adequate and acceptable.

3.38 However there are areas where the processes and procedures can be improved to deliver a much more consistent experience for customers who contact the Council and these will be addressed as part of the actions taken over the next 12 months as outlined above.

4 Corporate Considerations

Consultation and Engagement

4.1 This report is based on information and data obtained through the day to-day operation of customer services; through information obtained as a result of the Internal Audit review of customer contact and satisfaction and the corporate review of compliments and complaints. To this end, services have been involved and engaged through these processes and reviews.

Equality and Diversity / Cohesion and Integration

4.2 Previous reports have raised the risk that the council may be under-reporting and potentially not paying appropriate attention to complaints where there are equalities or alleged discrimination aspects, or where vulnerable people do not complain. The cross-council customer relations meetings discuss ways to make sure that we are learning from the very best practice.

Council policies and City Priorities

4.3 The Council's approach to customer contact and satisfaction has implications for council policies and city priorities in that it covers effectively all contact made to the Council. Therefore it is important that the actions identified above are taken to ensure that all services within the Council are able to provide excellent customer access and satisfaction given the impact this has on council priorities and city priorities.

Resources and value for money

4.4 Any feedback we receive from customers (be that through day to day contact, customer satisfaction surveys or compliments and complaints) is free feedback from our customers. We use this feedback to identify areas of improvement, to make our services more effective, in particular more joined up and responsive to people's individual needs and circumstances (see Appendix 1).

4.5 Each Ombudsman investigation and equality/discrimination complaint uses a case conference approach, the aims of which are to ensure that the investigation is i) thorough and timely, and ii) actions are put in place to prevent similar problems from occurring.

- 4.6 The cost of financial settlement and compensation is significantly outweighed by the amount of staff time spent administering and investigating complaints and it is true to say that the earlier faults or mistakes are identified and addressed, the more cost effective the process is. This is why the pilot approach outlined at para 3.24 to 3.29 is seen as an important development as it is focussed on tackling issues before they become complaints.

Legal Implications, Access to Information and Call In

- 4.7 There are no legal implications, Access to Information and Call in issues associated with this report.

Risk Management

- 4.8 There are significant risks of an organisational, reputational and service delivery nature, associated with poor customer contact and satisfaction levels and therefore it is important that actions are taken to ensure that the processes and procedures that are in place within the authority around customer contact and satisfaction are acceptable and appropriate so as to mitigate the risk to the organisation.
- 4.9 To this end the actions taken and to be taken (as outlined in section 3 of the report) are important in delivering further assurances on the processes and procedures in place to deliver excellent customer contact and satisfaction.
- 4.10 As stated above, given this, the actions identified will be taken forward as part of the corporate review of compliments and complaints within the Council and the risk and issues will be managed through a new council-wide Customer Access Chief Officer group.

5 Conclusions

- 5.1 This report has provided an update on customer contact and satisfaction levels with customer services within the Council. The intention behind the report has been to provide a range of information and data pertaining to customer access and satisfaction which together provides a more rounded picture of the Council's processes and procedures around customer contact.
- 5.2 Based on the information provided in the report, coupled with the recent findings from the Internal Audit report, it is the officer view that the council's processes and procedures around customer access and satisfaction are working effectively. However there are areas where the processes and procedures can be improved to deliver a much more consistent experience for customers who contact the Council.

6 Recommendations

- 6.1 Corporate Governance and Audit Committee are asked to note the officer view that based on the information provided in the report, coupled with the recent findings from the Internal Audit report, the council's processes and procedures around customer access and satisfaction are working effectively. There is however further room for improvement and there is an agreed set of actions to be taken in the next 12 months to improve levels of assurance further.

6.2 Corporate Governance and Audit Committee are asked to consider any further information they wish to see added to future annual reports.

Appendices

Appendix 1 – Data and commentary on compliments & complaints - Nov 2015 to Oct 2016

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APPENDIX 1

Compliments and Complaints – Date and Information

The following provides information on the numbers of compliments and complaints received, by directorate. The complaints are split to show the number of stage 1 and stage 2 complaints received and cases referred to the Local Governance Ombudsman are also included.

Following this information, commentary has been provided regarding any trends seen in complaints and what actions have been taken to mitigate future complaints.

Compliments	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	April 16	May 16	June 16	July 16	Aug 16	Sept 16	Oct 16	Total
Environment & Housing	48	32	24	35	32	32	30	41	26	37	30	13	380
Citizens & Communities	19	31	21	22	23	26	14	31	29	25	27	29	297
City Development	30	26	15	16	19	13	10	18	10	9	27	13	206
Adult Social Care	51	66	38	40	60	38	44	38	51	33	29	16	504
Children's Services	5	5	7	2	2	6	7	7	3	0	2	0	46
Strategy & Resources	16	17	14	18	30	11	14	7	20	17	21	11	196
Monthly Total	169	177	119	133	166	126	119	142	139	121	136	82	1,629

Stage 1 Complaints	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	April 16	May 16	June 16	July 16	Aug 16	Sept 16	Oct 16	Total
Environment & Housing	180	152	192	199	196	196	159	218	171	196	196	117	2,172
Citizens & Communities	35	23	38	31	43	49	49	41	21	30	27	26	413
City Development	19	19	24	31	32	38	28	22	28	21	26	26	314
Adult Social Care	22	27	22	24	17	24	17	25	24	24	25	24	275
Children's Services	25	12	14	22	20	29	24	21	29	17	23	0	236
Strategy & Resources	14	7	12	9	12	10	8	9	6	7	3	8	105
Monthly Total	295	240	302	316	320	346	285	336	279	295	300	201	3,515

Stage 2 Complaints	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	April 16	May 16	June 16	July 16	Aug 16	Sept 16	Oct 16	Total
Environment & Housing	15	12	25	26	25	25	18	24	23	15	24	11	243
Citizens & Communities	4	4	1	6	1	4	4	5	6	3	0	2	40
City Development	2	5	4	3	1	1	2	1	4	2	1	2	28
Adult Social Care	8	8	14	9	9	8	6	7	13	9	8	6	105
Children's Services	2	0	0	2	0	1	1	2	1	0	0	0	9
Strategy & Resources	1	3	1	1	2	3	2	0	3	0	0	1	17
Monthly Total	32	32	45	47	38	42	33	39	50	29	33	22	442

Ombudsman Cases	Nov 15	Dec 15	Jan 15	Feb 15	Mar 16	April 16	May 16	June 16	July 16	Aug 16	Sept 16	Oct 16	Total
Environment & Housing	2	4	0	1	0	3	5	2	0	2	5	1	25
Citizens & Communities	2	2	1	3	1	2	1	1	0	3	0	1	17
City Development	3	5	3	4	6	0	4	3	2	1	0	2	33
Adult Social Care	0	0	1	1	4	0	3	1	0	0	2	2	14
Children's Services	2	2	2	3	2	1	5	2	5	0	1	4	29
Strategy & Resources	0	0	0	0	0	0	0	0	0	0	0	0	0
Monthly Total	9	13	7	12	13	6	18	9	7	6	8	10	118

Environment & Housing

Key Issues

Parking services - Issues raised are about parking tickets and fines and issues around parking zones/passes for parking zones. The complaints are similar to last year in that they cover a broad range including problems with broken/faulty ticket machines taking money and not giving (appropriate) tickets, customers having received a parking fine where they do not believe they should have and complaints about receiving fines for driving in bus lanes. Some of these issues are dealt with as appeals rather than complaints as parking services have a specific "appeals" process. There have also been a few complaints regarding (none) receipt of parking permits for different residents zones leading to the receipt of repeated parking tickets.

Street cleansing issues - Complaints relate to leaf sweeping and other street cleansing issues. Complaints that have been raised include (seasonally) the lack of

leaf sweeping or the street sweeping machines attending at the wrong time of day. There have been fewer complaints about blocked gullies this year compared with last year however, this could be due to lower rainfall.

Learning points:

Environmental Action and Localities - The formal complaints are dealt with by managers across the service. Where the investigation of the complaint identifies a failing in a system or process this is used as an opportunity to review how work is done and make improvements

Citizens and Communities

Key Issues

Welfare and Benefits – The key trends and issues relating to welfare and benefits complaints continue to focus around the assessment of claims. With only 18 complaints made being fully upheld from November 2015 to October 2016, there has been on average 1.5 complaints being made relating to the assessment of claims each month. Whilst ideally no complaints should be received, over 200,000 assessments are made each year by the Leeds Benefits Service; in the context of this the number of complaints made where an error has occurred is low.

Additionally, as the assessment of benefits is means tested and as such 50 complaints received had been converted to service requests, as a right to appeal against the decision exists. These should not be logged under the complaints policy. Feedback has been given to reduce this incorrect logging of appeals as complaints and improvements have been seen.

Learning points:

Welfare and Benefits – Whilst the volume of complaints received by Welfare and Benefits is low, there will continue to be scope to learn and develop from errors identified. A strong feedback process is in place which links both front (contact centre) and back (processing) offices within Welfare and Benefits and continued, constructive feedback where errors are identified will mean that the numbers of complaints logged remains low.

City Development

Key Issues

Overall there has been a small rise in complaints during 2016, compared with 2015, but the increase cannot be attributed to any one issue.

As many of the complaints received within City Development are expressions of dissatisfaction with decisions properly arrived at under processes governed by various statutes, it is unlikely this type of complaint can be significantly reduced.

Although occasionally we do not meet the 15 working day deadline for responses we update customers throughout the complaints process.

Learning points:

We continue to raise awareness of the importance of excellent customer service and our aim is to provide a positive customer experience to all of our service users. The Directorate has developed a presentation/workshop, 'Building Brilliant Customer Serves', which has so far been rolled out to in excess of 120 staff in order to improve the quality of responses to. The workshops have been well received by staff and have improved the quality of responses to complaints which in turn has helped to significantly reduce the amount of complaints escalating to stage 2.

Adult Social Care

Key Issues

Assessment and Care Management. The most common cause for complaints across the service areas has been the quality of service provision citing delays in service provision; failure to provide a service; inconsistent home care service; poor standard of service and lack of social work support.

Learning points:

Assessment & Care Management - Contact Centre Customer Service Officers have had additional training on screening, eligibility and safeguarding and the Contact Centre now implements a two tier approach where safeguarding matters are identified and there is a process to escalate concerns to a registered professional within the Gateway. This enhances fact finding and allows for a registered professional to review the data and progress accordingly.

This process serves the dual purpose of providing an enhanced service delivery and to lower the risk of safeguarding concerns and requests for assessments not being addressed to and/or progressed in a timely manner.

Children's Social Care

Key Issues

Social Work Support - One of the most common complaints within children's services, is either a lack of social work support or the manner of social work support and a piece of work was carried out analysing the data behind these complaints. Social care intervention in people's lives is often unwelcome and so social workers can be criticised for either not being supportive enough or for being too intrusive.

Looked After Children - One of the main issues for looked after children is placement moves: wanting to move, not wanting to move or unhappy about how moves are handled.

Learning points:

Social Work Support – Learning from the analysis of data associated with complaints about social work support was used along with children's services commitment to restorative practice to refresh the complaints process.

To this end, more opportunities have been introduced to have a restorative conversation with complainants alongside the formal procedure. Initial awareness sessions have been held for managers, and independent investigating officers have been enrolled on restorative practice training with an aim to regain trust and restore the relationship. Training is planned for staff and managers around handling difficult conversations.

Looked After Children - Looked after children complaints are now treated with the utmost priority and the chief officer of social work and head of service for looked after children, are informed on day one. If possible they will intervene to resolve concerns swiftly.

In addition, the 'Tell Steve' initiative has been introduced as part of the 'looked after child promise'. This is a priority phone number/email (resourced by customer relations) where young people in local authority care can contact us if they feel we have not fulfilled any part of the promise with the assurance that we'll respond within 48 hours to their concerns. Learning from this is fed through the 'Have a voice' council to ensure that young people can see how we are responding to their feedback.

Customer relations regularly provides updates, including cases studies, to the practice improvement group, a meeting where senior management consider practice and undertake challenge to consider how services can be improved in a number of areas.

Strategy & Resources

Key Issues

Council Tax Recovery – The number of complaints made against Council Tax recovery over the period November 2015 to October 2016 has reduced from the number received over the period the between November 2014 to October 2015.

Notably, of the 45 complaints received, only 5 have been upheld. This ratio of upheld complaints to not upheld complaints is the lowest within Leeds City Council.

The reason for the very low number of upheld complaints is linked closely to the nature of work conducted by this office. Recovering money from customers is a task that is likely to generate emotional response from customers and it is this reaction that can lead to complaints being made.

The Council Tax Recovery office are required to work in a robust fashion to ensure that public funds are recovered, this at times will not be accepted in the manner it is intended by customers, however as can be seen by the low number of upheld complaints, very rarely has the action taken or advice provided by the Council Tax Recovery office or the bailiffs appointed by this office been incorrect or unwarranted.

Property Maintenance – Of the complaints received regarding blocked chutes, 3 were upheld; a further 5 were not upheld. The main issue identified around blocked rubbish chutes, is that whilst these are treated as an emergency repair and responded to within 24 hours, there have been occasions where demand for this service has been high and has led to shortages of staff to deal with these.

In relation to cleaning standards within communal areas, only 1 complaint had been upheld. The volumes received in 2015/16 are comparable to 2014/15, however these are now logged to strategy and resources, rather than Housing Leeds as they had been in the past.

Learning points:

Council Tax Recovery – There is no overriding trend identified where errors are being made or processes are incorrect, however the Council Tax Recovery office will continue to aim to assist customers and identify where referrals can be made to support agencies that may be able to help customers facing financial difficulties.

Property Maintenance – Whilst a challenging task to maintain standards within communal areas of Council properties, this is something that we manage successfully in the vast majority of cases. Based upon the footfall through these areas and number of residents using the waste disposal facilities the standards maintained are high and there are no concerns over this service.

One issue had been identified through the year where there had been unprecedented demand for clearance of chute blockages, with 38 reports in 24 hours. As a result of the stage 2 complaint that had been made over the delayed clearance of one particular blockage, additional staff were trained in blockage clearance to assist in any future occasions of unprecedented demand.

Report of Chief Officer Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: Treasury Management Governance Report 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. This annual report provides assurance that the Treasury Management (TM) function is operating within its governance framework.
2. TM fully complies with the current CIPFA Code of Practice, the Prudential Code and the revised guidance notes for practitioners issued in 2013.
3. Since the last update all borrowings and investments undertaken have been in accordance with the approved governance framework.
4. TM operates within the governance framework and also uses additional market intelligence and information gathered from a variety of sources. These sources have been integral to protecting the authority from undue risk in the financial and money markets.
5. Internal Audit has provided substantial assurance on the control environment and compliance in their 2015/16 audit report.

Recommendations

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

1. Purpose of this report

- 1.1 This annual report outlines the governance framework for the management of the Council's TM function. This report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2011.

2 Background information

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

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

- 2.2 TM is responsible for managing the Housing Revenue Account and General Fund long term debt which is in the region of £1.82bn and investments that currently stand at around £48m. It also manages the cash flow requirements of the Council.

3 Main issues

- 3.1 The role of the Corporate Governance and Audit Committee is to ensure that TM is adhering to and operating within its governance framework, as shown in Appendix A.
- 3.2 During the year TM has continued to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, Prudential Code (2011) and its guidance notes (2013). As such a strategy report was presented to Executive Board in February 2016 together with an update in November 2016. A further outturn report for the previous financial year was presented in June 2017.
- 3.3 During the year all borrowings and investments undertaken have been in accordance with the approved governance framework and are in line with the Treasury Management Policies and Practices.
- 3.4 In recent years the treasury strategy has taken advantage of the low short-term interest rates to fund its long term borrowing requirement. The Council's balance sheet strength has also been used to defray long term borrowing and avoid the risk associated with external investments. Whilst the Council's balance sheet remains strong there has been a greater use of cash balances since the strategy was written in February 2016. The Council's capital programme borrowing requirement has also increased to reflect the purchase of strategic assets. These investments are part of the Council's medium term financial strategy in providing greater revenue resilience.
- 3.5 The result of the above factors has resulted in the need to increase the Council's borrowing limits. Full Council agreed to the increase in the Prudential Borrowing Indicator limits for both the Operational Boundary by £180m and the Authorised limit by £200m in November 2016 as part of the 6 monthly treasury update.

- 3.6 The 2016 November Executive Board update report highlighted that the current borrowing strategy continues to fund the borrowing requirement of the capital programme from short dated loans and internal cash balances. There will come a point when rates begin to rise and more expensive longer dated funding will be required, even though this continues to be pushed further back as the economic outlook evolves. The strategy of deferring long term borrowing will increase the amount of debt that the Council is funding from short term loans and its balance sheet to a forecast £584m. This exposure is considered manageable given historical capital programme slippage, the strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile.
- 3.7 The Council's current long term debt of £1.476bn has an average maturity of just over 38 years if all debts run to maturity. Approximately 30% of the Council's debt has options for repayment, in the unlikely event that all these options were exercised at the next option date then the average maturity of long term debt would be lowered to just over 23 years. This compares favourably with the average maturity of the UK's government debt portfolio which remains at nearly 14 years. The existing profile of the Council's debt provides considerable certainty of funding costs with 55% or £818m of its debt maturing in periods greater than 10 years.
- 3.8 The Lenders Option Borrowers Option loans (LOBO's) that many Local Authorities issued up to 2007/08 have been reported negatively in the national news and on TV during 2016. These have been used successfully over the last 20 years to reduce the Councils interest costs in comparison to Public Works Loan Board (PWLB) funding available at the time. These loans also introduced short to medium term re-financing risk at a time when the average maturity of the Councils debt portfolio was becoming very long. In essence the standard LOBO's that the Council has issued are long dated loans, which after an initial fixed period, contain an option whereby the lender only can vary the rate of interest on the loan, but only at specific intervals. These periods are every 3, 5 or 6 years depending on the specific loan. If the lender exercises the option the Council then has the option to accept the change or to repay the loan without any penalty cost and repay the principal in full. No options have been exercised since 2008 and in the current economic climate these loans are essentially fixed.
- 3.9 The Council's total Capital Financing Requirement CFR i.e. the amount required to fund previous and current capital expenditure is circa £2bn and its assets are valued at over £4bn. The setting and monitoring of the capital programme seeks to ensure that we invest and maintain our assets and that it supports the best Council priorities of the Council. Treasury Management strategy determines the revenue affordability of the programme.
- 3.10 To mitigate against the exposure to rising interest rates the Council continues to explore forward funding options which will give the Council the ability to lock in future funding at current rates.
- 3.11 TM continues to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk. The strategy updates to Executive Board include an update on prudential indicators. TM is complying with all of CIPFA's prudential indicators as shown at Appendix B which was reported to Executive Board on 16th November 2016.

- 3.12 The operation of TM within its governance framework is also complemented by additional market intelligence and information gathered from a variety of sources. These tools involve:
- The use of real time market information on the financial and money markets in the UK, Europe, US and other major economies;
 - Discussions with market participants and brokers;
 - Use of treasury advisors to test market views;
 - Networking and sharing of information with Core Cities and West Yorkshire districts;
 - Attending market seminars providing technical and economic updates;
 - Daily market updates from financial institutions and brokers;
 - Thorough review of new financial products and how they fit within the governance structure; and
 - Undertaking continuing professional development and ensuring that appropriate training is undertaken.
- 3.13 Furthermore TM undertakes to respond to all treasury management consultations and influence the national governance framework, through attendance at regular core city meetings.
- 3.14 Internal Audit has completed its annual review of the TM function. This involved a risk based system audit of TM to evaluate and validate key systems controls. Two separate but linked reports were issued :-

Treasury Management & Bankline 2015/16

Key controls for a sample of investments, loans and interest payments for 2015/16 were reviewed. The Internal Audit report issued 20th May 2016 provided two opinions:

- Control Environment - Substantial Assurance (highest level). This provides assurances that there are minimal control weaknesses that present very low risk to the control environment.
- Compliance with the Control Environment - Substantial Assurance (highest level). This level indicates that the control environment has substantially operated as intended although some minor errors have been detected in the sample tested.

Bankline & LATIMA Systems Audit 2015/16

The purpose of the review was to provide assurance that appropriate controls are in place to ensure access to systems is appropriately controlled, data input is complete and accurate, data is correctly processed and the required outputs produced, systems include an audit trail and appropriate business continuity arrangements are in place. The Internal Audit report issued 20th May 2016 provided one opinion:

- Controls - Substantial Assurance (highest level). This provides assurances that there are minimal control weaknesses that present very low risk to the control environment.

- 3.15 The outcome of the 2016/17 internal audit will be reported as part of the Financial Planning and Management Arrangements 2017 report expected to be made to Committee in July 2017.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There has been no consultation in relation to this report

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and Best Council Plan

4.3.1 The execution of the Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan.

4.4 Resources and value for money

4.4.1 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 10th February 2016.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The legislative framework which governs TM is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury Management Code of Practice, the prudential code 2011 and revised guidance notes issued in 2013.

4.5.2 There are no legal or access to information issues arising from this report.

4.6 Risk Management

4.6.1 As set out in the Treasury Management Policy Statement, TM activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.

4.6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.

5 Conclusions

5.1 This report confirms that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2015/16 Internal Audit report gave TM substantial assurance on both control and compliance and a second 2015/16 Internal Audit report on critical business systems used in the provision of the Treasury Management operation gave substantial assurance on the controls within those systems.

6 Recommendations

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

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
↓ DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Officer delegation scheme (Executive Functions)	Deputy Chief Executive	Making arrangements for the proper administration of the authority's financial affairs	
Directors delegation under Articles, Specific delegations of the Deputy Chief Executive 12.4 Page 10	Discharged through Chief Officer Financial Services	Making arrangements for the proper administration of the authority's financial affairs (includes S151 responsibilities as his deputy)	
Executive Functions Specific Delegations Page 24 (d) Treasury Management	To Chief Officer Financial Services	The provision of financial services, including treasury management (encompassing the making of payments and borrowing of loans)	
Miscellaneous Functions - Financial Regulation 20: Treasury Management Page 32	Function delegated to Chief Officer (Financial Services) with the power to sub delegate to the Chief Officer (Audit and Investments)	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements	

↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK

POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Chief Off. Audit & Investment Principal Financial Manager Senior Treasury Manager Assistant Finance Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code Guidance Notes	Principal Financial Manager Senior Treasury Manager Assistant Finance Manager	Ensure compliance and that any changes are reflected in the operating framework.

Leeds City Council - Prudential Indicators 2016/17 - 2018/19

No.	PRUDENTIAL INDICATOR	2016/17	2017/18	2018/19
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
1	Ratio of Financing Costs to Net Revenue Stream General Fund - Excluding DSG (Note1)	13.68%	16.68%	18.07%
2	HRA	10.58%	11.35%	11.44%
3	Impact of Unsupported Borrowing on Council Tax & Housing Rents increase in council tax B7(band D, per annum) (Note 2)	£ . P 16.31	£ . P 58.00	£ . P 89.51
4	increase in housing rent per week	0.03	0.33	0.69
5	Net Borrowing and the capital financing requirement (Note 3)	OK	OK	OK
6	Estimate of total capital expenditure Non HRA	302,237	237,217	141,962
7	HRA	139,269	129,693	96,036
	TOTAL	441,506	366,910	237,998
8	Capital Financing Requirement (as at 31 March) Non HRA	£'000 1,846,732	£'000 1,923,885	£'000 1,944,362
9	HRA	825,380	849,412	843,538
	TOTAL	2,672,112	2,773,297	2,787,900
9a	Limit of HRA Indebtedness as implemented under self financing	725,327	725,327	725,327

No.	PRUDENTIAL INDICATOR	2016/17	2017/18	2018/19
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS		£'000	£'000	£'000
10	Authorised limit for external debt - (Note 5) borrowing other long term liabilities TOTAL	2,100,000 760,000 2,860,000	2,100,000 740,000 2,840,000	2,100,000 720,000 2,820,000
11	Operational boundary - (Note 5) borrowing other long term liabilities TOTAL	1,930,000 740,000 2,670,000	1,970,000 720,000 2,690,000	2,010,000 700,000 2,710,000
14	Upper limit for fixed interest rate exposure expressed as either:- Net principal re fixed rate borrowing / investments OR:- Net interest re fixed rate borrowing / investments	115%	115%	115%
15	Upper limit for variable rate exposure expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%
17	Upper limit for total principal sums invested for over 364 days (Note 5) (per maturity date)	150,000	150,000	150,000
18	Net Debt as a percentage of Gross debt	98.5%	99.6%	99.6%

16	Maturity structure of fixed rate borrowing as at 31/03/2016	Lower Limit	Cumulative Upper Limit	Projected 31/03/2017
	under 12 months	0%	15%	0.00%
	12 months and within 24 months	0%	20%	13.56%
	24 months and within 5 years	0%	35%	19.24%
	5 years and within 10 years	0%	40%	9.24%
	10 years and within 20 years			1.77%
	20 years and within 30 years			0.00%
	30 years and within 40 years	25%	90%	34.13%
	40 years and within 50 years			22.07%
	50 years and above			0.00%
				100%

otes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.
- The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.
- In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003, and the revised code in February 2010 and 2012



Report author: Mary Hasnip
Tel: x74722

Report of The Deputy Chief Executive
Report to Corporate Governance and Audit Committee
Date: 27th January 2017
Subject: KPMG Certification of Grants Report 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. The number of grant claims which a council's appointed auditors are required to audit has fallen over recent years, and for 2015/16 the Housing Benefit Subsidy claim was the only grant claim that they were required to audit.
2. KPMG's audit of the Housing Benefit Subsidy claim identified a number of minor errors, as a result of which KPMG have qualified the claim and requested corrections. This is in line with the outcome in previous years.
3. There are also a number of minor grants each year for which the council is required by the awarding body to arrange for an external audit. All such grant claims during the year have been certified without adjustment.

Recommendations

4. Members are asked to receive KPMG's Certification of Grant Claims and Returns report and note the conclusions and recommendations arising from their 2015/16 audit work.

1 Purpose of this report

- 1.1 To inform members on the outcomes of the work of auditors in respect of the certification of grant claims in 2015/16.

2 Background information

- 2.1 Each year the Government determines which grant claims require audit certification by a council's appointed auditors. For 2015/16, the only such grant claim was the Housing Benefit Subsidy claim.
- 2.2 In addition the Council is required to arrange independent audits of a number of grants requested directly by the granting body. Audit firms are invited to tender for this work on a grant-by-grant basis.

3 Main issues

- 3.1 The attached report highlights the audit issues identified by KPMG in respect of the 2015/16 Housing Benefit Subsidy grant claim.
- 3.2 As has been the case in previous years, KPMG have qualified the Housing Benefit Subsidy claim due to minor errors. Although no further errors of the type highlighted in 2014/15 were identified, minor errors of a different type were found during the 2015/16 audit. The net impact of these was minimal, increasing the value of the claim by £2. KPMG have made one recommendation as a result of their findings, which officers in the Welfare and Benefits service will address in order to try to minimise future errors.
- 3.3 In addition to the above, during 2015/16 the Council invited tenders for the audit of a number of other grants not covered by the appointed auditor role. To date, all such completed audits have been certified without adjustment.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no direct implications for equality, diversity, cohesion and integration arising from this report.

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. There are no implications for council policies arising from the report.

4.4 Resources and value for money

- 4.4.1 Members are asked to note the estimated KPMG audit fee of £15.9k for certification of grants and returns for the financial year 2015/16.

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

- 4.6.1 All recommendations contained within the Certification of Grants and Returns 2015/16 report have been considered and appropriate actions agreed.

5 Conclusions

- 5.1 All grant claims and returns have been successfully completed and final approved claims submitted to the relevant granting organisation.
- 5.2 KPMG's audit work identified a number of minor errors in the Housing Benefit Subsidy claim which required qualification and amendment.

6 Recommendations

- 6.1 Members are asked to receive KPMG's report on the Certification of Grant Claims and Returns and to note the conclusions and recommendations arising from their audit work.

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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Our ref Leeds/ben01/1516

Contact Jerri Lewis
0161 618 7359

6 January 2017

Dear Alan,

Leeds City Council - Certification of claims and returns - annual report 2015/16

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £281.7 million, and we completed our work and certified the claim on 25th November 2016.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

There were 3 observations reported in the qualification letter covering 5 claims and a further 4 issues which led to qualification and amendment of the claim; these were mainly attributable to input errors. The impact on subsidy of the errors, however, was minimal. The total impact of the amendments was to slightly increase the total amount claimed by £2 and the final extrapolated amount for unadjusted items, was a potential reduction in cell 103 of (£113), with corresponding increase in cell 113, LA error overpayments.

The issues identified in prior years were not reported again this year and compared to the 2014/15 claim there were different types of errors found this year and a similar number of amendments to individual cells in the claim were made, but as in 2014/15, most issues were minor with limited impact. On this basis we have only included one recommendation in relation the calculation of claimants' earned income included in benefit calculations. This issue formed the basis of the extrapolation in the qualification letter.

As above, the most noteworthy matter related to the incorrect calculation of earned income. We found no cases where the income had been completely excluded in error but testing identified errors resulting in both the overpayment and underpayment of benefit in separate cases. Whilst this had a small impact on individual cases the impact of extrapolating the errors found across the population results in the potential reduction in cell 103 of (£113), with corresponding increase in cell 113, as outlined above.

Other items adjusted for in the claim were due to a minor variance identified between the claim form and the final subsidy report from the housing benefit system and a specific error relating to a case where a change in rent had not been backdated correctly as a result of the correct effective date not having been entered. With regards to the rent error we tested the full population of cases with the same attributes to fully quantify the error (£18) and amended the claim. This impacted cells 102 and 113 of the claim.

In our 2014/15 Certification Annual Report we raised 1 recommendation relating to the provision of training updates to staff in the checking of changes in Working Tax Credits and Child Tax Credits when processing adjustments to claims is appropriate. In 2015/16 training was provided and we did not identify the same error this year. However, another finding relating to working tax credits was reported as an observation in the qualification letter relating to one case where the working tax credit had not been discontinued from the correct date resulting in an underpayment of benefit.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16 of £15.9k. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £23.6k. The 2014/15 fee included an

additional fee of £1.5k to take account of additional work required on the benefits claim given the issues identified in the claim and qualification letter.

Yours sincerely



Timothy Cutler

Engagement Lead

Appendix 1 – 2015/16 Certification of Claims and Returns Action Plan

Priority rating for recommendations			
①	Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	②	Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
		③	Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
1	Income Miscalculation	<p>Suggestions for improvement include:</p> <ol style="list-style-type: none"> The continued review of assessors' work should focus on the treatment of earned income identified during the certification process; and Conduct refresher training for assessors in the calculation of earned income. 	①	Checks are already in place with regards to accuracy of input. It is further noted that the introduction of Wider Use Of Real Time Information (WuRTI) which is scheduled to be introduced in 2017/18 will mean that earned income details will be received in a standardised format, which will make their use more straightforward and reduce the risk of error.

Appendix 2 – Follow up of 2014/15 Certification of Claims and Returns Recommendations

Number	Prior year recommendation	Priority	2015/16 Comment
1	<p>WTC/ CTC updates not being applied correctly</p> <p>The Authority should assess whether a training update or reminder of the process for checking changes in WTC and CTC when processing adjustments to claims is appropriate.</p>	②	Post-audit review training was provided to staff during 2015/16 and we did not identify the same error in 2015/16.

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Timothy Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Report author: Mary Hasnip
Tel: x74722

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: KPMG IT Audit 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. As part of their work on the Council's overall control environment each year, KPMG's IT specialists carry out audit work on the council's IT controls. The results of this work are usually included with the outcome of their interim audit, but due to the timing of the work they are presented this year in a separate report. However the overall conclusions were included in the ISA 260 report presented at the September meeting of the committee.
2. The IT audit concluded that overall IT controls were effective, and made some recommendations on specific issues.

Recommendations

3. Members are asked to receive KPMG's IT Audit Report and note the conclusions and recommendations arising from their 2015/16 audit work.

1 Purpose of this report

- 1.1 To inform members of the results of KPMG's audit work in 2015/16 in respect of IT controls.

2 Background information

- 2.1 Each year, KPMG carry out an audit of IT controls as part of their review of the Council's overall control environment. The results of this work are usually reported with the outcome of their interim audit, but due to the timing of the work they are presented this year in a separate report. However the overall conclusions of the IT audit were included in the ISA 260 report which was presented to the committee in September.

3 Main issues

- 3.1 In their ISA260 report presented to this committee in September 2016, KPMG concluded that the Council's IT controls were sound overall, but noted that they would be making some recommendations for improvements in specific areas. The attached report gives details of the audit issues identified by KPMG in respect of IT controls for 2015/16.
- 3.2 The report makes three medium priority and three low priority recommendations. These have been discussed and the relevant actions agreed with senior officers within ICT Services, the Business Support Centre and Financial Services.
- 3.3 The first two medium priority recommendations relate to the structure of passwords within the SAP (payroll) system and for the IT platforms on which the SAP and FMS systems are held. In both cases the finding was that the system itself was not forcing users to choose passwords of the level of complexity or to change their passwords as frequently as is recommended by the Council's current password policy. As the password policy is currently under review, the situation for all of these areas will be revisited once the new password policy has been agreed. Responsibility for approving the password policy is currently sub-delegated to the Chief Digital and Information Officer.
- 3.4 The third medium priority recommendation related to the authorisation of system amendments within the SAP and FMS systems. In all cases the findings related to the records for the authorisation of the amendments, rather than to any issues with the amendments themselves. As regards SAP, staff have been reminded to ensure that appropriate documentation is maintained. As regards FMS, a revised procedure has been proposed for urgent changes where a senior officer is unavailable to approve the change.
- 3.5 The three low priority recommendations related to administrator accounts within SAP which were no longer required, to password structures for privileged user accounts within the SAP, FMS and the IT platforms on which they are held, and to a lack of review of user access levels within SAP. Processes for the review of SAP user accounts are being reviewed and improved in the light of the first and third of these recommendations. The structure of privileged user passwords will be

considered in the light of the new corporate password policy once this has been agreed.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no direct implications for equality, diversity, cohesion and integration arising from this report.

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. There are no implications for council policies arising from the report.

4.4 Resources and value for money

- 4.4.1 The report has no direct implications for value for money issues.

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

- 4.6.1 All recommendations contained within the IT Audit 2015/16 report have been considered and appropriate actions agreed.

5 Conclusions

- 5.1 KPMG's report makes a number of recommendations in relation to passwords and the authorisation of system amendments. These have either been addressed or will be addressed as part of the Council's review of its password policy.

6 Recommendations

- 6.1 Members are asked to receive KPMG's IT Audit Report, and to note the conclusions and recommendations arising from their 2015/16 audit work.

7 Background documents¹

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

7.1 None.

published works.



Leeds City Council IT Audit Findings

November 2016

IT Audit Findings – Risk Ratings Key

Within the following section a listing is provided of IT audit findings from the current year IT audit. For each finding a risk rating has been assigned, please see below for an explanation of each rating assigned.

<p>High priority:</p> <p>A significant weakness in the system or process which is putting you at serious risk of not achieving your strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the strategic risks will occur. Any recommendations in this category would require immediate attention.</p>	<p>Medium priority:</p> <p>A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving your strategic aims and objectives. In particular, having the potential for adverse impact on the reputation of the business or for raising the likelihood of strategic risks occurring.</p>	<p>Low priority:</p> <p>Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.</p>
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IT Audit Findings

Below are details of the individual points identified during the current years IT audit. Each has an associated risk and recommendation for resolution or reduction in risk and impact.

System Configuration (SAP Payroll)	
Observation	<p>The SAP Payroll application is not consistently configured in a manner aligned to the Leeds City Council Password Policy or good practice. Configuration where misalignment has been identified includes enforcement of password complexity and overarching system security options that prevent misuse of a built in superuser account.</p> <p>Limited remedial activity has now occurred in response to the audit observations to align configuration within the SAP application to good practice.</p>
Risk	<p>Medium – Where applications are consistently not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained to applications, servers and databases. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong passwords and change them regularly.</p>
Recommendation	<p>Management should review and amend the configuration within the systems to ensure alignment to both the internal Council policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>
Management Response	<p>Service Managers will work with ICT to investigate the options available around strengthening of password configuration for SAP and seek to apply where possible within the next 3 months. It should be noted that the council's password policy states that the recommended password structures should be implemented 'where possible' i.e. taking into account the functional capabilities of each system.</p>

IT Audit Findings (cont.)

System Password Parameters (SQL Database / UNIX Servers)	
Observation	<p>The passwords used within the infrastructure underlying the SAP and FMS application are not configured in a manner aligned to the Leeds City Council Password Policy or good practice. The components effected includes:</p> <ul style="list-style-type: none"> • Oracle Databases; • UNIX Servers hosting the Applications / Databases; and • Technical Services Portal (used to store Admin shared passwords for the above). <p>Aspects of password configuration where the expected standards are not enforced include minimum length, complexity, history, rotation and account lockout.</p> <p>It is noted that these issues were not identified during the May 2016 internal audit over the FMS application as these components of system operation were not in scope.</p>
Risk	<p>Medium – Where passwords are consistently not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained to applications, servers and databases. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong passwords and change them regularly.</p>
Recommendation	<p>Management should review and amend the password configuration within the systems to ensure alignment to both the internal Council policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>
Management Response	<p>The council's password policy is currently undergoing a review, which is scheduled to be completed in spring 2017. Once the revised password policy is finalised, the options for password structure for system passwords will be reviewed. It should be noted that the existing policy states that the recommended password structures should be implemented 'where possible' i.e. taking into account the functional capabilities of each system, and also that CESG guidance is changing, and forcing frequent password changes is now seen as increasing risk.</p>

IT Audit Findings (cont.)

Change Management – Approval to Implement Changes (SAP Payroll / FMS)	
Observation	<p>Change management procedures relating to approval of changes prior to implementation have not been consistently followed within the SAP Payroll and FMS applications, specifically:</p> <ul style="list-style-type: none"> • Evidence of appropriate approval for changes to be deployed on the SAP Payroll application was not provided for 7 of the 40 changes sampled. It was noted this included 4 instances of appropriate approval not being granted and 3 instances where changes had been developed directly within the live environment. • Evidence of appropriate approval for changes to be deployed into the FMS live application environment could not be provided for 1 of the 8 changes sampled. It was noted this was due to the approval being granted by an individual more junior than required per policy guidelines. <p>For both applications all changes have been granted retrospective approval by an appropriate member of staff. In addition we note that the May 2016 internal audit over the FMS application did not identify this issue due to test procedures focusing on procedural design and not providing coverage of its operation.</p>
Risk	<p>Medium – Where changes are not approved or are approved at an inappropriate level the risk is increased that changes may be deployed into the live environment without completing the full change management procedure and could then have a negative impact on system availability and the related business operations.</p>
Recommendation	<p>Changes should not be implemented into the live application environment without appropriate approval. Evidence of approval being granted prior to changes being deployed should be consistently retained to ensure this critical procedural step occurs and ensure accountability in the event of a change having an adverse effect on the application or database operation.</p>

IT Audit Findings (cont.)

Change Management – Approval to Implement Changes (SAP Payroll / FMS) Cont.

Management Response

SAP

The SAP Development Team have been reminded of processes to ensure all appropriate authorised documentation is completed prior to making any changes. However, this is not always feasible where urgent fixes are required 'in the moment' for example to fix a payroll processing problem. Such instances would be recorded as emergency changes, with appropriate retrospective confirmation. Changes would only be made to the live system with prior authorisation from senior managers.

FMS

This change was approved by a junior member of staff to ensure that the correction could be implemented promptly, as more senior officers were unavailable. The decision to implement the change in this instance was based on an assessment of risk, which took into account the complexity of the change, and the fact that it had been agreed by the client team for FMS. The change management procedure is to be amended to take account of a slightly revised process for the approval of urgent changes.

IT Audit Findings (cont.)

User Access – Privileged Users (SAP Payroll)	
Observation	There are 2 generic, user accounts assigned privileged / administrator access within the SAP Payroll application which management confirmed did not currently require the level of privilege assigned. In 1 instance it was noted that the account had previously been required for internal IT operational use but that this function has been outsourced to a third party within the 6 months prior to the audit without a corresponding update to the accounts assigned access.
Risk	Low – Where application privileged access has been granted or retained inappropriately the risk is increased that inappropriate or unauthorised use of administrator privileges may occur, including the modification of financial data or system configuration. It was noted that the restriction on use of these accounts to a small number of system administrators within the SAP support teams limited the potential for negative impact to the system operation and data held therein.
Recommendation	Periodic reviews should be undertaken over all accounts with privileged access assigned. Privileged access should be removed from all user accounts where it is not required for current tasks or an individuals job role.
Management Response	A review of user account maintenance processes will be undertaken and improvements made and applied within the next 3 months.

IT Audit Findings (cont.)

System Password Parameters (SAP Payroll / FMS)	
Observation	<p>The passwords assigned to privileged accounts within the SAP Payroll and FMS applications and supporting infrastructure are not configured in a manner aligned to the Leeds City Council Password Policy. The components effected includes:</p> <ul style="list-style-type: none"> • Applications; • Oracle Databases; • UNIX Servers hosting the Applications / Databases; and • Technical Services Portal (used to store Admin shared passwords for the above). <p>Internal standards specify increased requirements for the passwords associated with privileged accounts within the applications and infrastructure, however this has not been implemented and therefore is not automatically enforced.</p> <p>It is noted that the inconsistency between policy and system configuration was not identified during the May 2016 internal audit over the FMS application.</p>
Risk	<p>Low – Where passwords are consistently not aligned to internal standards, the risk is increased that the information security environment may not be enforced consistently across the IT estate. This could lead to inconsistent application configuration allowing inappropriate or unauthorised access to be gained to applications, servers and databases.</p> <p>It was noted that the underlying policy mandated configuration for non-privileged users is aligned to good practice for both privileged and non-privileged users. This finding therefore refers primarily to inconsistencies between policy and privileged access system configuration.</p>
Recommendation	<p>Management should review and amend either the internal standards or password configuration within the systems to ensure consistent alignment and clearly defined security standards.</p>
Management Response	<p>The council's password policy, including distinguishing between standard, privileged and systems users, is currently subject to a review which is due to be completed in spring 2017. It should be noted that the policy states that the recommended password structures should be implemented 'where possible' i.e. taking into account the functional capabilities of each system. Once the password policy is finalised, the options for password structure for those users identified as privileged users in SAP and FMS will be reviewed.</p>

IT Audit Findings (cont.)

User Access – Users Access Reviews (SAP Payroll)	
Observation	The SAP Payroll application user access review is focused on the continued requirement for application user licences and does not consider the level of access assigned to individual users. This review would therefore not identify individuals who had changed duties within their job role and inappropriately retained elevated or privileged SAP Payroll access.
Risk	Low – While user access reviews are considered a compensatory control to ensure a well controlled and restricted user population they do undertake an essential function to ensure all access, including privileged or administrator access continues to be required and is appropriately approved.
Recommendation	Management should consider expanding the scope of the current SAP application licence review to include periodic review of user access assignments and confirmation of the ongoing requirement for access held, specifically those account holding privileged or administrator access.
Management Response	A review of SAP user account maintenance processes will be undertaken and improvements made and applied within the next 3 months.

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Report author: Mary Hasnip
Tel: x74722

Report of the Deputy Chief Executive
Report to Corporate Governance and Audit Committee
Date: 27th January 2017
Subject: KPMG Annual Audit Letter 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. In accordance with proper audit practice, KPMG have issued their Annual Audit Letter 2015/16, which gives a summary of the key audit findings for the financial year. The Annual Audit Letter is attached as **Appendix 1**. The letter concludes that KPMG have been able to provide unqualified opinions in respect of all the areas they are required to assess.

Recommendations

2. Members are asked to receive the Annual Audit Letter and note the conclusions and recommendations arising from the 2015/16 external audit process.

1 Purpose of this report

- 1.1 To provide a summary of the key external audit findings in respect of the 2015/16 financial year.

2 Background information

- 2.1 Section 4 of the Code of Audit Practice for public sector bodies requires external auditors to issue an Annual Audit Letter. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work.
- 2.2 The annual audit letter summarises the work carried out by auditors and the matters which have been reported to those charged with governance during the year.

3 Main issues

- 3.1 During the year KPMG issued an unqualified opinion on the Council's arrangements for securing value for money. They identified financial resilience as a key risk, and therefore reviewed the council's financial planning processes and the work on the financial strategy which was underway at the time of their audit. They concluded that the assumptions in the medium term financial strategy appeared reasonable and that the Council recognised the risks associated with them. They therefore concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 3.2 KPMG also issued an unqualified opinion on the 2015/16 Statement of Accounts, and concluded that the council's Whole of Government Accounts return was consistent with the audited accounts. No high priority recommendations were raised as a result of the audit work on the annual accounts.
- 3.3 KPMG's review of the council's Annual Governance Statement found that it was consistent with their understanding of the council.
- 3.4 At the time that this report was issued to the council in October, KPMG's grant audit work was still in progress. That work has since been completed, and the outcome is presented as a separate report on this agenda. The total audit fees for the year were £247.8k (£231.9k for the main audit fee and £15.9k for grant audit work).

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The annual audit letter 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 KPMG's report includes their opinion as to whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Under Section 4 of the Code of Audit Practice for public sector bodies, external auditors are required to issue an Annual Audit Letter summarising the main audit findings in relation to the financial year.
- 4.5.2 As this is a factual report based on past external audit reports none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

4.6 Risk Management

- 4.6.1 KPMG identified financial resilience as a key risk. They reviewed the council's financial plans and concluded that there was evidence of effective arrangements being in place to mitigate this risk. They have not identified any other significant risks in their recommendations.

5 Conclusions

- 5.1 There are no major issues arising from the work of external audit, and officers will continue to address any recommendations raised in the reports.

6 Recommendations

- 6.1 Members are asked to receive KPMG's Annual Audit Letter and to note the conclusions and recommendations arising from the 2015/16 audit process.

7 Background documents¹

- 7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

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Annual Audit Letter 2015/16

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Leeds City Council

October 2016



Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at Leeds City Council in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on the 23rd September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>We identified one significant VFM risk in our External audit plan 2015/16 issued in March 2016 on Financial Resilience. We reviewed the financial planning arrangements in place at the Authority and confirmed that these are appropriate. There is a detailed service and policy review process in place which will lead to the updated medium-term financial strategy. The Authority has identified that £110 million of savings will be required over the next three years to 2019/20 based on the budget offer by DCLG. The Authority recognises the financial challenge which is heavily front loaded, requiring £82 million of savings in 2017/18, and is considering how reserves can be used to support the budget over the next three years. Whilst a significant proportion of the savings have been identified the Council still needs to identify some £18m of savings to balance the medium-term strategy. We have reviewed the high level assumptions used by the Authority to prepare its budget and have found these to be in line with our knowledge and expectations. The Authority recognises the risks in relation to the use of assumptions, some of which have the potential to cause a significant impact to the budget if they are not robust, and it will need to keep these under review over the coming months.</p> <p>Having reviewed the circumstances of this decision we concluded that there are no matters of any significance arising as result of our audit work in this VFM risk area. We therefore concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on the 23rd September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>Our audit has not identified any material audit adjustments, which impact on:</p> <ul style="list-style-type: none"> the balance on the general fund as at 31 March 2016; the deficit on provision of services for the year; or the net worth of the Authority as at 31 March 2016. <p>Our audit and the authority's internal process found a small number of non-material financial and disclosure errors or omissions in the financial statements.</p>

Headlines (cont)

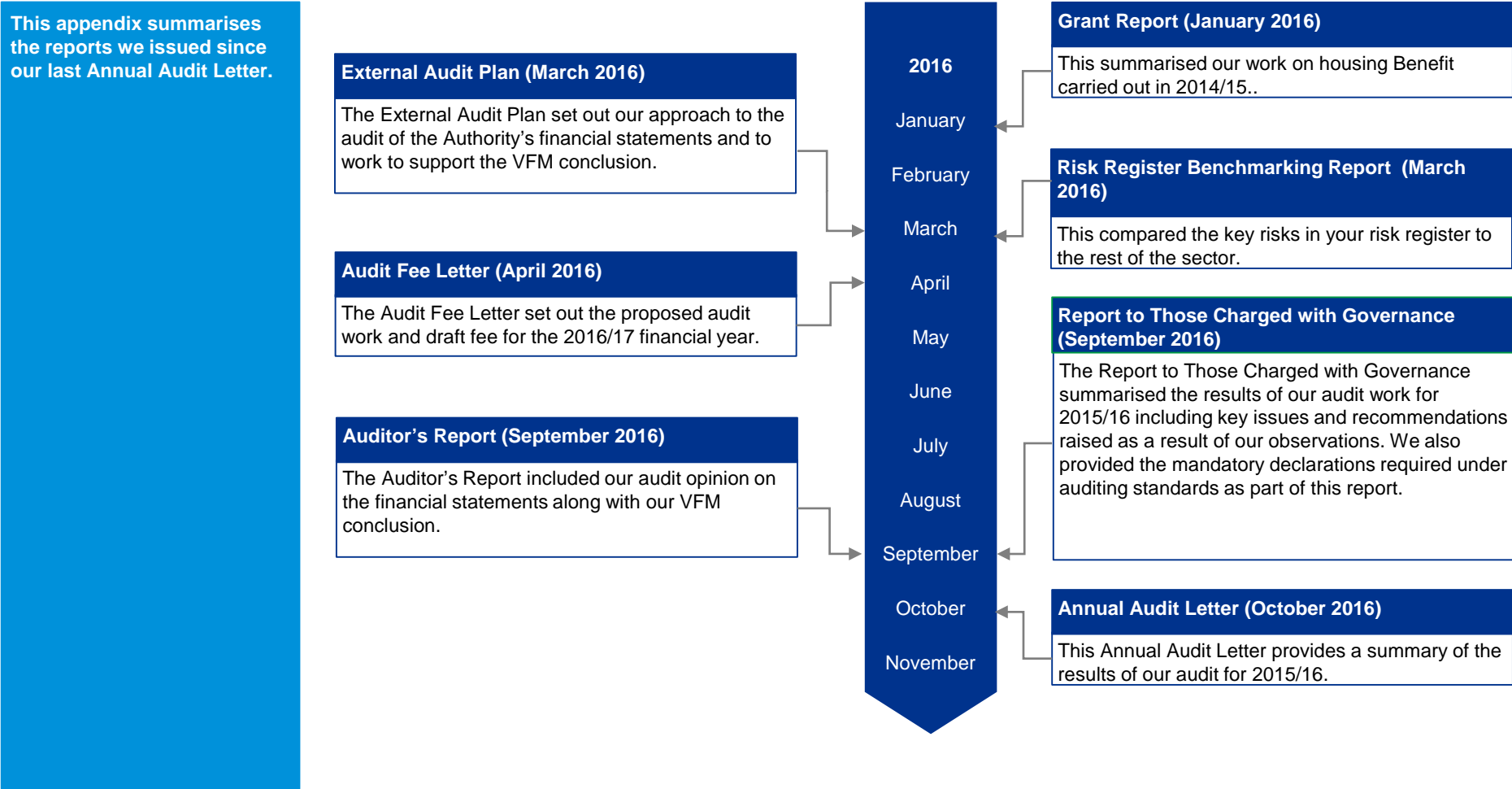
This Annual Audit Letter summarises the outcome from our audit work at Leeds City Council in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Annual Governance Statement	We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding of the authority.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements signing off the pack on the 17 th October 2016.
Certificate	We issued our certificate on the 20 th October 2016 on completion of the Whole of Government Accounts work. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our 2015/16 fee for the audit was £231,953 excluding VAT and for HBCOUNT was £15,923 also excluding VAT. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

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Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of Leeds City Council was £231,953 plus VAT (£309,270 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT was £15,923 plus VAT (£22,140 in 2014/15).

Other services

We did not charge any additional fees for other services.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: Procurement of External Auditor

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
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?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

Summary of main issues

1. The purpose of this report is to set out the changes to the arrangements for appointing the council's external auditor, to consider the options available and to make a recommendation to be considered by full council on the 22nd February 2017.
2. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and also established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
3. In October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the 2017/18 accounts.
4. When the current transitional arrangements come to an end on the 31st March 2018 the council will be able to move to local appointment of its external auditor. The council must appoint its external auditor to audit its accounts for a financial year not later than the 31st December in the preceding financial year. Therefore, the council must have appointed its external auditor by the 31st December 2017.
5. There are three broad options open to the council under the Local Audit and Accountability Act 2014:
 - Option 1 – to make a stand alone appointment;

- Option 2 – set-up a joint Auditor Panel/local joint procurement arrangements; and
- Option 3 – opt-in to a sector led body.

6. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as the sector-led body authorised to make future audit appointments on behalf of principal local authorities in England.

Recommendation

7. Based on the evaluation of the advantages and disadvantages of the three options, that Corporate Governance and Audit Committee recommends option 3 to Full Council; that the council opts into the LGA established sector-led body for the appointment of external auditors following the close of the 2017/18 accounts.

1. Purpose of this report

- 1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and also established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
- 1.2 The council must appoint its external auditor to audit its accounts for a financial year not later than the 31st December in the preceding financial year. Therefore, the council must have appointed its external auditor by the 31st December 2017.
- 1.3 The purpose of this report therefore is to set out the changes to the arrangements for appointing the council's external auditor, to consider the options available and to make a recommendation to be considered by full council on the 22nd February 2017.

2. Background information

- 2.1 The terms of reference of this committee include the consideration of the council's arrangements relating to external audit requirements. In January 2012, this committee received a report informing the committee of the government's response to the consultation on the future of public audit with further specific updates in November 2012, January 2016 and in June 2016 when it was noted that a further report would be put to committee once more details of the national procurement scheme was known.
- 2.2 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.

- 2.3 In October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.4 The scope of the audit will still be specified nationally with the National Audit Office being responsible for writing the Code of Audit Practice which all firms appointed to carry out audits must follow. Any accountancy firm wishing to compete for the work will need to be able to demonstrate that they have the required skills and experience.
- 2.5 In response to the consultation on the new arrangements the Local Government Association successfully lobbied for local authorities to be able to opt into a national sector-led body appointed by the Secretary of State for Communities and Local Government. Local authorities were required to submit non-binding expressions of interest in this option by the end of April 2016 and, as reported to this committee in June 2016, the council did reply to this request with an expression of interest and 270 such expressions of interest were received by the Secretary of State.
- 2.6 In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as the sector-led body authorised to make future audit appointments on behalf of principal local authorities in England.
- 2.7 The council's current external auditor is KMPG, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. The Council's external audit fee for 2016/17 is £248k which includes £16k for the cost of auditing the Housing Benefit grant.
- 2.8 A list of frequently asked questions, produced by Public Sector Audit Appointments, is attached at appendix 1.

3. Main issues

- 3.1 The council must appoint its external auditor to audit its accounts for a financial year not later than the 31st December in the preceding financial year. Therefore, the council must have appointed its external auditor by the 31st December 2017.
- 3.2 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):
- Option 1 To make a stand-alone appointment;
 - Option 2 Set up a joint auditor panel/local joint procurement arrangements;
 - Option 3 Opt-in to a sector led body;

Under options 1 and 2 an independent auditor panel would make recommendation and full council would make the decision on the appointment of the auditor. Full council could opt to choose a different auditor than that which was recommended by the panel but it would have to report publicly their reasons for doing so.

Under option 3 the council's external auditor would be appointed by Public Sector Audit Appointments (PSAA) and the contract would be between PSAA and the audit firm.

- 3.2.1 **Option 1:** In order to make a stand-alone appointment the council would need to set up an auditor panel and a procurement process. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. The auditor panel would make a recommendation to full council who would then make the final decision.

Advantages/benefit

- a) Setting up an auditor panel allows the council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- a) There will be costs associated with recruitment to the panel along and also servicing of the panel and panel member expenses. In addition, there will be costs in terms of the procurement process including drawing together a specification and contract and on-going contract management.
- b) The council will not be able to take advantage of any reduced fees that may be available through joint or national procurement contracts.
- c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

- 3.2.2 **Option 2:** The Act enables the council to join with other local authorities to establish a joint auditor panel and joint procurement. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each council under the Act.

Advantages/benefits

- b) The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- c) There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- a) The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possible only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
- b) The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for a council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for Leeds then the council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 2 is very much reliant on whether other local authorities also want to Enquiries have been made with other Core Cities and West Yorkshire authorities and there is little/no appetite for joint auditor panels and joint procurement.

3.2.3 Option 3: In response to the consultation on the new arrangement a national provider, Public Sector Audit Appointments Ltd (PSAA), has now been approved by DCLG to be a sector-led body for principal authorities (councils, police and fire bodies). A sector-led body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The option to join the sector-led appointing person scheme is open to all principle local government authorities and the PSAA will organise the contracts to maximise the number of firms appointed nationally - it is likely that there will be a minimum number of 4 or 5 audit firms depending on the number of bodies that opt into the scheme. PSAA will then 'allocate' auditors to local authorities taking into account issues such as the size and complexity of the local authorities as well as issues such as independence and audit firm spread, etc. PSAA will pool scheme costs, including their own overheads, and charge fees to audited bodies in accordance with fee scales. The fee for the audit of a body that opts into the sector-led procurement will reflect the size, audit risk and complexity of the work required and the PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.

Further information about the sector-led procurement option through a set of frequently asked questions is attached at appendix A.

Advantages/benefits

- a) The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- b) By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- c) Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

- d) The appointment process would not be made by locally appointed independent members. Instead a separate body, set up to act in the collective interests of the 'opt-in' authorities, would do this.

Disadvantages/risks

- a) Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- b) In order for the SLB to be viable and to be placed in the strongest possible negotiating position, the SLB will need councils to indicate their intention to opt-in before final contract prices are known.

Should the council decide to pursue option 3, then Public Sector Audit Appointments will need to receive the formal acceptance of this invitation by the 9th March 2017.

4. Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Both the Deputy Leader and Executive Member for Resources and Strategy and the Chief Executive have been consulted and support the recommendation.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no equality and diversity issues arising from this report.

4.3 Council policies and Best Council Plan

- 4.3.1 There are no specific council policy issues arising from this report.

4.4 Resources and value for money

- 4.4.1 The Council's external audit fee for 2016/17 is £248k which includes £16k for the cost of auditing the Housing Benefit grant. This current external audit fee is competitive and significant budget savings are not anticipated under any of the 3 options.

Under option 3, there will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. Audit fees achieved through large contracts should be lower than the costs that individual authorities will be able to negotiate. The fee for the audit of a body that opts into the sector-led procurement will reflect the size, audit risk and complexity of the work required. The PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.

By opting into option 3, the council will avoid the costs of a local procurement and management of a contract and also the requirement to set up an auditor panel with independent members.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 There are no legal issues directly arising from this report. The decision on the procurement and appointment of the council's external audit is reserved to full council. As such, the recommendation at 6.1 is not subject to call in, as the matter that will ultimately be determined by full council.

4.6 Risk Management

- 4.6.1 When the current transitional arrangements come to an end on the 31st March 2018 the council will be able to move to local appointment of its external auditor. The council must appoint its external auditor to audit its accounts for a financial year not later than the 31st December in the preceding financial year. Therefore, the council must have appointed its external auditor by the 31st December 2017. The recommendation to pursue option 3 would reduce the risks to the council in terms of alleviating the need to manage a local procurement exercise and to set-up a local auditor panel.

5. Conclusions

- 5.1 In order to comply with its statutory obligations under section 7 of the Local Audit and Accountability Act 2014 the council must appoint an external auditor by the 31st December 2017. In practical terms, this means that 1 of the 3 options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 5.2 The option (option 2) to combine with a limited number of partners requires interest from other local authorities and to date there is no such interest among West Yorkshire authorities and Core Cities. Option 2 has therefore been discounted.
- 5.3 Looking at options 1 and 3, opting into the sector-led PSAA will be significantly less resource intensive than having to establish and service a local auditor panel and conducting our own local procurement exercise. There has been significant interest in the national sector-led scheme (option 3) and Leeds is one of the local authorities that have already expressed a non-binding interest in this option. The Local Government Association is supportive of the national approach, as it believes that it offers best value to councils by reducing set-up costs and having the opportunity through economies of scale to negotiate lower audit fees. It is highly likely that a sector-wide procurement conducted by PSAA will produce better outcomes for the council than if we were to undertake our own procurement.
- 5.4 Therefore, option 3 is recommended to Committee as the council's preferred option.

- 5.5 Regulation 9 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by full council (authority meeting as a whole). To comply with this regulation, this committee is asked to endorse this recommendation to Council.

6. Recommendations

- 6.1 Based on the evaluation of the advantages and disadvantages of the options, that Corporate Governance and Audit Committee recommends option 3 to full council; that the council opts into the LGA established sector-led body for the appointment of external auditors following the close of the 2017/18 accounts.

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.

Public Sector Auditor Appointments – Frequently Asked Questions

Appendix 1

Question

1. What is an appointing person and which bodies are eligible to opt in?

Response

Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. PSAA is a not-for-profit company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission. The 'appointing person' is sometimes referred to as the sector-led body.

Eligible bodies are only those principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities (covering elected regional mayors), national park authorities, conservation boards, passenger transport executives, waste authorities, and the GLA and its functional bodies. Smaller authorities (such as parish councils) and NHS bodies, including accountable care organisations, are not eligible to opt in.

A list of the 493 local government bodies currently eligible for the appointing person scheme is available on the appointing person page of our website (<http://www.psaa.co.uk/supporting-the-transition/appointing-person/>).

2. What are the terms of reference of the appointing person?

PSAA is a not-for-profit company wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person going forward rather than a transitional body

Question

3. In addition to the Code of Audit Practice requirements set out by the NAO, will the contracts include the audit of wholly owned companies and group accounts?

Response

Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit for which PSAA will make an auditor appointment for opted-in bodies.

Local authority companies are not listed in the Local Audit and Accountability Act as bodies subject to audit under that act.

Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015 or the scope of PSAA's specification as the appointing person.

Local authority companies must appoint an auditor themselves in accordance with Companies Act legislation. They are able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish, for example where this could support an efficient audit process.

4. Will the appointing person arrangements cover the audit of an authority's pension fund where it is the administrative body responsible for preparing the pension fund accounts?

Pension funds are not separate legal entities from their administering local authority, and are therefore not listed as relevant authorities in schedule 2 of the Local Audit and Accountability Act 2014. The auditor appointment to an opted-in local authority will include the audit of the pension fund where the authority is the administering body. As is currently the case, the pension fund audit will be subject to a separate engagement and scale audit fee, but the auditor appointment will cover both the local authority and the pension fund.

5. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?

The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.

Question

6. Will membership be free for existing members of the LGA?

Response

The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.

7. When will invitations to opt in be issued?

The invitation to opt in was issued on 27 October 2016 with a closing date for acceptance of 9 March 2017. This allows considerably longer than the statutory minimum period of eight weeks, for the requirement under the regulations that authorities must make the decision to opt in at a full authority meeting. As corporations sole, the full authority requirement does not apply to police and crime commissioners.

The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities and confirm appointments before the 31 December 2017 deadline to appoint auditors for the following financial year.

In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our timetable means that we will need to start preparing tender documentation early in 2017, so we will need to know which authorities have opted in.

8. How do we have to make the decision to accept the invitation to opt in?

In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full authority (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.

9. Can we join after it has been set up or do we have to join at the beginning?

One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from applying to join the appointing person scheme in later years (and PSAA must agree to the request unless there are reasonable grounds to refuse), but they will need to make their own arrangements to appoint an auditor in the interim, which will include establishing an auditor panel. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe, that is by 9 March 2017.

10. Will the appointing person take on all auditor panel roles and therefore mitigate the need for there to be one in each individual authority?

Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

11. How does the opt-in process work for police and crime commissioners and chief constables, given that chief constables cannot appoint their own auditor?

PSAA has issued the opt-in invitation to chief constables as well as police and crime commissioners because the Local Audit (Appointing Person) Regulations 2015, issued under the provisions of the Local Audit and Accountability Act 2014, require the appointing person to issue an invitation to “all principal authorities which fall within the class of authorities in relation to which the person has been specified” (Regulation 8). PSAA’s specification as an appointing person covers all relevant local government authorities that are principal bodies, as listed in Schedule 2 of the 2014 Act. Chief constables and police and crime commissioners are listed separately as relevant authorities.

While the responsibility for the decision about appointing an auditor for the chief constable is reserved to the police and crime commissioner for a police area (under schedule 3 of the Local Audit and Accountability Act 2014), the police and crime commissioner will need to consider this decision with the chief constable. The opt-in invitation information sent by PSAA provides chief constables with essential information about the appointing person arrangements, including the timetable for the opt-in process. This should enable chief constables to engage with police and crime commissioners on this decision.

Where a police and crime commissioner makes a decision to opt into PSAA’s national auditor appointment arrangements and submits a notice of acceptance of the invitation, this notice must cover the chief constable as well. PSAA will need to confirm that the notice covers the chief constable if this is not explicitly stated. As separate legal entities, PSAA will subsequently need to make separate auditor appointments, albeit of the same audit firm, to the opted-in police and crime commissioner and chief constable for a police area.

12. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?

We have established a stakeholder advisory panel which will comment on our proposals. Members of the panel are drawn from representative organisations for councils, police and fire bodies. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.

PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing appointingperson@psaa.co.uk and via the LGA and their principal advisors.

13. Will there be standard contract terms and conditions?

The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel.

14. What will be the length of the contracts?

The length of contract between PSAA and firms will be five years.

15. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?

PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.

16. Will the price be fixed or will there be a range of prices?

The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.

17. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?

The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel.

PSAA is developing a procurement strategy which may include a limit on the total business available to any one firm.

One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:

- firms have a regional presence;
- greater continuity of staff input; and
- a better understanding the local political, economic and social environment.

18. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?

PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.

19. What is the timetable for set up and key decisions?

We expect the key points in the timetable to be broadly:

- establish an overall strategy for procurement - by November 2016;
- achieve 'sign-up' of opted-in authorities - by 9 March 2017;
- invite tenders from audit firms - by April 2017;
- award contracts - by 30 June 2017;
- consult on and make final auditor appointments - by 31 December 2017

20. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?

PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 to ensure that every auditor appointment it makes passes this test and auditors must comply with the requirements of the Ethical Standards issued by the Financial Reporting Council.

We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.

21. In what circumstances can an auditor be changed during the five year opt-in period, and how does this differ from locally procured arrangements?

The main circumstances in which PSAA will consider changing an auditor appointment during the five year compulsory appointing period are either for independence reasons, for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements. An authority appointing its own auditor will find it more difficult to change their auditor appointment during the contracted period, as this would require the authority to conduct a new selection and procurement exercise. The appointing person scheme will therefore provide more flexibility for opted-in bodies.

22. How will audit fee levels be set for each individual body with the objective of recovering PSAA costs at the aggregate level?

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees. 2018/19 scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2017. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable in March 2018. Where more or less work is required than is envisaged in the scale fee, a fee variation process will apply. The variations process will ensure that fees for additional work cannot be invoiced until agreed with the audited body and approved by PSAA.

23. What will be the process to feed in opinions of current auditors if there are issues?

PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.

24. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?

PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Local Audit and Accountability Act 2014, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of the firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register, meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. PSAA will take a close interest in feedback from opted-in bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.

25. How will the appointing person scheme deal with an authority that is dissatisfied with its auditor and wants a change (e.g. because of quality, relationships, or a conflict of interest)?

As with the current arrangements, where an authority is dissatisfied with its auditor, concerns should be raised in the first instance with the firm's Engagement Lead and subsequently with the firm's PSAA Contact Partner (as indicated on communications between the firm and the authority).

26. Will an auditor be able to provide my authority with non-audit consultancy services?

The independence requirements for all auditors within the local public audit regime are the same whether locally appointed, or part of the appointing person regime. These requirements are specified by the Financial Reporting Council in the Ethical Standard and applied to local public audit as determined by the NAO.

The services that an auditor can provide are the same, whatever the appointment method.

As the Appointing Person, PSAA will perform the role otherwise required of an auditor panel to advise the authority on the maintenance of the independence of the auditor [Local Audit and

27. What will be the future arrangements under the appointing person scheme for certifying grant claims?

Accountability Act 2014 section 10(1)].

PSAA will consider changing an auditor appointment during the five-year compulsory appointing period for independence reasons, if for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.

PSAA's audit contracts from 2018/19 will not cover certification work. PSAA has no power under the Local Audit and Accountability Act 2014 to make certification arrangements, and its arrangements will apply only to opted-in bodies. Any certification work required by grant paying government departments will need to be undertaken using a tripartite agreement between an audited body, an audit firm and the grant paying body, under instructions prepared by the grant paying body.

The Department for Work and Pensions is developing its arrangements for housing benefit subsidy claim certification from 2018/19 on this basis. Where applicable, local authorities will appoint an auditor for this certification work (for which an auditor panel is not required) and may choose to use the same auditor appointed by PSAA for the audit of the accounts, if they are opted-in bodies.

28. If an authority chooses not to opt in to the appointing person arrangements, what local arrangements will they need to put in place?

All relevant authorities listed in schedule 2 of the Local Audit and Accountability Act 2014 (the Act), whether they opt in or not, are required to comply with Part 3 of the Act in relation to the appointment of local auditors. Section 7 of the Act requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year. For the 2018/19 accounts, a local auditor must be appointed by 31 December 2017.

For authorities that choose to opt into the appointing person arrangements, PSAA will appoint their auditor for them by 31 December 2017, having consulted the authority about the proposed appointment.

For authorities that choose not to opt into the appointing person arrangements, there are two options available for appointing their own auditor. These are to:

- undertake an individual auditor procurement and appointment exercise; or
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.

Both these options require the authority to consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor. Section 9 of the Act requires a relevant authority to establish an auditor panel, section 10 sets out the functions of an auditor panel, and schedule 4 sets out provisions applying to auditor panels. An auditor panel must consist of a majority of independent members (or wholly of independent members), and must be chaired by an independent member. A guide to auditor panels for local government authorities has been issued by CIPFA.

Within the period of 28 days beginning with the day on which the

auditor appointment is made, section 8 of the Act requires an authority that has not opted into the national appointing person arrangements to publish a notice that:

- a) states that it has made the appointment,
- b) identifies the local auditor that has been appointed,
- c) specifies the period for which the local auditor has been appointed,
- d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor, and
- e) if it has not followed that advice, sets out the reasons why it has not done so.

The notice must be published, if the authority has a website, on its website or in such manner as the authority thinks is likely to bring the notice to the attention of service users.

Authorities that opt into the appointing person arrangements are not required to establish an auditor panel or to publish a notice under section 8 of the Act.

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Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: Internal Audit Update Report 1st September to 31st December 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 September to 31st December 2016 and highlights the incidence of any significant control failings or weaknesses.
2. The detailed proposals for the Audit Plan for 2017/18 will be presented to the April 2017 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 September to 31st December 2016 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.
4. Members are invited to provide any suggestions on the coverage of the Audit Plan for 2017/18 arising from the work of this Committee. These will be incorporated into the audit planning process.

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 September to 31st December 2016 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements, including matters such as internal control and risk management. The 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 reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.
- 2.3 This update report provides a summary of the Internal Audit activity for the period 1st September to 31st December 2016.

3 Main issues

3.1 Audit Reports Issued

- 3.1.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in Table 1 below. Depending on the type of audit review undertaken, an assurance opinion may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.
- 3.1.2 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact will be reported to the Corporate Leadership Team along with the relevant directorate's agreed action plan.

Table 1: Summary of Reports Issued 1st September to 31st December

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Housing Leeds			
Leeds Building Services sub-contractor payments	N/A. Assistance provided to Housing Leeds in their investigation into the current debtor balance for a contractor to determine how much of the balance can be claimed.		
Tenancy Management	Acceptable	Acceptable ¹	Minor
Tenant Involvement	Good	N/A	Minor
Environment and Housing			
Waste Recycling Key Performance Indicator	N/A	Substantial	Minor
Adult Social Care			
Unannounced establishment visit	Good	Good	Minor
Risk Management and Business Continuity	Substantial	N/A	Minor
ICT and Information Governance			
Orchard (housing management system) Business Application Review	Good	N/A	Moderate
Academy (benefits system) Business Application Review	Substantial	N/A	Minor
Key Financial Systems			
Housing Rents year end reconciliation	Substantial		N/A
Income Management System	Substantial	N/A	Minor
Schools			
School Voluntary Fund x 7	Certification of balances		

¹ Although acceptable assurance was provided for compliance with policies and procedures overall, limited assurance was provided for one of the objectives covered as part of the review.

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Follow Up Reviews			
Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures)	Good	N/A	Minor
Bank Accounts: Electoral Services Account	Good	N/A	Minor
Taxi and Private Hire Licensing	Good	Good	Moderate
Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council	Good	N/A	Minor
Contract review - Joint Venture: professional property and building services	Good	Acceptable ²	Minor
Children's Services			
Music Centre	Acceptable	N/A	Minor
Payments for services by voluntary organisations	N/A	Good	Minor
Strategy and Resources			
Insurance	Good	Good	Minor
Citizens and Communities			
Customer Contact and Satisfaction	Acceptable	N/A	Moderate
City Development			
Planning Enforcement	Good	Good	Minor
Leeds Grand Theatre			
Contract Procedure Rules	Limited	Limited	N/A

² Although acceptable assurance was provided for compliance with policies and procedures overall, limited assurance was provided for one of the objectives covered as part of the review.

3.1.3 In addition to the reports detailed in Table 1 above, the following grant certifications and audit assurances have been finalised during the reporting period:

- Bus Services Operators grant claim 2015/16
- Disabled Facilities Grant
- Childhood Obesity Grant

3.2 Summary of Audit Activity and Key Issues

3.2.1 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 31 audit reviews (excluding continuous audit, work for external clients and fraud and irregularity work) and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

3.2.2 In addition to the audit reviews listed above, we have recently presented two training sessions promoting good practice on general cash handling and school voluntary funds as part of the Financial Services to Schools Training Programme. The sessions have been delivered alongside colleagues in Financial Services to 42 School Business Managers, Bursars and Admin Assistants from 34 schools. The feedback from the sessions has been excellent and additional training dates have been requested for induction sessions for new Headteachers and Admin Assistants on key financial controls.

Customer Contact and Satisfaction

3.2.3 At the Corporate Governance and Audit Committee meeting in January 2016, Members were invited to consider any areas that should be included in the 2016/17 Audit Plan. The Committee requested that an audit of customer contact and satisfaction was undertaken and this was subsequently included in the Audit Plan which was approved by the Committee in March 2016. This piece of work links in with the annual report provided to the Committee at this meeting by the Chief Officer – Customer Access, and adds a further layer of independent assurance in an area of considerable reputational significance.

3.2.4 The audit focussed on the arrangements in place to handle and respond to formally logged complaints that fall within the scope of the council's published Compliments and Complaints Policy. As formally logged complaints actually represent only a very small proportion of the contact received within the council's Contact Centre, we also looked at the processes in place to measure and assess the extent to which customers are satisfied with the call handling experience when contacting the centre for other purposes.

3.2.5 We provided acceptable assurance for the controls in place based upon the fact that the published Compliments and Complaints Policy sets clear expectations around the complaint handling process. However, whilst delegating responsibility for the investigation and response to individual service areas carries the clear advantage of drawing upon service specific knowledge and expertise, we found some inconsistencies in the approach taken which present a risk to the customer experience. Primarily this surrounds whether or not there are any assurance

mechanisms in place to review the tone and content of the response prior to issue with the aim of ensuring they meet with the standards set out in the published policy and include details of possible escalation routes. Assurance could also be further strengthened by ensuring there is clarity over roles, responsibilities and protocols, alongside the provision of training to officers with complaint handling responsibility. We also reported that some types of complaint may be handled outside the framework defined within the policy despite the fact that they are not qualified as exceptions within the policy itself. Our recommendations around strengthening the overarching governance arrangements to oversee Council wide complaints handling have been welcomed within Customer Access and Performance and are being considered as a part of the wider customer relations service review.

- 3.2.6 The Council aims to resolve most issues of dissatisfaction at the first point of contact, without the need to log a formal complaint. Whilst this carries residual risks given that matters of this nature fall outside the defined complaint handling process, we found that controls have been developed to assess and monitor customer satisfaction with call handling at the Contact Centre. The ongoing review of this data should help to drive continual improvements to the customer experience at the Contact Centre going forward.

Limited or No Assurance Opinions

- 3.2.7 Of the audit reviews finalised during the period, none have resulted in a 'no assurance' opinion and no weaknesses have been identified that would result in a 'major' organisational impact.
- 3.2.8 The following three audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:
- Leeds Grand Theatre: Contract Procedure Rules; and
 - Housing Leeds Tenancy Management.
 - Contract Review - Joint Venture: professional property and building services (further details are provided below within the Follow Up Review section at 3.2.18)
- 3.2.9 The audit of Contract Procedure Rules (CPRs) at Leeds Grand Theatre resulted in a limited assurance opinion for both the control environment and for compliance with the controls in place. The scope of this audit focussed on the systems in place to support the achievement of value for money through procurement. The scope of recent audits of budgetary control and creditor payments covered budgetary risks and the legitimacy of payments made by the theatre and both audits received good assurance, recognising the significant work that has gone into embedding key financial controls at the theatre.
- 3.2.10 The theatre has adopted the council's own CPRs, however we found these did not fit the theatre's operating environment and some of the detail applicable to Leeds City Council (as a public authority) is not proportionate or transferrable to the core business of the theatre. As such, these CPRs have not been formally embedded.

Pockets of good practice were however identified which indicate that value for money is considered on an informal basis, although we were not able to source evidence to consistently support this. The instances of good practice identified during the audit mainly related to goods and services that had been procured within the last year. This provides some assurance that there is a positive direction of travel towards embedding the processes required to support the achievement of value for money.

- 3.2.11 Further to the completion of this audit, we have carried out a workshop with nominated officers at the theatre aimed at promoting best practice in procurement ahead of the theatre starting work on developing its own practices and procedures. As part of the workshop the theatre has identified a series of actions that will be taken forward and progress against these will be reviewed during 2017/18.
- 3.2.12 The Interim Chief Executive Officer at Leeds Grand Theatre has provided the following comments: *“With the support of Internal Audit and oversight of the Leeds Grand Theatre & Opera House Board, the Company has initially focused on ensuring that both our financial and budgetary controls are fit for purpose and regularly complied with. The improved budgetary control and financial management arrangements have contributed to the company posting a surplus for the last two years with a further surplus projected for 2016/17. This improved financial position reflects the ongoing drive within the Company to seek value for money in all our contractual arrangements. The Company does however accept that it now needs to develop bespoke Contract Procedure Rules in order to be able to clearly demonstrate that VFM is consistently being achieved. The Internal Audit workshop was well received by budget holders and work has begun to update the Company’s rules for approval by the Finance Sub Committee.”*
- 3.2.13 The review of Tenancy Management sought to obtain assurance that tenancies are being managed in accordance with the requirements of the Introductory Tenancies policy, the Use and Occupation policy and the Abandonment and Non-Occupation Procedures. An acceptable assurance opinion was provided overall for compliance with the control environment as the audit found no material issues with compliance against the requirements of the Introductory Tenancies policy and the Abandonment and Non-Occupation procedures. However, issues were identified with compliance with the Use and Occupation procedures, which are applicable to approximately 65 properties in Leeds. Use and Occupation cases arise typically when a joint tenancy ends and one of the parties remains in the property but does not have the right to succeed the tenancy. In such circumstances they are not considered as a tenant but an occupier. The policy requires that the occupier is encouraged to maintain regular bids in an effort to be rehoused, and the Housing Offices should facilitate this. We found weaknesses in this process which have led to instances of under occupancy and increasing levels of arrears.
- 3.2.14 Action plans have been agreed with the services to address each of the issues highlighted above. We will undertake follow up reviews in these areas and report the progress made to the Committee at a future meeting, as detailed in the follow up tracker at Table 2 below.

Follow Up Reviews

- 3.2.15 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. We have recently refreshed our reporting template to include an assurance opinion for each objective reviewed within the audited area. Follow up audits will now be undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.
- 3.2.16 Table 2 below provides tracking information on the follow up audits due to be completed this year together with the Corporate Governance and Audit Committee meeting date that the results are due to be reported.

Table 2: Follow Up Audit Tracker

Audited area	Follow up status (see key below table)	Corporate Governance and Audit Committee report reference
Follow up results reported at the current meeting		
Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures)	Closed	July 2015
Bank Accounts: Electoral Services Account	Closed	March 2016
Taxi and Private Hire Licensing	Closed	March 2016
Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council	Closed	June 2016
Contract Review - Joint Venture: professional property and building services	Ongoing, improved opinion	June 2016
Follow up results due to be reported: April 2017 meeting		
Commissioning of external residential and independent fostering agency placements	Planned	September 2015
Administration of Client Monies	Planned	March 2016
Kirkgate Market	Ongoing, improved opinion	June 2016
Primary School	Planned	March 2016
Spending Money Wisely Challenge – off-contract spend (four directorates)	Ongoing, recurrent limited assurance ³	March and June 2016

³ Limited assurance opinions provided for the four directorates reviewed. Further follow up audits are currently in progress for the four directorates originally reviewed plus three further directorates to provide cross cutting coverage. The Committee has previously requested and received directorate audit reports.

Audited area	Follow up status (see key below table)	Corporate Governance and Audit Committee report reference
Children's Services Direct Payments	Planned	September 2016
LBS Tools and Equipment	Planned	September 2016
LBS Subcontractors and Quality Management Systems	Planned	September 2016
Sundry Income Events	Ongoing, improved opinion	September 2016
Sundry Income Lettings	Ongoing, improved opinion	September 2016
Contract Extensions	Planned	March 2016
Follow up reviews due to be undertaken in 2017/18 audit plan		
Leeds Grand Theatre – Contract Procedure Rules	Planned	See 3.2.9
Housing Leeds Tenancy Management – Use and Occupation	Planned	See 3.2.12
Contract Review - Joint Venture: professional property and building services	Ongoing, improved opinion	See 3.2.18

Key	
Closed:	Results of follow up audit are satisfactory and no further follow up work required
Ongoing, improved opinion:	Follow up audit completed and overall opinion has improved. Further follow up review planned to close outstanding issues
Ongoing, recurrent limited opinion:	Follow up audit completed and overall opinion has not improved. Further follow up review planned to close outstanding issues
Planned:	Dates for follow up audit have been agreed and planned

3.2.17 During this reporting period we have finalised 5 follow up reviews:

- Safeguarding Clients Personal Assets Central Controls (Deputy and Appointee Procedures)
- Bank Accounts: Electoral Services Account
- Taxi and Private Hire Licensing
- Safeguarding Disclosure and Barring Service Checks and Health Care Professions Council

- Contract Review - Joint Venture: professional property and building services

- 3.2.18 Each of the follow up reviews finalised during the reporting period resulted in an improved assurance opinion, reflecting the progress made since the original audit. Of the five follow up reviews undertaken during the period, four can now be closed as good progress has been made in mitigating the risks identified during the original audit and no further follow up work is required. Those areas will be considered for future audit work on a risk basis.
- 3.2.19 The follow up area that is outstanding relates to the contract review of Joint Venture: professional property and building services. In the Internal Audit Update Report 1st March to 31st May 2016, we reported the results of an interim follow up audit on the management of the relationship with the professional property and building services joint venture. This had been carried out as a result of a previous audit in June 2015 which provided limited assurance for compliance with the control environment, with the key recommendations relating to the performance management regime and information flow between the Council and the joint venture. That follow up review found that the recommended controls had recently been implemented or were in the process of being implemented, but had yet to become embedded. As such we reported that a further follow up review was scheduled later in the year to assess the level of compliance with the new controls and their effectiveness.
- 3.2.20 The further follow up review has now been carried out and we found that processes relating to the information flow between the Council and the joint venture are now in place and working well in practice. However progress has not been made in relation to performance management and as such this aspect has again received a limited assurance audit opinion for compliance with the control environment. As part of our original audit, recommendations had been agreed to monitor performance through a set of indicators, with regular performance review meetings to discuss and resolve issues. While some steps had been taken towards implementing these at our interim follow up review, and recommendations were agreed to complete this work, our latest follow up review found that these actions have not progressed and in practice formal performance management of the relationship is not taking place.
- 3.2.21 The service has agreed to implement the formal performance management arrangements and we will undertake a further follow up review next year to confirm that this recommendation has been implemented and working in practice.
- 3.2.22 At the Corporate Governance and Audit Committee meeting in March 2016, Members discussed the limited assurance audit opinion in respect of Taxi and Private Hire Licensing (TPHL) and sought clarification over the arrangements in place to ensure that no licensed driver can operate without an up-to-date Disclosure and Barring Service (DBS) check being in place. The follow up review of this area has now been finalised and the improved audit assurance opinion reflects the good progress that the Taxi and Private Hire Licensing Section is making to address the risks highlighted in our previous audit report. Progress has been made with their programme of bringing all DBS renewal checks up to date and in implementing a more robust monitoring and escalation process where the

DBS check has identified an offence. It is anticipated that all licence holders will be enrolled in the online DBS update service by March 2017 (as agreed with the Executive Board). The review confirmed that licence holders are permitted to operate whilst they go through the programme of enrolling everyone on the online DBS update service. This is subject to the licence holder attending planned appointments and providing any necessary information. Failure to comply with these requirements, or other licensing conditions, could result in the suspension or revocation of their licence.

Continuous Audit

- 3.2.23 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. The programme has been developed to initially focus on the self-serve processes that have recently been introduced by the Council. To date, we have completed testing on SAP travel and expense claims, Click Travel and purchasing card expenditure where this related to travel. No significant issues have been identified and overall, we can provide good assurance that the current self-service arrangements are working as intended.

Counter Fraud and Corruption

- 3.2.24 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and proactive approaches to the Council's zero tolerance to fraud and corruption across the Authority.

Proactive Fraud Work

- 3.2.25 We have previously reported to this Committee that our proactive fraud work was successful in identifying fraudulent creditor payments at the Leeds Grand Theatre (LGT). October saw the conclusion of the court case which resulted in the successful prosecution of two individuals, one of whom was the former Head of Finance at the theatre. Both faced charges of conspiracy to commit fraud by false representation and were found guilty following a trial that lasted nearly three weeks. The former Head of Finance received a sentence of five years imprisonment and the other party received a sentence of 16 months.
- 3.2.26 In the three years that preceded the sentencing, Internal Audit has been extensively involved in supporting both the internal disciplinary procedures and the wider police investigation. The fraud was initially found in June 2013 after data analytics work undertaken by Internal Audit identified issues with two creditors to which a total of £178,380 had been paid between June 2011 and May 2013. A comprehensive investigation subsequently took place and several members of the Internal Audit team gave evidence in court in support of the case for the prosecution.
- 3.2.27 During the course of the investigation we identified several weaknesses in financial control that enabled the fraud to be perpetrated and to remain undetected over a two year period. We have since been closely involved in identifying opportunities to strengthen the level of control and governance arrangements and these have been welcomed by the theatre. The theatre has

made significant progress during this timeframe as demonstrated by the recent audits of budgetary control and creditor payments which received good audit assurance opinions.

- 3.2.28 Work is now underway to use the opportunity to promote the council's zero tolerance approach to fraud, and to ensure important messages and lessons learned are reinforced across the authority.

Reactive Fraud Work

- 3.2.29 During the reporting period we have received 11 potential irregularity referrals. Of these, 9 were classified under the remit of the Whistleblowing or Raising Concerns policies. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Of the 38 referrals received to date in the 2016/17 financial year, 23 have been closed (5 within the period September to December). 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.

Plan for 2016/17

- 3.2.30 Initial work has started on developing the Annual Audit Plan for 2017/18. The Head of Audit must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. To support this, we must develop and deliver a risk based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work.
- 3.2.31 To develop this plan, there must be a sound understanding of the risks facing the Council. The Corporate Risk Register will be used as a key source of information and the planning process for 2017/18 will again necessitate a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders, including the Corporate Governance and Audit Committee, an appropriate level of assurance on the control environment of the council.
- 3.2.32 The detailed proposals for the Audit Plan for 2017/18 will be presented to the April 2017 Corporate Governance and Audit Committee.

Internal Audit Performance

- 3.2.33 The Corporate Governance and Audit Committee has responsibility for monitoring the performance of Internal Audit. The information provided below in respect of our quality assurance and improvement programme provides the Committee with assurances in this area.
- 3.2.34 All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998.

- 3.2.35 We actively monitor our performance in a number of areas and encourage feedback. 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 presented as an average of the scores received for each question.
- 3.2.36 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.
- 3.2.37 During the period 1st April to 31st December 2016, 31 completed Customer Satisfaction Questionnaires were received. A summary of the scores is presented in Table 3 below.

Table 3: Results from Customer Satisfaction Questionnaires for the period 1st April to 31st December 2016

Question	Average Score (out of 5)
Sufficient notice was given	4.93
Level of consultation on scope	4.80
Auditor's understanding of systems	4.55
Audit was undertaken efficiently	4.81
Level of consultation during the audit	4.84
Audit carried out professionally and objectively	4.97
Accuracy of draft report	4.68
Opportunity to comment on audit findings	4.93
Clarity and conciseness of final report	4.79
Prompt issue of final report	4.70
Audit recommendations will improve control	4.72
The audit was constructive and added value	4.71
Overall Average Score	4.79

- 3.2.38 The excellent customer satisfaction results reflect our commitment to delivering a quality product to the highest professional standards that adds value and improves the Council's operations.
- 3.2.39 Table 4 below provides a broad indication of progress against the Internal Audit Plan for 2016/17 and a comparison against performance reported to the Committee at the previous meeting in September 2016. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to

specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

Table 4: Audit Plan 2016/17 Progress

Number of individual audit assignments	Planned		In progress		Completed	
	Sept 2016	Current position	Sept 2016	Current position	Sept 2016	Current position
Audit Plan 2016/17	54	33	15	21	22	48
Follow up audits ⁴	17	11	4	5	3	8

- 3.2.40 Current levels of resources within Internal Audit are sufficient to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2.41 The PSIAS require that an external assessment of the Internal Audit function should be carried out at least once every five years. The external assessment has been completed by Nottingham City Council and the results of the review are to be reported to the Committee as a separate agenda item at this meeting. The assessment has resulted in a conclusion that we conform with the PSIAS.

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 This includes seven Spending Money Wisely (off-contract spend) reviews

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 September to December 2016 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from September to December 2016 and note the work undertaken by Internal Audit during the period covered by the report. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.
- 6.2 Members are invited to provide any suggestions on the coverage of the Audit Plan for 2017/18 arising from the work of this Committee. These will be incorporated into the audit planning process.

7 Background documents

- 7.1 None.

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Report author: Tim Pouncey
Tel: 74224

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

Subject: Public Sector Internal Audit Standards – External Assessment of Leeds City Council Internal Audit

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
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?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

Summary of main issues

1. The purpose of this report is to inform Corporate Governance and Audit Committee of the outcome of Nottingham City Council's assessment of the extent to which Internal Audit comply with the Public Sector Internal Audit Standards (PSIAS).
2. The report from Nottingham City Council is attached so that Members can have access to the full report. It is pleasing to note that the report concludes that the Council's Internal Audit service conforms to the requirements of the PSIAS.
3. Conformance with the PSIAS gives added assurance to the Corporate Governance and Audit Committee such that they can be confident that audit opinions are robust, evidence-based and arrived at having complied with the PSIAS.

Recommendation

4. To note that the Council's Internal Audit service conforms to the requirements of the Public Sector Internal Audit Standards and;
5. Request progress updates on the implementation of the recommendations of the external assessment.

1. Purpose of this report

- 1.1 In April 2013 a new set of standards became effective for Internal Audit in the public sector. The Public Sector Internal Audit Standards replaced the previous standards. The Standards and the associated Local Government Application Note are mandatory best practice as the Accounts and Audit Regulations 2015 require local authorities to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. PSIAS require that the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The PSIAS further that an external assessments is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 1.2 The Core Cities Chief Internal Auditors' Group agreed a methodology by which they would undertake the external assessments of the Internal Audit function in the Core Cities and a methodology to do so. Corporate Governance and Audit Committee approved the terms of reference of the review at the meeting on 24th June 2016. Mr Shail Shah, the Head of Internal Audit at Nottingham City Council, was in attendance at that meeting to present the terms of reference and respond to Members' questions.

2. Background information

- 2.1 The terms of reference of this committee include considering the Council's arrangements relating to internal audit requirements including:
- (a) reviewing and approving the Internal Audit Charter;
 - (b) reviewing and approving the risk-based plan and any additional significant work;
 - (c) considering the Annual Internal Audit Report
 - (d) monitoring the performance of Internal Audit
- 2.2 Fundamental to the performance of Internal Audit is the assessment that Internal Audit performs in accordance with the PSIAS. The standards require an annual assessment as part of the Quality Assurance and Improvement Programme, the results of which are reported to this committee. Every 5 years the assessment against the standards must be an external assessment. The report deals with the outcome from that quinquennial assessment.

3. Main issues

- 3.1 The external assessment report on Internal Audit's conformance with the PSIAS is attached as Appendix 1. The report concludes that the Council's Internal Audit service conforms to the requirements of the PSIAS. An officer from Nottingham City Council will be in attendance at the meeting of the Committee to both present that report and answer any questions Members have about the review, the conclusions and the recommendations.

- 3.2 Nottingham City Council have included in their report an action plan that sets out the recommendations arising from the review. The action plan also provides the opportunity for a management response to the recommendations. In all instances, the recommendation is accepted and will be implemented. It is proposed that all recommendations in the Nottingham report are monitored as part of the Internal Audit update report to every meeting of the Corporate Governance and Audit Committee. In this way, the committee can receive assurances that the recommendations have been implemented.

4. Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 There are no consultation and engagement issues arising

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no equality and diversity issues arising from this report.

4.3 Council policies and Best Council Plan

- 4.3.1 There are no specific council policy issues arising from this report.

4.4 Resources and value for money

- 4.1.1 This report provides assurance to Corporate Governance and Audit Committee that the resources are effectively deployed in the Internal Audit service as the service conforms with the requirements of the PSIAS.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 There are no legal issues directly arising from this report.

4.6 Risk Management

- 4.6.1 There are no risk management issues arising from this report.

5. Conclusions

- 5.1 I am delighted to report that the result of the external assessment of Leeds City Council's Internal Audit service against the PSIAS is that the service conforms with the standards. This effectively means that the opinions produced by Internal Audit can be relied upon by the Committee. The report is a great credit to the Acting Head of Internal Audit and her team.

6. Recommendations

- 6.1 To note that the Council's Internal Audit service conforms to the requirements of the Public Sector Internal Audit Standards.
- 6.2 Request progress updates on the implementation of the recommendations of the external assessment.

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.



Public Sector Internal Audit Standards

External Assessment of Leeds City Council Internal Audit

November 2016

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8 Conduct of the External Assessment

9 Action Plan

Review Team Details:

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Distribution List

Issue Date:	22 nd December 2016
Issued to:	Tim Pouncey, Chief Officer – Audit & Investment
Copied to:	Doug Meeson, Chief Officer -Financial Services (Deputy S151 Officer) Sonya McDonald, Acting Head of Audit



1. Introduction and Background

- 1.1 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. They were updated in March 2016. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
- 1.2 The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 Many of the requirements of PSIAS fall specifically on the Chief Audit Executive (CAE). The role of CAE as identified by PSIAS is currently being undertaken by the Chief Officer (Audit & Investment). This is an interim measure pending the appointment of a new Head of Audit. There is currently an Acting Head of Audit. The Council’s Internal Audit Charter states that the Head of Audit will be the CAE.
- 1.4 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing which is expected to be used whenever the function of internal audit is explained, for example in the Audit Charter; a Code of Ethics and eleven specific standards. The standards are divided into attribute standard and performance standards.
- 1.5 The Core Cities Chief Internal Auditors (CIA) group has established a ‘peer-review’ process that is managed and operated by the constituent authorities. The peer review process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of Leeds City Council (the Council) by Nottingham City Council Internal Audit (as detailed on page 1 of this report).
- 1.6 The review team lead attended the Corporate Governance and Audit Committee (CGAC) meeting held on 24th June 2016 to confirm the arrangements for the review.
- 1.7 The findings within this report have been discussed and agreed with the Internal Audit management team.



2. Purpose

- 2.1 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.

3. Approach/Methodology

- 3.1 The Core Cities Chief Internal Auditors' group agreed a detailed terms of reference (ToR) that outlines the broad methodology for the conduct of each review. This was issued to Leeds City Council and shared with senior officers. The ToR were discussed and agreed by CGAC.
- 3.2 In summary, the peer review was undertaken in three stages: pre-review; on-site review; post-review evaluation and reporting. It covered audit activity during the period covered in the latest CAE's annual report 2015/16 and the current year to October 2016.
- 3.3 The Acting Head of Audit (on behalf of the Chief Audit Executive - CAE) had completed a self-assessment of Leeds City Council's Internal Audit Service, and its compliance with the Standards. The self-assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation. Self-assessment references have been referred to in the report where appropriate (e.g. SA9b).
- 3.4 Leeds City Council Internal Audit holds ISO 9001 accreditation and is subject to an annual review for this purpose. This has been taken into account in our review.
- 3.5 To support and further inform the assessment, a sample of completed assignments was examined and the documentation used to assess the service's documented processes as part of assessment against PSIAS using the CIPFA Local



Government Application Note (LGAN). This included Audit Manual and operational Guidance Notes.

- 3.6 Operational practices were discussed with the Head of Audit, and Principal Audit Manager and the Quality Assurance (QA) process reviewed with the Principal Audit Manager and evidence was provided to demonstrate compliance with these practices and process.
- 3.7 Meetings were held with senior councillors and officers specifically to explore key expectations and opinions of the audit service, consultation on the audit plan, reporting arrangements and board and senior officer roles. Figure 1 provides details.

Figure 1

examination of core documents including the

Leeds City Council Participants in the Assessment

Name	Role / Title	Contact Type
Cllr Pauline Grahame	Chair of CGAC	Face to face
Cllr Peter Harrand	Opposition CGAC councillor	Face to face
Neil Evans	Director of Environment & Housing	Face to face
Doug Meeson	Chief Officer - Financial Services (Deputy S151 Officer)	Face to face
Tim Pouncey	Chief Officer – Audit & Investment	Face to face
Sonya McDonald	Acting Head of Audit	Face to face & Testing
Louise Ivens	Principal Audit Manager	Testing & Documentation



4. Opinion of External Assessment

- 4.1 This external assessment concludes that Leeds City Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards.
- 4.2 There are some partial conformances and non-conformances which require further development and opportunities have been identified to do this which should enhance the strategic and operational function. These do not impact on the overall opinion. We have shared comments with the CAE and his team as part of the review, but we also provide an annotation of findings to the self-assessment in the Action Plan.
- 4.3 The specific non-conformances with the standards and the impact of these must be disclosed to senior management and the CAE is aware that action plans for development should be shared with senior officers and the CGAC.
- 4.4 We have provided an action plan highlighting areas of partial compliance and non-compliance which has been considered by Internal Audit management and which will be considered by the CGAC in due course – attached at Section 9. The action plan does not cover areas where the service had already self-assessed and identified actions
- 4.5 It was clear from our review of the Internal Audit Service's documentation that supports the self-assessment, from our on-site interviews with key stakeholders and from our assessment of further requested documentation that the service is valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. It operates to ethical standards and with professionalism and integrity. This is achieved through both the service's and Council's standards, policies and practices together with the planned programme of audit work.
- 4.6 The Service is headed by experienced leaders who have a good reputation with stakeholders across the Council. Roles and responsibilities are understood and there is regular, timely communication of audit assurances, issues and concerns to management and Members. The audit service is accredited to quality standards and whilst there are areas where the PSIAS are not or are partially met, these do not affect the overall outcome.



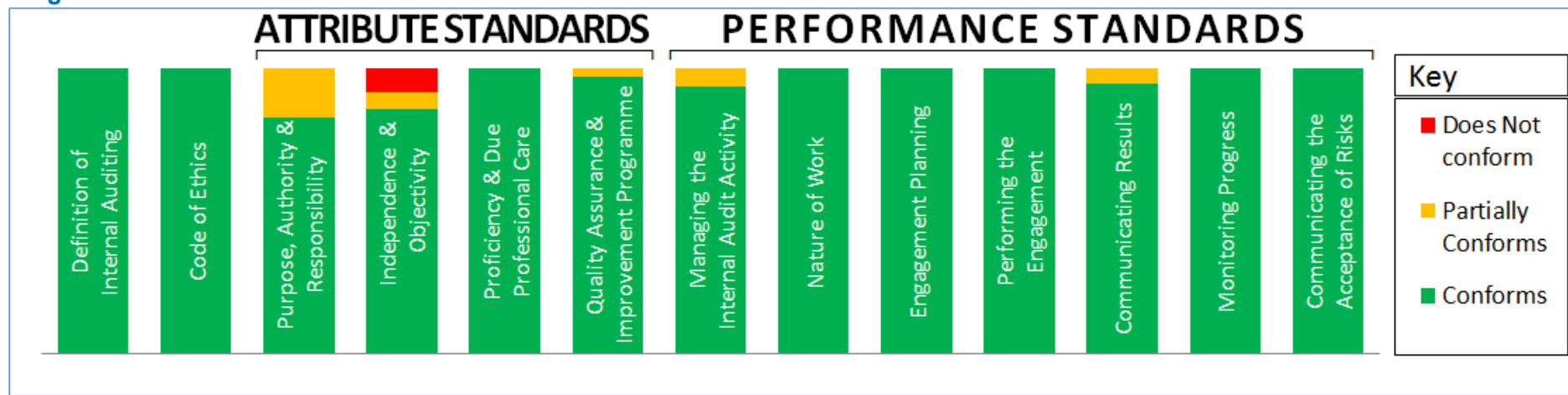
- 4.7 It is also reassuring that areas for further development or consideration that we shared during the review and in this report, were largely identified through the Service's own self-assessment. This demonstrates positive self-awareness, openness and a genuine commitment to ongoing service improvement.
- 4.8 We agreed with the self-assessment with the exception of 4 areas.
- Where the self-assessment disclosed non-conformity but this had not yet been disclosed to CGAC (SA22e SA78).
 - Our assessment of partial compliance for one of the factors related to board's contribution to organisational independence, but this is based on the Audit Charter's definition of the board, which we suggest if amended would allow existing acceptable local government practice to be assessed as conforming (SA22c).
 - A further area assessed as partially compliant due to a lack of minuted CGAC requests for reassurance regarding inappropriate limitations of scope (SA22f). This topic was discussed with councillors and officers during our first visit.
 - Partial compliance in relation to definitions within the Audit Charter (SA9b, SA11d, SA11e).

Summary

- 4.9 Following evaluation of findings, the review team made the following judgements: Of the 349 questions within the PSIAS Local Government Application Note, the Internal Audit team fully conforms in 334 areas, partially conforms in 12 areas, and does not conform in 3 areas. We have reviewed a sample of other cities' assessments and identified that for the elements of the standards in question; the non-conformity is generally accepted practice. In the few instances where questions were not applicable we have deemed this to be conformant. The distribution of conformance is set out in figure 2 below.



Figure 2



Does Not conform	0	0	0	3	0	0	0	0	0	0	0	0	0
Partially Conforms	0	0	3	2	0	1	3	0	0	0	3	0	0
Conforms	3	13	19	30	21	34	44	31	58	22	52	4	2

Does Not conform				SA22e SA23 SA24									
Partially Conforms			SA9b SA11d SA11e	SA22c SA22f		SA78	SA86 SA111 SA112				SA202b SA202c SA205f		



Findings

5. Definition & Code of Ethics

Definition of Internal Auditing

- 5.1 The evidence that we have seen leads us to conclude that Leeds City Council Internal Audit service has demonstrated that it is independent, objective and uses a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation.

Code of Ethics

- 5.2 Internal auditors at Leeds City Council Internal Audit service demonstrate integrity, objectivity, confidentiality, and competency and have regard to the Seven Principles of Public Life as required by PSIAS.

6. Attribute Standards

Standard 1000: Purpose, Authority and Responsibility

- 6.1 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility and references are made to the PSIAS requirements. The role of audit appears to be well understood within the team and respected within the wider organisation, including the Corporate Governance and Audit Committee (CGAC).
- 6.2 Although section 2.1n of LCC's Audit Charter refers to the relevant PSIAS requirement, section 16 of the Charter fails to mention information and other assets held by third parties on behalf of the authority, e.g. in partnership, contracting and community or social enterprise arrangements which we feel is a weakness in the authority granted to Internal Audit. Section 8.1 of the Audit Charter refers to the control environment - it may benefit from clarification by referring to the authority and its group of companies (SA9b, SA11e).
- 6.3 In view of the responsibilities defined by PSIAS the definition of Senior Management seems narrow. We would suggest widening the definition to include the Monitoring Officer, Head of Paid Service and Corporate Leadership Team, given their role in providing input to the Audit Plan (SA11d).



Standard 1100: Independence and Objectivity

6.4 The CAE has unrestricted access and without reference to other senior managers to

- Senior management
- Board (CGAC)
- Chief Executive
- Chair of CGAC

and our interviews with a sample of members of this group and documentary evidence indicate that he communicates well with them.

6.5 Threats to objectivity are managed well subject to

6.6 The CAE is organisationally independent notwithstanding the comments in Figure 3. We understand that within interim arrangements the CAE has functional responsibility for Investments and has a Non-Executive role in the Children's Services Department. A standard arrangement exists to enable Internal Audit to remain independent and objective by the Acting Head of Audit reporting direct to the Deputy Section 151 Officer.

6.7 There are several areas of this standard where Leeds City Council Internal Audit does not conform or only partially conforms to the PSIAS LGAN, the majority of which represent generally accepted practice as shown in Figure 3.

Figure 3

the comments in Figure 3.

Issue	Status	Disclosure
Budget not approved by CGAC (SA22c)	Partially Conforms*	
Appointment and removal of the CAE is not approved by CGAC (SA22e)	Does Not Conform*	Not yet disclosed
CGAC is not minuted as having sought reassurance from management and the CAE whether there are any inappropriate limitations of scope (SA22f)	Partially Conforms	
Chief Executive does not contribute to review or performance appraisal of the CAE (SA23)	Does Not Conform*	Disclosed in report to CGAC November 2013
Feedback is not sought from chair of CGAC for the CAE's performance appraisal (SA24)	Does Not Conform*	Disclosed in report to CGAC November 2013

* We have confirmed that this is generally accepted practice managing Internal Audit in core cities.



Figure 4

Factors Contributing to Objectivity

Code of Conduct
 Employee Outside Interests Policy
 Audit Charter including Code of Ethics
 Audit scoping process
 Rotation of audit assignments between auditors

Figure 5 by these qualifications
biannual assessment of**Qualification of Team Members**

CCAB	16
PIIA	4
MIIA	1
QiCA	1
CIPQ	1
AAT	3
Studying	3
*Total 24 individuals	

Figure 6

Experience of Team Members

10+ years	10.93
5-10 years	5
<5 years	4
All figures are Full-Time Equivalents	

6.8 The internal audit process and corporate policy environment contributes to the individual objectivity of internal auditors (see Figure 4), and we have not become aware of any impairment to independence or objectivity during our review.

Standard 1200: Proficiency and Due Professional Care

6.9 Internal Audit team members are all professionally qualified or studying for professional qualifications (figure 5). There is a good mix of expertise demonstrated including IT and counter fraud. Job descriptions are up to date and there is a staff against a competency matrix, as well as an assessment at the conclusion of each audit. There is evidence of relevant training to support team members in their roles. Continuous professional development records of team members are reviewed as part of biannual assessment. The team has many years' experience (figure 6).

6.10 There are 4 team members trained to use the IDEA data interrogation and analysis tool, which has allowed the team to introduce a form of continuous audit plan and deliver analytical review a result of which was a well-publicised successful fraud prosecution. The work process is well-defined and includes a technical manual and scoping document.

6.11 The extent of work required to meet the scope of the audit is controlled through the scoping document and review process. The Audit Leadership Team considers the competencies of auditors when assigning work.

Standard 1300: Quality Assurance and Improvement Programme



- 6.12 The standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the standards to be evaluated. The service has completed a PSIAS Local Government Application Note checklist and provided supporting evidence to this review, and has reported previous self-assessments to the CGAC including non-conformance (though we noted an additional item to report – SA78) and an improvement action plan. There is an overall reference to conformance in the annual report 2015/16.
- 6.13 There are good processes in operation to monitor quality on an ongoing basis (figure 7). ISO 9001 accreditation is in place and internal quality reviews occur in line with the 9001 standard. Customer Satisfaction Questionnaires are issued to clients at the end of each assignment and the information returned is used to identify training and development needs.
- 6.14 Performance is discussed within a range of internal meetings and key performance measures are reported to CGAC and Audit Leadership Team as appropriate. Discussions have been taking place with the new Chair of CGAC around the committee’s requirements for audit performance reports.
- 6.15 The form of external assessment selected by Leeds City Council Internal Audit and approved by the CGAC has been determined in order to meet the criteria of the PSIAS. This approach was agreed with other Core Cities as best meeting the needs of all involved and in particular allows for assessors to have good understanding of the role of internal audit within the local government of a major city. The approach has designed out conflict of interest through non-reciprocity of assessment.

Figure 7

Quality Assurance Regimes

QAIP
ISO 9001
Internal Systems



7. Performance Standards

Standard 2000: Managing the Internal Audit Activity

- 7.1 The service has arrangements to produce a risk-based audit plan annually as defined within its charter. This links to organisational priorities, the Council's Corporate Risk Register and national and regional issues, and enables an annual audit opinion to be given. The plan takes account of stakeholder input. The audit plan is broken down into assurance blocks and meets the expectations of the standard, including the requirement for flexibility, review and use of specialists where appropriate. The Audit Plan is agreed by senior management and approved by the CGAC. Any significant changes to the Audit Plan would be communicated to senior management and the CGAC – though this has not been necessary in the period reviewed.
- 7.2 Resource requirements are identified as part of the planning process, and timing and scope of engagements are subsequently agreed with management. CGAC has enquired and the CAE has confirmed that adequate resources are available to deliver the plan.
- 7.3 Policies and procedures have been put in place to guide internal audit activity, which support compliance with PSIAS, and these are reviewed periodically. Procedures are also subject to annual review by an external ISO assessor.
- 7.4 The service meets regularly with the Council's external auditor KPMG with a view to coordinating activity. The Head of Scrutiny is also consulted on planned work to reduce duplication.
- 7.5 The service has identified and started to implement an assurance mapping framework which will enhance governance, improve coordination and inform the risk-based audit plan. We agree with the service's self-assessment that this allows partial conformance with PSIAS and this addressed in action 2 of the service's Improvement Action Plan (SA86, SA111, SA112).
- 7.6 The service provides regular updates in an agreed format to management and the board which include fraud work, and gives the opportunity to highlight limited and no assurance opinions and major impact opinions.



- 7.7 The standard for External Service Provider and Organisational Responsibility for Internal Audit does not apply to Leeds City Council as the service is provided internally.

Standard 2100: Nature of Work

- 7.8 The service has a systematic and disciplined approach to its activity supported by the Technical Manual, agreed quality procedures and standardised working paper files. There may be a need to refresh this documentation when a decision is taken to utilise the working papers facility within the Galileo audit automation package.
- 7.9 Internal audit activity evaluates and contributes to the improvement of the organisation's governance through a programme of audits linked to ethics and values, performance management, and information technology, and through recommendations within other audits. These audits are balanced against other priorities through the assurance block arrangements. The CAE and HoIA are involved in coordination of CGAC, external and internal audit plans and management reporting.
- 7.10 Internal Audit has a programme to evaluate the organisation's risk management and control processes which includes all the elements required by PSIAS. Its scoping process and Charter ensure that other significant risks are considered, that the service maintains its independence and objectivity, and uses the knowledge of controls that auditors have gained across all types of engagement.

Standard 2200: Engagement Planning

- 7.11 Scoping documents are prepared for each audit or consultancy engagement which are agreed with and issued to the respective client officers. Engagement planning meets the PSIAS requirements, and engagement objectives and scope are set with regard to the appropriate factors specified by PSIAS.
- 7.12 Internal Audit policies and procedures ensure that resource allocation matches the nature, complexity, and time constraints for each engagement.



- 7.13 Work programmes are developed and documented in accordance with the service’s quality processes and are standardised where appropriate. These ensure that relevant information is collected, analysed, evaluated and recorded for each assignment. Procedures exist to approve the work programmes and adjust them if necessary.

Standard 2300: Performing the Engagement

- 7.14 We have seen evidence that supports the completion of work programmes. Procedures operate to ensure that information with appropriate qualities is identified. The reports seen based their conclusions on appropriate analyses and evaluation, and there was evidence that the factors mentioned in PSIAS formed part of the considerations. Documentation for audits was securely held, subject to retention and disposal policies consistent with those of the organisation, and sufficient to support engagement conclusions and results.
- 7.15 We saw evidence of supervision and quality assurance within the sample of audits we selected which was consistent with the policies and procedures of the service.

Standard 2400: Communicating Results

- 7.16 The results of engagements are communicated in accordance with the requirements of the standard.
- 7.17 The statement of conformance with PSIAS is only used in the Annual Audit Report. Use of the statement is supported by the results of QAIP and is therefore acceptable. We understand that there have been no examples of non-conformance within engagements and identified none in the sample that we reviewed.
- 7.18 Appropriate arrangements are in place for ensuring the results of engagements are shared with appropriate parties within Leeds City Council.
- 7.19 The service broadly complies with the standard in relation to the overall annual internal audit opinion. We agree with the service’s self-assessment that it needs to give an active opinion regarding limitation of scope (SA202b) and regarding reliance on other assurance providers (SA202c), and enhanced reporting of achievement of the audit plan (SA205f). There



are 3 areas of partial compliance where the service does not make all the disclosures required by the standard, but the service has identified these and they will be rectified in the 2016-17 annual internal audit opinion.

Standard 2500: Monitoring Progress

7.20 The monitoring process implemented by the service meets the requirements of the standard.

Standard 2600: Communicating the Acceptance of Risks

7.21 The service has appropriate protocols and processes in place to deal with communicating and challenging the acceptance of risks.



8. Conduct of the External Assessment

8.1 This external assessment of Leeds City Council's Internal Audit Service has been conducted in accordance with Standard 1312 (External Assessments) of the Public Sector Internal Audit Standards 2016, effective from April 2016, and the related CIPFA Local Government Application Note (2016). Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.

Figure 8

8.2 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process. Figure 8 shows key information in this regard.

Review Team	Years*
Shail Shah	26
Simon Parsons	31
John Slater	20
* Audit experience	

8.3 Regarding competence, the Standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.

8.4 I certify that as the external assessor as defined in the PSIAS, I am a CCAB qualified accountant , and have 26 years of audit experience (22 of which have been at a Chief Audit Executive level). This experience has been gained in a comparable sector (local government) and I currently fulfil the role of Chief Audit Executive for Nottingham City Council. I have no conflict of interest in performing this assessment in respect of Leeds City Council's Internal Audit Service – I am not a part of, or under the control of, Leeds City Council.

Shail Shah ACCA
 Audit & Risk Division
 Nottingham City Council
 Loxley House
 Station Street
 Nottingham
 NG2 3NG



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
1	9b 11e	<p>Section 16 of the Internal Audit Charter does not mention information and assets held by third parties on behalf of the authority, e.g. in partnership, group companies, contracting and community / social enterprise arrangements.</p> <p>This clarity of authority to access these assets and explanations is important because it enables Internal Audit to carry out all appropriate work and properly form assignment and overall opinions.</p> <p>Partially conforms</p>	Ensure that wording in the Charter allows access to all relevant assets and explanations.	Agree, we will review the Charter and propose amendments for CGAC to agree but would like to provide an assurance that, as currently drafted, the Charter has not adversely impacted on our access to information and assets.	Revised Charter to be presented to the April meeting of the CGAC.
2	10 11d 22c	<p>Section 4 and 5 of the Internal Audit Charter define roles. Charter section 11.3 also refers in respect of receiving reports, here the monitoring officer role is not directly referred to but Corporate Leadership Team is. The head of paid service is referred to in respect of reporting arrangements to achieve organisational independence.</p> <p>Clarity of roles ensures that management and board provide appropriate challenge, direction and</p>	In defining roles in the Internal Audit Charter it may be worth considering the role of the monitoring officer and head of paid service input to the plan and commissioning. Potentially, redefining senior management would help here. We would also suggest that in definition of the board, asserting that the Section 151 Officer performs some of these roles at Leeds City Council, helps the Council to meet PSIAS	Agree, as above.	Revised Charter to be presented to the April meeting of the CGAC.



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
		support for Internal Audit. Conforms (10) Partially conforms (11d 22c)	requirements.		
3	11p	Sections 1 and 2 of the Internal Audit Charter state the standards but are not clear that they 'incorporate them in the charter', most specifically that PSIAS is mandatory or the context of mandation. Clarity of communication that both the Council and the Internal Audit service are required to conform to PSIAS helps to ensure that individuals carry out their roles. Partially conforms	We suggest that section 1 includes a comment that PSIAS are mandatory in respect of Attribute Standards for Leeds City Council and in respect of Performance Standards for Leeds City Council Internal Audit.	Agree, as above.	Revised Charter to be presented to the April meeting of the CGAC.
4	22e 78	Leeds City Council reported non-conformance with the PSIAS to Corporate Governance and Audit Committee in respect of two areas. We have identified a third area which requires reporting covering responsibility for appointment and removal of the CAE. The standard requires all non-conformances to be disclosed to	Ensure that the additional area of non-conformance is reported to CGAC as part of response to this review.	Agree, this report does indeed bring this matter to the attention of CGAC. The 3 non-conformances in Figure 3 relate to HR matters. Having discussed these recommendations with the Deputy Chief Executive, we will consult with HR to determine how these recommendations can be implemented in full. This would require a change to the CGAC	Will depend on HR advice. That said, we will provide an update to the April CGAC when we should be in



Ref	Your Refs	Finding	Recommendation	Management Response (Action)	Timescale
		board. Does not conform (22e) Partially conforms (78)		terms of reference.	a position to be more precise in terms of timescales.
5	22f	The board is not minuted as having sought assurance from management and the CAE regarding whether there are any inappropriate limitations of scope. By consistently seeking such assurance the board ensures that it receives appropriate quality information and allows it to take action if it does not. Partially conforms	The CAE should ensure that when discussing the annual report and the audit plan assurances are both given and sought in relation to resources and limitation of scope.	This is a difficult one to resolve, in part because we assessed ourselves as being compliant in this regard as there have been no inappropriate limitations to scope. To be proactive, we will make a specific statement about scope limitations in all future update reports and annual reports. It will be for the CGAC to determine whether assurances, over and above those that we agree to provide in the reports, about scope limitations should be sought in respect of Internal Audit reports and all annual assurance reports provided to the Committee.	January CGAC

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 27th January 2017

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's 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

7th April 2017		
Internal Audit Plan	To receive a report informing the Committee of the Internal Audit Plan for 2017/18	Sonya McDonald Acting Head Of Internal Audit
External Audit Plan	To receive a report informing the Committee of the External Audit Plan for 2017/18	KPMG
Internal Audit Update Report	To receive the Internal Audit quarterly report	Sonya McDonald Acting Head Of Internal Audit
Information Governance Annual Report	To receive a report on the Council's Information Governance arrangements.	Dylan Roberts, Chief Digital Officer
Internal Audit Charter	To receive a report setting out proposals to update the Internal Audit Charter	Sonya McDonald Acting Head Of Internal Audit
Annual Business Continuity Report	To receive the annual report reviewing the Councils Business Continuity planning.	Mariana Pexton (Chief Officer Strategy and Improvement)
Annual Financial Management Report (Incorporating Capital) 2016/17	To receive the annual report reviewing the Financial Planning and Management Arrangements at the Council	Neil Warren (Head of Corporate Finance)
Annual Assurance Report on the Procurement, Policies and Practices	To receive the annual assurance report on the Procurement, Policies and Practices	Dave Outram Chief Officer PPPU

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