Leeds
CITY COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

**Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Friday, 7th April, 2017 at 2.00 pm**

MEMBERSHIP

Councillors

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

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A G E N D A

Item No	Ward	Item Not Open		Page No
1			**APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS** 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). (*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)	
2			**EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC** 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:- **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:-	

Item No	Ward	Item Not Open		Page No
3			**LATE ITEMS** To identify items which have been admitted to the agenda by the Chair for consideration (The special circumstances shall be specified in the minutes)	
4			**DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'** 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.	
5			**APOLOGIES FOR ABSENCE** To receive apologies for absence (If any)	
6			**MINUTES OF THE PREVIOUS MEETING** To receive and approve the Minutes of the previous meeting held on 27th January 2017. (Copy attached)	1 - 10
7			**MATTERS ARISING FROM THE MINUTES** To consider any matters arising from the minutes.	
8			**ANNUAL INFORMATION GOVERNANCE REPORT** To consider a report by the Director of Resources and Housing which sets out details of the steps being taken to improve Leeds City Council's information governance in order to provide assurance for the annual governance statement. (Report attached)	11 - 28

Item No	Ward	Item Not Open		Page No
9			**ANNUAL BUSINESS CONTINUITY REPORT**	29 - 38
			To consider a report by the Director of Resources and Housing which seeks to provide assurance of the adequacy of the business continuity management arrangements currently in place and assurance that Leeds City Council (LCC) maintains compliance with the statutory duties contained within the Civil Contingencies Act 2004.	
			(Report attached)	
10			**PROCUREMENT ASSURANCE REPORT**	39 - 64
			To consider a report by the Chief Officer, Projects Programmes & Procurement Unit, which seeks to provide assurance on the ongoing work to maintain effective procurement support tools and guidance	
			(Report attached)	
11			**KPMG AUDIT PLAN 2016/17**	65 - 86
			To consider a report by the Chief Officer (Financial Services) which sets out details of KPMG's audit plan for the audit of the Council's accounts and value for money arrangements. The report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2016/17.	
			(Report attached)	

Item No	Ward	Item Not Open		Page No
12			**INTERNAL AUDIT UPDATE REPORT JANUARY TO MARCH 2017** To consider a report by the Chief Officer (Financial Services) which provides a summary of the Internal Audit activity for the period January to March 2017 and highlight the incidence of any significant control failings or weaknesses. (Report attached)	87 - 98
13			**INTERNAL AUDIT PLAN 2017-18** To consider a report by the Chief Officer (Financial Services) which presents the proposed Internal Audit Plan for 2017-18 for review and approval. The report also includes a summary of the basis for the plan, the plan having been developed in consultation with senior management. (Report attached)	99 - 114
14			**INTERNAL AUDIT CHARTER** To consider a report by the Chief Officer (Financial Services) which presents the proposed Internal Audit Charter for review and approval. (Report attached)	115 - 134
15			**ANNUAL ASSURANCE REPORT ON THE FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS** To consider a report by the Chief Officer (Financial Services) which seeks to provide assurance that the council has in place robust arrangements for proper and effective financial control, governance and other financial management activities. (Report attached)	135 - 150

Item No	Ward	Item Not Open		Page No
16			**APPROVAL OF CORPORATE GOVERNANCE CODE AND FRAMEWORK** To consider a report by the City Solicitor which seeks approval to a revised Corporate Governance Code and Framework for Leeds City Council. (Report attached)	151 - 202
17			**WORK PROGRAMME** To receive a report of the City Solicitor which notifies Members of the Committee's draft work programme for the 2017/18 year. (Report attached)	203 - 208
18			**DATE AND TIME OF NEXT MEETING** To note that the next meeting will take place on Friday 30th June 2017 at 2.00pm in the Civic Hall, Leeds. (To be confirmed)	

Corporate Governance and Audit Committee

Friday, 27th January, 2017

PRESENT: Councillor P Grahame in the Chair

Councillors R Wood, J Bentley, P Harrand, N Dawson, A Sobel and J Illingworth

35   Appeals Against Refusal of Inspection of Documents

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

36   Exempt Information - Possible Exclusion of the Press and Public

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

37   Late Items

There were no late items

38   Declaration of Disclosable Pecuniary and Other Interests'

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

39   Apologies for Absence

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

40   Minutes of the Previous Meeting

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

41   Matters Arising from the Minutes of the Previous Meeting

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

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

Draft minutes to be approved at the meeting
to be held on Friday, 7th April, 2017

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

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

42   Business Rates - Working Group Recommendations

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

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

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

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

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

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

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

(i)   **Recommendation No.1 -** The Chief Officer (Financial Services) advises the Executive Board on   the implications of the 2017 Ratings List early in 2017.

(ii)   **Recommendation No.2 -** That the Chief Officer (Financial Services), provides a quarterly update to Executive Board on the status of

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

(iii)   **Recommendation No.3 -** That the Chief Officer (Financial Services), by way of the annual financial management assurance report to Corporate Governance and Audit Committee, keeps the committee advised of ways by which the local authority's exposure to financial risks arising from successful business rates appeals is being managed.

(iv)   That in addition to receiving the report set out in Recommendation No.3 the committee maintain a watching brief on governance issues associated with Business Rates, including continuing a dialogue with the Valuation Office Agency

43   Customer Contact and Satisfaction - Annual Report.

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

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

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

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

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

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

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

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

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

RESOLVED –

(i)   That the contents of the report be noted

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

44   **Treasury Management Governance Report 2016**

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

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

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

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

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

- Operate within the governance framework established by the council and that all borrowing and investments had been undertaken in with the approved governance framework and were in line with the Treasury Management Policies and Practices.

- Comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management

RESOLVED –

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

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

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

45 KPMG Certification of Grants Report 2015/16

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

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

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

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

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

Mr Lee's presentation highlighted:

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

The Chair thanked Mr Lee for his attendance and contribution.

RESOLVED –

  (i) To receive KPMG's Certification of Grant Claims and Returns report

  (ii) To note the conclusions and recommendations arising from their 2015/16 audit work

46 KPMG IT Audit 2015/16

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

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

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

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

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

RESOLVED –

(i)   To receive KPMG's IT Audit Report

(ii)   To note the conclusions and recommendations arising from their 2015/16 audit work

47   KPMG Annual Audit Letter 2015/16

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

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

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

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

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

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

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

RESOLVED -

(i) To receive the Annual Audit Letter 2015/16

(ii) To note the conclusions and recommendations arising from the 2015/16 external audit process

48   Procurement of External Auditor

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

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

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

The Head of Corporate Finance presented the report and highlighted:

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

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

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

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

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

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

In the discussion that ensued the following issues were highlighted:

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

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

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

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

RESOLVED –

(i)   To receive the Internal Audit Update Report covering the period 1st September to 31st December 2016.

(ii)   To note the work undertaken by Internal Audit during the period covered by the report

(iii)   To note there had been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period

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

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

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

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

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

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

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

The Chair thanked Mr Slater for his attendance and contribution

RESOLVED –

(i)   To note that the Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards

(ii)   That further updates be prepared on the implementation of the recommendations of the external assessment

51   Work Programme

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

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

RESOLVED –

(i)   That the contents of the work programme be noted.

(ii)   That the requested information in respect of record management arrangements would be included in the Annual Information Governance Assurance Report (7th April 2017)

52   Date and Time of Next Meeting

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

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Leeds
CITY COUNCIL

Report author: Louise Whitworth

Tel: 07891 276168

Report of Director of Resources and Housing

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Annual Information Governance Report

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

Summary of main issues

1.   There has been a re-structure of the Information Governance Management Team and the creation of a new post; Head of Information Management of Governance, to provide professional leadership on Information Management, Information Security, Information Risk Management, DPA and FOI and Knowledge Management

2.   The Cabinet Office has placed the council into an 'escalation' process for PSN. The Cabinet Office has contacted Tom Riordan in this regard who is fully supportive of the work required to enable the Council to regard it's PSN certification.

3.   The council continues to handle and process requests for information in accordance and compliance to appropriate legislation such as the Data Protection Act and Freedom of Information Act.

4.   The General Data Protection Regulation (GDPR) will replace the current Data Protection Act 1998, and will pass directly into Member State law taking effect from 25th May 2018. The Regulation imposes new and significantly more stringent requirements for the handling of personal data.

5.   The work required to address the recommendations of the Information Commissioners Audit report has been completed or is underway. Delivery against the remaining recommendations is being carried out by a small team of Information Governance professionals and completion is expected by March 2018.

Recommendations

6.	Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurances provided as to the Council's approach to information governance. The Corporate Governance and Audit Committee is also asked to consider the request made in 3.2.11 to report back to Committee in September, specifically with regards to Cyber Assurance and Compliance.

1.   **Purpose of this report**

1.1   To provide Corporate Governance and Audit Committee with an annual report on the steps being taken to improve Leeds City Council's information governance in order to provide assurance for the annual governance statement.

2   Background information

2.1   Leeds City Council recognises the need to protect its information assets from both accidental and malicious loss and damage. Information Governance is taken very seriously by the council and this is evidenced by the on-going work to improve the management and security of our information as outlined in this report.

2.2   The report provides Committee Members with an update on the more strategic and cross-council activity on-going to provide assurance on our approach to information governance.

3   Main issues

3.1   **Overall arrangements for Information Management and Governance Assurance**

3.1.1   The Council, in line with recommended practice for public authorities in the UK, continues to provide demonstrable arrangements which ensure that information assurance is addressed along with other aspects of information governance.

3.1.2   The council has an established and fully trained Senior Information Risk Owner (SIRO), the Deputy Chief Executive, who has overall ownership for information risk management across the council. Work is in hand to ensure that this role transitions smoothly from the 1st April when management arrangements in the Council change at the senior level. Neil Evans (currently Director of Environment & Housing Environment & Housing) will be taking on the role of SIRO from 1st April. The SIRO is supported by the Chief Digital and Information Officer who has delegated decision making powers for information governance. The Chief Digital and Information Officer chairs the council's Information Management Board which ensures good standard information management practice is embedded into business processes, and information standards and policy are fit for purpose and kept up to date. Decisions made by the Chief Digital and Information Officer at the Information Management Board are effectively communicated across each Directorate through the Information Management and Governance Team.

3.1.3   The Director for Adult Social Care is the council's Caldicott Guardian. This is a strategic role responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information sharing across Health and Social Care.

3.1.4   Over the last 10 months the provision for how information governance is managed across the council has been re-structured. The new role of Head of Information Management and Governance has been established. The purpose of this role is:-

- To be accountable for developing and implementing frameworks that ensure that best value is achieved from the appropriate use of information to support the delivery of Council and City outcomes.

- To provide professional leadership on Information Management, Information Security, Information Risk Management, DPA and FOI and Knowledge Management to support improved service outcomes, through a 'One Council' approach to Information.

- To ensure there is a comprehensive set of Information related policies, strategies and ambitions in order to effectively direct and shape the service and ensure awareness and understanding for all officers, elected members and citizens where applicable across the Council.

- To act as the lead for enabling and supporting the councils Transparency and Open Data Strategy ensuring appropriate strategy and implementation across the council

- To oversee the effective underpinning of the Council's operations in the following areas:

  o Compliance and Cyber assurance

  o Information Risk Management

  o Information Quality

  o Information Access Law – Request Management

  o Arrangements for lawful disclosure of none public information

  o Open Data

3.1.5 This role also directly provides line management and leadership to four Information Governance leads and Information Governance teams across the Council.

- Cyber Assurance and Compliance

- Information Access and Compliance

- Records Management

- Change and Initiatives

3.1.6 Each of the Information Governance leads have developed work programmes, which are monitored and managed through the IM&G Management Team and in turn the Chief Digital and Information Officer.

3.2 **Cyber Assurance and Compliance**

3.2.1 The Public Services Network (PSN) was set up as an assured route for information sharing by central Government, to facilitate shared services and also serve as the assured route for GCSx mail. It acts as a compliance regime that serves as both a commitment to a basic level of information security for connecting authorities and also a level of trust between Leeds City Council and other public services.

3.2.2 A number of services are accessed via PSN, Blue Badge and CIS Revenues and Benefits and Tell Us Once for registrars. PSN certification is relied upon as a mechanism to support information sharing, where many of the requirements request that the council present a certificate prior to sharing, or evidence alternative, more time consuming compliance work to be completed. This has had an impact already on sharing with Health as a number of the controls are evidenced by a PSN certificate. For instance, GCSx mail depends upon PSN certification; JARD (Joint Asset Recovery Database) is presented over the PSN network; new ways of working with the Valuation Office Agency; and, the Family Information Service eligibility, which is a new legislative requirement from September 2017, relies on the council having PSN certification.

3.2.3 Due to more stringent compliance control brought in by the Cabinet Office in 2015 the council are presently unable to meet the PSN certification requirements. The Cabinet Office has placed the council into an 'escalation' process for PSN, a process by which the Cabinet Office seek commitment from the CEO and provide further support in remediation against the controls.

3.2.4 A PSN Remediation Board has been established with the Head of Information Management and Governance as SRO. The board meets bi-weekly to work through the compliance requirements and close down remediation tasks realised by the Cabinet Office auditors. Monthly meetings with Cabinet Office provide them with regular reports about the progress being made by the council.

3.2.5 The current status of remediation actions is as follows:

- Issues resolved: 98

- Issues with a plan in place and on track: 38

- Issues with a plan in place, but off track: 4 - currently working to a November 2017 end date for one issue, however working closely with the service area to bring this forward.

- Issues with no plan: 4 – discussion currently underway in order to develop solutions.

3.2.6 Examples of issues include:

- Unsupported software such as Lotus Notes, which no longer receive security patches from the supplier

- Unsupported Windows 2003 servers, which no longer receive security patches from suppliers. Business applications sit on these servers and as a result could be vulnerable.

3.2.7 A further external audit was conducted on behalf of the Cabinet Office in February 2017. The Head of Information Management and Governance is still waiting for the outcome of this audit.

3.2.8 A Professional Lead for Cyber Assurance and Compliance has been appointed and is now working with the Information Management and Governance Management Team.

3.2.9 A Cyber Risk for the council has been agreed and is now presented for quarterly reporting on the corporate register. The council is keen to improve the security of the environment fundamentally, those improvements will be managed and prioritised via the PSN Remediation Board, and first steps include the procurement of a Vulnerability Management suite, which will provide the council with warnings on any slippage of security across the estate.

3.2.10 The Committee can be assured that work to regain PSN certification is the highest priority for the Information Management and Governance Service, the Digital Information Service, with the full backing of CLT. However, at this time and until all the actions required by the Cabinet Office are completed, only limited assurance can be given with regards to Cyber Assurance and Compliance.

3.2.11 It is requested that a report specifically regarding this area of compliance comes to this Board in September 2017, to update the position.

3.3 **Information Access and Compliance**

3.3.1 Information legislation provides rights for citizens to access information held by the council. In respect of the Data Protection Act (DPA) this provides a statutory right for citizens to access information held about them within forty calendar days of submitting a request. Under the Freedom of Information Act (FOIA) citizens have a right to request information held by a public organisation, such as the council, and unless an exemption applies, the council is under a duty to provide this information within twenty working days of receiving a request.

3.3.2 The need to be able to locate and retrieve information is essential, both to enable the council to operate effectively and efficiently and to respond to information requests within the statutory timescales prescribed. The risk to the council of non-compliance would be enforcement action from the Regulator, the Information Commissioner's Office (ICO). The ICO has a range of enforcement actions it can impose, including issuing monetary penalty notices of up to £500,000 for serious breaches of the DPA; the issue of undertakings committing an organisation to a particular course of action in order to improve its compliance (DPA/FOIA); serve enforcement notices and 'stop now' orders on organisations (DPA/FOIA); and, prosecute those who commit criminal offences under the Act (DPA/FOIA).

3.3.3 A team of Information Practitioners ensure that all requests for information to the council are processed and dealt with according to respective legislation and within statutory timescales, and handle complaints from citizens and enquiries from the ICO. The ICO monitors the performance of all public authorities to ensure that they are compliant with legislation. The ICO's monitoring threshold for FOI is that an organisation should be processing 85% of its requests within the statutory 20 working day time limit; and, the monitoring threshold for SAR's is that an organisation should be processing 90% of its requests within the statutory 40 calendar day time limit. Therefore it is important the council performs well in dealing with citizens requests for information, and continues to improve information governance practice in information processes, systems and networks to improve access and availability of information. The council is currently meeting both of these thresholds. The table below outlines the numbers of requests received and handled by the council for both the DPA and FOIA during 2014/15 2015/16 and figures to date for 2016/17: These figures represent a 3% increase in the number of FOI requests and a 20% decrease in the number of SAR request received compared to the same period last year. SAR's are on average 525 pages per request.

	2014/15	% compliance to statutory timescale	2015/16	% compliance to statutory timescale	2016/17 to Dec 2016	% compliance to statutory timescale
DPA – Subject Access Requests	466	81.6	514	89.0	317	97.4
FOIA – Requests for Information	1986	92.9	2017	96.4	1518	97.6

3.3.4 The General Data Protection Regulation (GDPR) will replace the current Data Protection Act 1998, and will pass directly into Member State law taking effect from 25th May 2018. The rules are designed to give citizens across the EU control of their personal data and to create a high, uniform level of data protection across the 28 members' states, fit for the digital era. The Regulation imposes new and significantly more stringent requirements for the handling of personal data on all organisations which use personal data.

3.3.5 The government has confirmed that the UK will be implementing the GDPR regardless of Brexit (the Secretary of State Karen Bradley's MP appearance before the Culture, Media and Sports Select Committee on 24 October).

3.3.6 Many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act (DPA), so most of the council's current approach to compliance will remain valid under the GDPR and can be the starting point to build from. However, there are new elements and significant new requirements so there will be some significant work to deliver to ensure the council is compliant with the new Regulation. These requirements will affect all parts of the council which handle personal or personal sensitive data.

3.3.7 Committee can be assured that the council has established a strategic working group which is in the process of conducting a personal data audit across the council to fully understand how services handle personal data and where there might be an impact. Existing resources such as the Information Asset Register and Applications Portfolio will be used to support other ongoing work streams. It is important the council is prepared for the implementation of GDPR on 28th May 2018 as failure to adhere to the Regulations would subject the organisation to the risk of an administrative fine. Public Authority fines will be the subject of separate derogation from the UK Government, and at the time of writing, this is yet to be issued. However, unlike with the current Data Protection Act, fines can be issued to organisations who cannot demonstrate compliance with GDPR, in addition to data breaches. This is a significant change.

3.3.8 The size and scale of both the GDPR and Leeds City Council means that this project needs to commence and gain momentum quickly if the council is to be able to make the required changes within the timescale. Whilst work has commenced, as outlined in paragraph 3.3.7, further resources are required quickly to undertake the required work. To this extent the strategic working group are assessing the requirements with a view to properly scoping and costing the council wide programme and informing a business case, which will be taken to a future CLT.

3.3.9 There is an embedded Information Security Incident Management and Reporting process across the council, which is coordinated by Information Compliance Officers. Since the Information Commissioner's audit in 2013, the council has a continued improved record and not experienced any incidents which have required involvement by the Information Commissioner. The Information Security Incident Management and Reporting procedure is currently being reviewed as one of the work streams under the GDPR Strategic Working Group's agenda, as GDPR will require changes to process; including the reporting of a breach to the ICO within 72 hours if there is a risk to an individual.

3.3.10 Staff awareness and training on information governance remains an important and integral part of the council's information strategy and is delivered through a series of training programmes. The Level One training is mandatory to all staff and is provided every two years. The latest version was launched in June 2016 and 92% of council staff has accessed the training programme. The ICO recommend regular staff training, as this helps, not only to make staff aware of their responsibilities for information, but to mitigate against information incidents. The next version which will be delivered in 2018 will incorporate any changes under the new General Data

Protection Regulations (GDPR) coming into force in May 2018. An Information Governance training and awareness programme for elected Members is also currently being delivered to all member groups so that they understand basic information governance practice around information security and information sharing

3.3.11 In 2013 the council was subject to an undertaking by the Information Commissioner in respect of an inadequately drafted contract under which the council required a supplier to process personal data its behalf. The undertaking required the council to embed measures to ensure that all contracts are properly drafted in line with the Data Protection Act when the contracts involve the processing of personal data on its behalf. All council contracts were checked as part of this undertaking and an interim measure was applied wherever required.

3.3.12 Since the last Corporate Governance and Audit Report in March 2016, a full training programme on Data Protection and Information Governance within Contracts has been rolled out and completed. This training was delivered to all Commissioners and Contract Managers within the council. Alongside this, new template procurement and contract documentation was embedded to ensure consistent and robust data protection and information governance.

3.3.13 Further work is required in this area in order to ensure compliance with the GDPR. All existing contracts that will continue into May 2018 and newly negotiated contracts between Leeds City Council and third parties will need to be reviewed and amended as appropriate to ensure compliance with the GDPR. In addition, procurement processes will need to ensure that technical requirements and assessments match the requirements of the GDPR. Directorates will also need to review how they commission services that handle personal data.

3.3.14 Regarding the area of Information Access and Compliance the Committee can be fully assured that process and procedures are in place regarding upholding citizen rights to request information and the Council is within the Information Commissioners Office thresholds for response times. Other areas articulated in this report, the Committee can be fully assured that the Council are compliant with current Data Protection legislation and that work is in hand to become compliant with the General Data Protection Regulations by May 2018

3.4   **Records Management**

3.4.1   Following the ICO audit in 2013 the council prepared and is delivering against a project plan to implement an Information Asset Register (IAR) and appoint Information Asset Owners (IAO's). The project plan has been approved by the council's Information Management Board, and is set out in a number of phases.

3.4.2   Phase one of the plan was completed in December 2016 and has ensured that all Directorates have identified their assets and nominated IAOs at a Head of Service level. This information is published on the IAR.

3.4.3   Phase two will strengthen existing arrangements and will embed the role of IAO further. By consolidating all the information in relation to each asset into one single source, this will enable IAO's to ascertain any risks associated with their information

assets. Throughout this phase of the project training materials will be reviewed and refreshed and delivered to all IAO's via a training programme to embed the role and ensure awareness about information risk management.

3.4.4 In conjunction with phase two, preparation work is underway with the Corporate Risk Manager to revise the procedure for reporting risks to information assets and notifying the SIRO about serious risks to the council.

3.4.5 The Records Management Team are currently finalising a programme of work which aspires to improve and ensure consistency of records management approaches across the whole organisation and maintain compliance with the Data Protection Act.

3.4.6 Priority areas within the work plan include:

- Information is everyone's business - To ensure that the council has an Information Asset Register in place and associated Information Asset Owners are in place and aware of their role in order to ensure information being managed accordingly;

- To ensure that all records are managed effectively as part of the Changing the Workplace programme in line with designated methodologies;

- Ensure consistency in the management of HR files across the council to ensure compliance with the DPA principles;

- Ensure that all scanning and digitisation provision by the scanning framework is effectively monitored, justified and co-ordinated;

- To cleanse the data and reduce the storage on our existing network drives and mitigate the risk of breaching DPA principles;

- Improve Paper Records management to enable effective management, tracking movement and destruction of paper records owned by LCC and reduce unnecessary storage costs;

- Raise awareness of Records Management across the council to ensure staff are aware of their roles and responsibilities in relation to the management of information.

3.4.7 As part of the ongoing work to develop the Information Asset Register and role of Information Asset Owners the retention periods for these assets will also be examined and linked accordingly .This will not only ensure managers are aware of how long they should be retaining their information assets for but will also help identify any inconsistencies of practice with the LCC retention schedule that was agreed by legal services 18 months ago.

3.4.8 Processes are in place to ensure that suggested changes to the retention schedule are sufficiently challenged by Records Managers and approved by Legal Services and work is also ongoing to simplify the way that we present our retention schedules to enable staff find and understand the relevant content more clearly.

3.4.9 With regards to Records Management the Committee can be assured that the Information Management and Governance Team are providing a reasonable level of assurance that processes and procedures are in place and delivering data protection compliance in this regard. Plans are in place to ensure continuous improvement as documented.

3.5 **Change and Initiatives**

3.5.1 Auditors from the Information Commissioner's Office (ICO) visited the Council in October 2013 to carry out an audit of its processing of personal data following enforcement action at the Council in 2012. Whilst, the audit provided the ICO with reasonable assurance about our data protection practices, auditors provided a list of 32 recommended improvements to current practice for the council to implement. Members of this Committee received a detailed report on 21st January 2014 regarding the audit, and further reports were considered on 20th March 2015 and 18th March 2016 outlining progress made to date. Appendix A to this report contains a summary and further update against outstanding actions with regards to these recommendations.

3.5.2 Work on twenty six of the thirty two recommendations is now complete and actions embedded into information governance standards and/or practice. . The remaining six recommendations constitute an investment in some fairly significant work but progress is being made. Since Committee received the last report, there has been a restructure of the IG Service and a realignment of resources, which is providing a more concentrated focus on delivery against the remaining recommendations. However it should be noted that this work continues to be undertaken against a backdrop of competing priorities. . The ICO are no longer monitoring progress, and will only take a further interest should the council be subject to a reportable information incident. The last recommendation is scheduled for completion by 31st March 2018 and the Head of Information Management and Governance will continue to monitor progress.

3.5.3 Corporate Governance and Audit Committee considered a report in September 2016 providing assurance about our continued compliance to DCLG's Local Government Transparency Code 2015. The report provided Committee with specific assurances about processes and procedures to publish the required 15 datasets being embedded to ensure continued compliance, and information regarding continued monitoring of these datasets by the Information Management and Governance Team. Furthermore, council officers are in regular contact with representatives at the LGA and are informed of any potential changes to this Code.

3.5.4 Through its Open Data agenda, the council continues to proactively publish datasets over and beyond that required by the Local Government Transparency Code 2015 and making data available in response to FOI requests where possible. This means that the council is one of the most open and transparent local authorities in the country, and also ensure it is compliant with the EU Public Sector Information Re-Use Directive focusing on making data from public authorities available for re-use.

3.5.5 Leeds City Council is required to make all INSPIRE* related data (as is) and metadata available to view and download by December 2020. The council has

been using a software package using funds from DEFRA to enable it to publish the first 'most common' 20 datasets – an approach adopted by many local authorities. To date the council has published four datasets.

3.5.6 It is currently unclear which direction the UK Government will take with this Directive following the result of the EU Referendum on 23rd June 2016. The council is committed to doing as much as it can to work towards compliance. A review is currently being undertaken to review GIS software which the council has a licence for, which can be used to progress this work – an approach that York City Council and the Environment Agency have taken. Whilst this approach would not mean that datasets are published to exacting INSPIRE standards, it does mean that the council can quickly publish more of its geo-spatial datasets. Given that there remains an issue around the lack of resources and skills to focus on this work, and we are awaiting Government guidance on future compliance to the INSPIRE regulations, this approach will publish required datasets to a good standard, which can be adapted for INSPIRE if required. The creation of a GIS Steering Group, which consists of GIS specialists from across the organisation means that the agenda is now being discussed at a more senior level.

3.5.7 The Information Commissioners Office no longer requires Leeds City Council to report to them on the outcome of the 2013 Audit. They are assured and as such this Committee can also take assurance that all the recommendations are either complete or partially completed to a standard of which they approve. This report provides assurance to Committee that the council continues to comply with the mandatory Local Government Transparency Code 2015. Review work regarding compliance with the INSPIRE Directive is on-going, however we are waiting for further direction from UK Government as to whether full implementation should commence.

4   Consultation and Engagement

4.1   Consultation on the development of strategies, policies, procedures and standards are extensively undertaken across a broad range of stakeholders including information management professionals, representatives from all Directorates via representatives of Information Management and Technology Teams and Information Management Board members.

5   Equality and Diversity / Cohesion and Integration

5.1   Equalities, diversity, cohesion and integration are all being considered as part of delivering the Information Management Strategy. This refers to the way training is being delivered as well as how policies will impact on staff and partners.

6   Council policies and City Priorities

6.1   The policies support the Information Management Strategy and contain areas of legal requirement. Furthermore, the implementation of the Information Management Strategy will improve the quality of the council's policy framework by ensuring the authenticity, integrity and security of the information contained therein.

6.2   Under the Code of Corporate Governance in Part Five of the council's Constitution, the fourth principle (taking informed and transparent decisions which are subject to effective scrutiny and risk management) requires decision making processes and enables those making decisions to be provided with information that is relevant, timely and gives clear explanation of technical issues and their implications.

7   Resources and value for money

7.1   Capacity within Directorates to deliver, embed and monitor compliance to information governance and information risk management practice is to change from the 1st April 2017. All Information Governance employees currently embedded within Directorates will be moved under the newly established Information Management and Governance Management Team.

7.2   Three Directorate IM&G Hubs have been developed and will also be deployed from the 1st April. Whilst all IM&G employees will be managed centrally, each Hub will have the appropriate number of Compliance and Records Management employees in each to in order to maintain information governance assurance across the Council. The Directorate Hubs will be as follows:

- Adults, Children's and Health

- Shared Services and Housing

- Cities and Communities

8   Legal Implications, Access to Information and Call In

8.1   Delegated authority sits with the Director of Environment & Housing Environment & Housing and Senior Information Risk Owner and has been sub-delegated to the Chief Information Officer under the heading "Knowledge and information management" in the Deputy Chief Executives Sub-Delegation Scheme.

8.2   There are no restrictions on access to information contained in this report.

9   Risk Management

9.1   The risk associated with not implementing information governance policies, procedures and practice across the Council leaves the organisation more susceptible to breaches of legislative, regulatory and contractual obligations, affecting the confidence of its citizens, partners, contractors and third parties when handling and storing information.

9.2   Information risk is being systematically addressed by joining up the approach to risk required by information security standards, the need for the senior information risk owner to be clear about the risks he/she is accountable for and the council's standard approach to risk management.

9.3   Further work is being undertaken in conjunction with the Corporate Risk Manager to embed the recording and reporting of information risk monitoring and management. The Information Asset Register project will generate information required and an

automated dashboard will be produced to report risk assessments to the SIRO. This will provide the assurance required by the SIRO from the business and will allow risk mitigations to be prioritised.

10   Conclusions

10.1   The work of the previous year, reported to this Committee on 18th March 2016, has been continued.

10.2   The establishment of information governance practice and procedures outlined in this report provides a level of assurance to Committee that the range of information risk is managed both in its scope and through to service delivery. It allows the council to work with partner organisations, third parties and citizens in a clear, transparent, but safe and secure way. It helps to protect the council from enforcement action and mitigate the impact of cyber incidents aimed at attacking and/or bringing down council information systems.

11   Recommendation

11.1   Corporate Governance and Audit Committee is asked to consider the contents of this report and the assurances provided as to the Council's approach to information governance. The Corporate Governance and Audit Committee is also asked to consider the request made in 3.2.11 to report back to Committee in September, specifically with regards to Cyber Assurance and Compliance.

Background documents None

Appendix A

Leeds City Council: outstanding actions against recommendations made by the Information Commissioner

No	Recommendation	Current position as at February 2017	Status	Completion
1.	A6. Ensure IAOs are trained in line with proposed plans. Further advice on IAO training is available from The National Archives.	Council's Corporate Leadership Team has approved the nomination of Information Asset Owners who will be responsible for managing information risk within their services and ensuring compliance with internal policy and external regulatory requirements. A Project plan has been developed and approved by the Information Management Board to refresh the Information Asset Owner role and to provide a full engagement programme to train IAIO's and support staff. This plan is in two phases. Phase One of the plan was completed by December 2016 and has ensured that all Directorates have listed their assets on a register within Sharepoint. The exception to this is City Development which has a list of their assets on a spreadsheet and this is being migrated across the council's Sharepoint register. Phase Two will involve implementing a training programme for all Information Asset Owners and ensuring the current Information Asset Register is maintained and kept up to date. A report outlining proposals is to be considered by the council's	Partially Complete	31 December 2017

		Information Management Board in April.		
8	A23. Introduce a standard procedure for signing files out of the office and ensure the file returns are monitored.	A new corporate standard and procedure for tracking and tracing of files has been developed and agreed and is currently being implemented. Progress has slowed due to a combination of IG restructure and staff movement.	Partially Complete	31 March 2018
10	A28. Ensure all visitors to office buildings containing sensitive personal data are recorded in a visitor's book and ensure codes for doors with pin code access are regularly changed and this is recorded.	In a review of buildings from which council services operate, 21 high risk buildings were identified and 25 medium risk. A small core team of IG professionals began auditing in 2015 and have now completed audits of 21 of the high risk buildings and 22 of the medium risk. Auditing continues of the remaining high and medium risk buildings.

During the audit the procedures relating to visitors have been reviewed and updated where necessary.

Ongoing and continuous work on other council buildings deemed low risk is carried out by Directorate IM&G teams. . | Partially Complete | 31 March 2017 |
| 21 | A51. Ensure that PIAs are embedded across the Council at the implementation stage of any projects involving the processing of personal data. | There is a new framework for the delivery of projects and programmes and also contracts and contract management. Council PIA's to be implemented as part of the process.

The use of PIA's has been mandated by IMB.

Training in their use in contracts was delivered to all contract managers and commissioning staff by the end September 2016 and a guidance resource published on InSite.

Work is ongoing within IM&T hubs to implement and embed PIA's as part of the programme and project | Partially Complete | 31st December 2017 |

		management process. To this extent a workflow has been piloted across the Central and Corporate IM&T with a view to rolling out across the council during 2017. PIA forms are being reviewed as part of the council's preparations for the General Data Protection Regulations..		
24	B13. Ensure a formal information security risk assessment and management programme for all information assets on the Information Asset Register has been documented, is implemented by Information Asset Owners and regularly monitored and reviewed.	See action 1 above Preparation work is underway with the Corporate Risk Manager and a dashboard will be required to consolidate risk assessments to provide "heat maps" at various level of the council. It will also act as an action tracker at service level. A procedure to escalate the recording of risks to information assets is to be developed as part of Phase Two and delivered as part of training to IAO's during 2017/18.	Partially Completed	31 March 2018
30	B34. There is a risk that staff who have moved departments within the Council are not promptly removed from access to databases containing personal data which they no longer require. Ensure HR provide systems administrators with a list of staff who have moved departments to cross reference against staff access rights.	A newly formed project team has developed a draft procedure for staff leavers and for staff changing positions. This is in the process of being finalised before pushing out for formal consultation with council boards and steering groups.	Partially Complete	31 December 2017

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Report author: N STREET

Tel: 37 88671

Report of Director of Resources and Housing

Report to Corporate Governance & Audit Committee

Date: 7th April 2017

Subject: Annual Business Continuity Report

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

Summary of main issues

1. The Civil Contingencies Act 2004 made it a statutory duty of all Category 1 responders (which includes local authorities) to have in place Business Continuity Plans and arrangements to be able to continue to deliver critical aspects of their day to day functions in the event of an emergency or disruptive incident.

2. The purpose of this annual report is to provide the Corporate Governance & Audit Committee with assurance relating to the adequacy of business continuity management arrangements currently in place in the council.

Recommendations

3. The Committee to consider the assurances provided by this report and note that the business continuity arrangements are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.

1 Purpose of this report

1.1 To provide assurance to the Corporate Governance & Audit Committee of the adequacy of the business continuity management arrangements currently in place.

1.2 To provide assurance that Leeds City Council (LCC) maintains compliance with the statutory duties contained within the Civil Contingencies Act 2004. The scope of the report includes current progress relating to:

- Risk awareness
- Reviewing and maintaining Business Continuity Plans
- Exercising and training
- Directorate Resilience Groups
- Supporting commissioned service providers
- Provision of advice and assistance to business and voluntary sector
- Public awareness and warning and informing
- Collaborative arrangements

2 Background information

2.1 The Civil Contingencies Act 2004 made it a statutory duty of all Category 1 responders (which includes local authorities) to have in place Business Continuity Plans and arrangements to be able to continue to deliver critical aspects of their day to day functions in the event of an emergency or disruptive incident. Business Continuity Plans have been developed in LCC since publication of the Act with a total of 79 Business Continuity Plans currently implemented for services identified as critical.

2.2 New Business Continuity Plans will be developed as further services and functions are identified and assessed as critical.

3 Main issues

3.1 Risk awareness

3.1.1 To inform maintenance of existing and development of new Business Continuity Plans it is important that a focus is kept on risks that could threaten the performance of LCC's critical services and functions. As risks change or new risks are identified, Business Continuity Plans may need updating with additional measures to mitigate the (new) risks.

3.1.2 The West Yorkshire Community Risk Register which is compiled and maintained by the West Yorkshire Local Resilience Forum (of which LCC is a member) provides a source of risks which is used to inform development of Business Continuity Plans.

3.1.3 The West Yorkshire Local Resilience Forum 'Risk & Capabilities Sub Group' also proactively horizon scans for emerging risks which are reported back through appropriate channels such as the Directorate Resilience Groups for action to be progressed. Liaison with LCC's Head of Business Planning & Risk takes place in relation to West Yorkshire Local Resilience Forum risk updates.

3.1.4   There are also more specific internal or business risks that could cause loss or disruption of critical services; again the Directorate Resilience Groups play a key role in identifying and planning to mitigate such risks.

3.1.5   The Corporate Risks, in particular 'City Resilience' and 'Council Resilience' are reviewed on a quarterly basis to ensure that controls and actions are updated. A new Corporate Risk 'Major Cyber Incident' has recently been approved by the Corporate Leadership Team and will be discussed with Directorate Resilience Groups to inform development of Business Continuity Plans.

3.2   Reviewing and maintaining Business Continuity Plans

3.2.1   Business Continuity Plans are revised each time a change occurs to the service or function which impacts business continuity arrangements. For example, this might be as a result of organisational change, or a new telephony system both are currently being implemented in LCC, requiring all Business Continuity Plans to be revised. Change could also result from learning lessons from a response to a disruptive incident or findings from an exercise.

3.2.2   However, as a minimum, each Business Continuity Plan is subject to a rolling annual review. The review evaluates the continuing suitability, adequacy and effectiveness of the Business Continuity Plan and is centrally co-ordinated by the Resilience & Emergencies Team direct with the managers responsible for the service. Of the 79 Business Continuity Plans in place, 67 have completed an annual review with 12 currently work in progress.

There are no current concerns relating to the annual management review process and on-going maintenance of Business Continuity Plans.

3.3   Exercising and training

3.3.1   The individual managers owning the Business Continuity Plans are responsible for testing and exercising their own plans and arrangements, however centrally provided support can be provided by the Resilience & Emergencies Team if required. A good example of recent testing and exercising is with Assisted Living Leeds in response to a request for support to test their revised Business Continuity Plan post Storm Eva revisions. During summer 2016, the Resilience & Emergencies Team along with colleagues from the Environment Agency supported the Assisted Living Leeds management team with the delivery of 3 scenario based desktop exercises and a walk-through of the plan (also attended by West Yorkshire Fire & Rescue). The exercises successfully identified further revisions which were used to inform final development of the Business Continuity Plan.

3.3.2   For some emergencies or disruptive incidents impacting a wide area a multi-agency response might be required involving Police, Fire & Rescue, NHS, and Environment Agency etc. Multi-agency training and exercising continues to be available through the West Yorkshire Local Resilience Forum to enhance joint working arrangements. Joint Emergency Services Interoperability Principles (JESIP) training continues to be offered to partners by West Yorkshire Police (next courses scheduled March 2016) with multi-agency exercises continuing to be delivered through the West Yorkshire Local Resilience Forum.

Recent multi-agency exercises include Exercise Tempest, a scenario relating to a wide area response to Flood Alerts and Warnings which was attended by officers from several LCC services.

3.4   Directorate Resilience Groups

3.4.1   Each directorate has a Directorate Resilience Group to oversee and contribute to the implementation of business continuity and emergency planning arrangements and to work towards enhancing the resilience and response capabilities of the directorate, organisation and city.

3.4.2   Directorate Resilience Groups meet as a minimum every six months (some quarterly) and levels of ownership and engagement is good across all directorates.

3.4.3   As a result of revisions to LCC's organisational shape which will come into effect in April 2017, some Directorate Resilience Groups will need to be remodelled. For example due to Public Health merging with Adult Social Care and the creation of a new Communities & Environment directorate, existing Directorate Resilience Groups will need to be reconfigured. It is also proposed that a Central Functions Directorate Resilience Group is established.

3.4.4   The changes required have been raised at CLT to ensure that Directors are aware of and fully support the proposed changes. The changes are also currently being discussed at Directorate Resilience Group Meetings. The proposed Directorate Resilience Group structure is:

- Central Functions (including Resources, Legal and Civic Enterprise Leeds)

- Communities & Environment (including Housing)

- Adults & Health

- Children & Families

- City Development

3.4.5   The changes will (for some Directorate Resilience Groups) result in the need for new chairpersons and attendees to be identified and appointed. Directorate Resilience Groups and Business Continuity Plans will be further impacted by the number of senior staff leaving the organisation in 2016/17 on early leaver's initiative/retirement.

The changes to Directorate Resilience Groups will be a phased implementation during 2017 to provide assurances that current directorate resilience and business continuity arrangements are maintained throughout any period of transition.

3.4.6   Besides supporting the review process for Business Continuity Plans, Directorate Resilience Groups also have ownership of their entries in the LCC Emergency Management Plan. The LCC Emergency Management Plan (formerly the Emergencies Handbook) was completely reviewed during 2016 as per the lessons to be learned from Storm Eva. The Directorate Resilience Groups took a key role in the review and are responsible for maintaining their entries in the plan.

3.4.7   Directorate Resilience Groups ensure that officers undertaking specific roles as documented in the Emergency Management Plan have the required skills, experience and abilities to be able to provide an effective response whether to an emergency or business continuity incident.

3.5   Supporting commissioned service providers

3.5.1   In April 2017, the Resilience & Emergencies Team is to provide business continuity inputs into Adult Social Care Provider Forums. The forums are for providers of accommodation based services for people with mental health, physical sensory impairment and learning disabilities.

3.5.2   The inputs are aimed at providing good practice guidance/hints and tips to help providers develop new and/or improve their current organisational business continuity arrangements.

3.5.3   An additional input/workshop is to be delivered to officers from Adult Social Care Strategic Commissioning to help develop greater understanding of the business continuity process so that officers are better equipped to respond directly to any queries raised by provider organisations.

3.6   Provision of advice and assistance to business and voluntary sector

3.6.1   The Civil Contingencies Act 2004 requires local authorities to provide advice and assistance to those undertaking commercial activities and voluntary organisations in relation to business continuity management.

3.6.2   Key to provision of advice is the 'Leeds Alert/Business Continuity Network Events' organised by the Resilience & Emergencies Team. The network events are held twice yearly and offer those attending the event an opportunity to hear presentations from business continuity practitioners covering a wide range of topics to help build organisational resilience. The event continues to attract a high standard of presenters and as a result is well attended. Invitations to the event are issued to all organisations registered with Leeds Alert.

3.6.3   The Leeds Alert Warning & Informing System (maintained by the Resilience & Emergencies Team) provides messages to businesses and organisations warning of events and/or incidents that might impact the Leeds area. Events and/or incidents include severe weather, transport disruption, police cordons/road closures, protests/marches etc. The Leeds Alert messaging system keeps organisations well informed and helps them to plan and mitigate any impact on their business and/or operations. Registration to Leeds Alert currently stands at 1,202 persons from a range of small medium and large businesses.

3.6.4   A further forum providing advice and assistance is the Leeds Resilience Group. Quarterly meetings are attended by the council and a range of partners including West Yorkshire Police, West Yorkshire Fire & Rescue Service, Yorkshire Ambulance Service, NHS, Environment Agency, British Red Cross, Leeds Bradford International Airport, British Transport Police, Rail Track and representatives from the utility providers. The forum offers the opportunity to share progress and issues and supports closer working between partner organisations.

3.7   Public awareness and warning and informing

3.7.1   The Civil Contingencies Act 2004 requires local authorities to advise the public of risks before an emergency, and keep the public informed during an emergency. The Resilience & Emergencies Team have the following arrangements in place to warn and inform the public:

- Leeds Alert Twitter account @leedsemergency . There are currently 6,399 followers.

- A range of information and guidance published on the leeds.gov.uk website 'Preparing for Emergencies' pages.

- The Resilience & Emergencies Team have a presence at a range of ad hoc public engagement events during the course of the year.

  These have included One Stop Centres, Safety Ranger events for school children (year 6) in conjunction with the West Yorkshire Fire & Rescue Service and also an information stand at the annual Emergency Services Show.

3.7.2   The Resilience & Emergencies Team liaise with the Communications & Marketing Team during incidents to support them with the provision of information to the public and media following correct protocols. This support extends to out of hours.

Liaison with the Communications & Marketing Team provides a wider reach in pushing information out to the public via other reporting arrangements.

3.8   Collaborative arrangements

3.8.1   *Externally,* the Civil Contingencies Act 2004 promotes collaborative working arrangements amongst Category 1 responders in order to fulfil their business continuity management duty. The benefits of collaborative working have been proven when disruptive incidents have a cross border impact such as in the event of severe weather. The West Yorkshire Local Resilience Forum leads on and develops collaborative arrangements with the other West Yorkshire local authorities and partner organisations whilst on a more local level the Leeds Resilience Group fulfils a very local role.

Wider regional collaborative working is co-ordinated through the Yorkshire and Humberside Regional Business Continuity Forum.

3.8.2   *Internally,* collaborative arrangements would be triggered during a response to a major business continuity incident by the invocation of the 'LCC Emergency Management Plan'. Internal incidents could be as a result of a significant disruption of ICT, industrial action or a power outage which would require the council to put in place arrangements to be able to respond to and recover from such an incident. Each Directorate Resilience Group has identified several officers to undertake the role of Directorate Liaison Officer who will co-ordinate resources in response to an incident or disruption. A response might require cross directorate collaboration. All Directorate Liaison Officers received additional training in December 2016.

LCC has identified Human Resources, ICT Services and Facilities Management as core responders who would be required to support a response to any internal incident. Officers from these teams with specialist skills and experience will be part of the Emergency Management Team.

4   Corporate Considerations

4.1   Consultation and Engagement

4.1.1   There are no proposals contained within this report that have a significant impact on communities.

4.1.2   Internal. The services identified as critical and requiring development of Business Continuity Plans were identified and ratified by the Directorate Resilience Groups prior to any developmental work commencing.

4.1.3   External. LCC through the Resilience & Emergencies Team are fully engaged with the West Yorkshire Resilience Forum (WYRF) which through close working helps LCC to meet the statutory obligations as set out in the Civil Contingencies Act 2004.

4.2   Equality and Diversity / Cohesion and Integration

4.2.1   The on-going development and maintenance of the business continuity programme takes account of any potential impacts for staff and/or customers who may have general or specific requirements – in particular those characteristics protected by the Equalities Act 2012.

4.3   Council policies and the Best Council Plan

4.3.1   The LCC Business Continuity Policy sets out the business continuity requirements placed upon all directorates and services.

4.3.2   Business continuity is linked to the outcomes and priorities of the Best Council Plan and City Ambitions i.e. 'keeping the city safe' encourages investment and visitors and 'a strong economy and compassionate city' by looking after vulnerable people in an emergency through business continuity arrangements.

4.4   Resources and value for money

4.4.1   There are no financial or resource implications arising from this report.

4.5   Legal Implications, Access to Information and Call In

4.5.1   The Civil Contingencies Act 2004 requires Category 1 responders (which includes local authorities) to maintain Business Continuity Plans and arrangements to ensure that they can continue to perform their key services and functions in the event of an emergency, so far as is reasonably practicable.

4.5.2   Many of the LCC services covered by Business Continuity Plans have a duty of care or a regulatory requirement to provide their service. This extends to maintaining services during an emergency or disruptive incident.

4.6   Risk Management

4.6.1   This report provides assurance on the arrangements within the council and partners across the city and region to manage business continuity risks. These arrangements are captured within the corporate risks on 'City Resilience' and 'Council Resilience' and reported quarterly to the Corporate Leadership Team and annually to the Executive Board.

4.6.2   In addition the West Yorkshire Community Risk Register compiled and maintained by the West Yorkshire Local Resilience Forum informs the development of emergency and business continuity plans and arrangements.

5   Conclusions

5.1   The information contained within this Annual Business Continuity Report aims to demonstrate to the Corporate Governance & Audit Committee that: LCC continues to have arrangements that are up to date, fit for purpose, effectively communicated, routinely complied with and monitored and that the arrangements meet LCC's statutory duties as required by the Civil Contingencies Act 2004. This is being achieved by:

- Continued monitoring and identification of risks and the development of measures to mitigate the risks should they occur.

- Continued review and revision of Business Continuity Plans for LCC's most critical services and functions through the annual management review cycle.

- Participation in exercising and training both internally and externally with partner agencies.

- Maintaining directorate engagement with and ownership of business continuity arrangements through the Directorate Resilience Groups.

- Providing guidance and support to commissioned service providers in relation to business continuity.

- Provision of business continuity advice and assistance to businesses and the voluntary sector.

- Maintaining effective systems for public awareness and warning and informing.

- Development of new and enhancing existing collaborative working arrangements with partner organisations.

6   Recommendations

6.1   The Committee to consider the assurances provided by this report and note that the business continuity arrangements are fit for purpose, up to date, are routinely complied with, have been effectively communicated and are monitored.

7   Background documents[1]

7.1   None.

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Leeds CITY COUNCIL

Report author:
Andy Eaton 07891271797

Report of Chief Officer PPPU

Report to Corporate Governance and Audit Committee

Date: 7 April 2017

Subject: Procurement Assurance Report

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

Summary of main issues

Following a request by the Corporate Governance and Audit Committee this report provides information and assurance on procurement policies and practices within the remit of the Chief Officer Projects Programmes and Procurement Unit.

Each Directorate is accountable for the procurements that they need to secure the outcomes they are responsible for. The Projects Programmes and Procurement Unit (PPPU) is accountable for provision of professional support to complex procurement activity. From the review, assessment and on-going monitoring carried out, the Chief Officer PPPU has reached the opinion that procurement policies and practices are up to date, fit for purpose, and effectively communicated. The Procurement Strategy itself will be updated and refreshed during 2017/18. Off-contract spend continues to reduce however whilst there is general compliance with policies, limited areas have been identified for improvement by audit and monitoring.

Recommendations

Members are requested to consider and note the assurances provided in this report in relation to procurement policies and practices, and in particular; the assurance provided that procurement policies and practices are compliant with legislation, up to date, fit for purpose, and effectively communicated; and that off and non-contract spend continues to reduce year on year.

1 Purpose of this report

1.1 This is the first of a proposed annual report to the committee concerning the Council's procurement function.

1.2 Members are asked to consider the ongoing work to maintain effective procurement support tools and guidance, and note the assurance offered by the Chief Officer PPPU.

2 Background information

2.1 The Council procures a very wide range of goods, works and services, including front-line services and back-office support. The Council's spend with third parties through procurement and commissioned activity amounts to in excess of £600m per annum.

2.2 Contracts Procedure Rules form part of the Council's Constitution and are required to be adopted by local government legislation. These are supported by a suite of documents accessible by commissioners on InSite.

2.3 Each Directorate is accountable for the procurements that they need to secure the outcomes they are responsible for. The Projects Programmes and Procurement Unit (PPPU) is accountable for provision of professional support to complex procurement activity. Support provided by the Unit includes procurement processes and compliance with procurement legislation, identifying and working with services to reduce off-contract spend, procurement savings, and general check and challenge.

2.4 During 2012 a comprehensive review of procurement was undertaken, the Transforming Procurement Programme, following which a new approach to procurement activity was implemented through a new Procurement Strategy, including category management, a whole lifecycle approach, clear roles and responsibilities, and new documentation which could be tailored proportionate to the risks and value of procurement activity.

2.5 'Commissioning' is defined in the procurement Strategy as 'the entire cycle of assessing the needs of people in a local area, designing and putting into place goods, works and services to meet those needs, and monitoring and evaluating the outcomes. In a commissioning approach, the council seeks to secure the best outcomes for local communities by making use of all available resources, whether the resources are provided in-house, externally or through various forms of partnership. This activity continues throughout the whole lifecycle'.   .

2.6 'Procurement' is defined in the procurement Strategy as 'the tasks and decisions which secure an external provider to provide what we want, at a price that we can afford. Activity is focused on the period from prior to advertising a tender to signing the contract. It includes both competitive tenders and circumstances where we negotiate with a single supplier'. The procurement phase is key to enabling the contract management to be robust and flexible to demand, and offer remedies for contractor failures.

2.7   This report reflects procurement activity during 2016/17, with the intention that future reports will cover each financial year.

3   Main issues

Procurement activity during 2016/17

3.1   The Unit's resources have been prioritised to supporting high value and/or complex (from a risk perspective) activity. To enable this a training programme was delivered for commissioning officers in relation to use of the procurement tools on a 'self-help' basis for procurements with a value of £100k or less and in the use of "non-complex" procurement documentation which has been developed for use on these procurements. Where non-standard terms and conditions are proposed, these are always required to be vetted through the commercial team within the Unit.

3.2   The Council meets other regional authorities through a Strategic Procurement Group which meets monthly to share best practice, act as the voice of the region nationally on procurement issues, and identify collaboration opportunities. The group reports periodically to the Yorkshire and Humber Chief Executives Group, The most recent report is attached at Appendix 2

3.3   A quarterly return (which forms an annex to the Chief Finance Officer's financial health monitoring report to Executive Board) provides data in respect of on and off contract spend analysis, spend with SMEs and third sector, and procurement savings activity. The latest report (Q1-3 2016/17) is contained at Appendix 3.

Contracts Procedure Rules

3.4   Section 135 of the Local Government Act 1972 requires local authorities to make standing orders for procurement activity, including securing competition and regulating tenders. Contracts Procedure Rules form part of the Council's Constitution

3.5   Contracts Procedure Rules are regularly updated to reflect changes in legislation and Council policy. The last update was in July 2016 to incorporate the following amendments:

- Reference to the new Concessions Contracts Regulations 2016

- Reference to circumstances where PPPU must be consulted, to include mid-scale or complex procurements registered as such in the project registration process

- To allow officers to either invite tenders using an open advert or invite tenders from 4 selected contractors when inviting tenders for procurements between £100k and EU procurement thresholds.

- A new rule requiring authorised officers to carry out a privacy impact assessment (PIA) before they begin a procurement.

3.6   Procurement Strategy

3.7 The Council's Procurement Strategy was last updated in 2015 but is now due for a complete review, to take place during 2017/18.

The Procurement Strategy has the following ambition:

to deliver the best commissioning, procurement and contracting in the country, where:

- We achieve value for money for the public

- We support the delivery of quality outcomes for service users

- We support the wider ambitions of the council and its partners

- Providers of all sizes and from all sectors want to deliver for Leeds

- Procurement professionals want to work for Leeds, and

- We are recognised nationally as a centre of excellence

3.8 At the core of the Strategy is a category management and whole life-cycle approach, which fits with the National Procurement Strategy 2014. The Council's Procurement Strategy already contained most of the recommendations within the later National Procurement Strategy, within the themes of Making Savings, Supporting Local Economies, Leadership, and Modernising Procurement (including a more commercial approach to the commissioning cycle).

Procurement tools and documents

3.9 Appendix 4 contains a list of the key procurement documents and tools. The delivery documents are refreshed regularly to reflect legislation and council policy, and have all been refreshed over the last 12 months. Most of the planning documents have also been reviewed in the last financial year, with the exception of the Category Plan and the Trade Union Protocol. These two documents are currently under review, and the workshop packs (which are not used widely as originally anticipated) are being replaced by a smaller number of more focused guidance documents.

3.10 Separately, a working group is producing a toolkit to support implementation within procurement activity of the Social Value Charter which was adopted by the Council in May 2016.

Communicating the Strategy and procurement policies

3.11 The Strategy and supporting tools are contained within seven InSite toolkits dedicated to procurement and category management which are updated when changes are made, with key changes being further communicated on the InSite carousel.

3.12 Within PPPU, a Procurement Practitioner Group meets on a monthly basis to share issues and best practice, and training sessions are organised for

procurement staff and commissioners when new significant policy changes are implemented. The number of staff who are CIPS qualified (Chartered Institute of Procurement and Supply) is increasing, with an additional five members of staff taking the diploma in the current financial year, and the Unit is looking to continue to increase the number again in the 2017/18 financial year.

3.13   The Unit also hosts the Commissioners' procurement Group (formerly Corporate Commissioner Group), which provides updates and shares best practice between procurement staff and commissioners, and also reviews and provides feedback on the procurement documentation.

3.14   Each Category team within the Unit (there are six covering all the Council's procurement activity) works closely with commissioning staff within directorates to ensure compliance with CPRs and use of the correct documentation and governance processes

YORtender electronic procurement portal

3.15   The Council (along with other Y&H regional authorities) has used YORtender as its procurement portal, enabling electronic tendering for the vast majority of procured spend. Contracts procedure Rules require all spend over £10k to be registered through YORtender.

Transparency and open data

3.16   Local authorities are obliged to publish the following information under the Government's Transparency Code

3.17   Local authorities must publish details of every invitation to tender for contracts to provide goods and/or services with a value that exceeds £5,000. For each invitation, the following details must be published:

- reference number

- title

- description of the goods and/or services sought

- start, end and review dates, and

- local authority department responsible.

This requirement is complied with through publication through the YORtender portal, which also automatically advertises opportunities over £10 000 on the Government Contracts Finder site (another government requirement), and manual analysis of any spend exceeding £5 000 within FMS.

3.18   Local authorities must also publish details of any contract, commissioned activity, purchase order, framework agreement and any other legally enforceable agreement with a value that exceeds £5,000. For each contract, the following details must be published:

- reference number

- title of agreement

- local authority department responsible

- description of the goods and/or services being provided

- supplier name and details

- sum to be paid over the length of the contract or the estimated annual spending or budget for the contract

- Value Added Tax that cannot be recovered

- start, end and review dates

- whether or not the contract was the result of an invitation to quote or a published invitation to tender, and

- whether or not the supplier is a small or medium sized enterprise and/or a voluntary or community sector organisation and where it is, provide the relevant registration number.

  The Council's Contracts Register published on the Data Mill fulfils this requirement. This relies on Directorates registering contract on the YORtender portal in accordance with CPRs.

Monitoring Contracts Procedure Rules

3.19   Contracts Procedure Rules require Chief Officers to involve and/or consult with the Chief Officer PPPU for specified procurement activity, and also requires the Chief Officer to be informed of the following activity: waivers, extensions, variations of high value contracts, where the template procurement plan or contract management plan is not to be used, breaches of CPRs and where ISPs (internal service providers) are not used. Members should note that aside from monitoring of non and off contract spend and waiver activity, current resources do not permit additional significant monitoring of compliance, however the contract award process for contracts above £100k, and internal audit reports offer further assurance around compliance.

3.20   Contracts Procedure Rules allow certain rules to be waived in circumstances where Chief Officers consider that course of action to be justified, provided that a decision to waive Contracts Procedure Rules is always at least a Significant Operational Decision for the purposes of the Constitution (therefore requiring publication). The Chief Officer PPPU should be informed when waivers are approved by Chief Officers.

3.21   PPPU issued updated CPRs in August 2016. PPPU are maintaining a log of waivers of CPRs. The attached appendix 5 shows the analysis of 102 waivers of CPRs 8.1 and 8.2 and 9.1 and 9.2 in the period April 2015 to March 2016.

3.22   The Unit's Portfolio Management Office (PMO) will continue to monitor the use of waivers and reports the information to Scrutiny Board. This affords an opportunity to advise Scrutiny Board if there are consistent breaches of CPRs with respect to the use of waivers

3.23   Internal Audit carry out audit activity on a small number of specific procurements each year. Additionally they have also carried/are in the process of general audits in the following areas during 2016/17: contract extensions (following a 2015/16 audit opinion which was overall good for the control environment and acceptable for compliance with the control environment, but one objective (decisions on extensions) received a limited opinion for compliance; Procurement governance audit, which has focussed on non and off contract spend (the report is awaited and follows a previous report which concluded there was limited compliance for the spend analysed.

On/off contract spend

3.24   The Unit's PMO continue to monitor off contract spend through FMS, actively collaborating with colleagues in the wider council including the Business Support Centre, Corporate Finance and directorates (via their feeder systems) in order to have visibility of non and off-contract spend.

3.25   The PMO produce monthly and quarterly reports detailing non and off-contract spend. These reports are used to inform monthly meetings with PPPU Category Managers and their meetings with directorate contacts. The activity has enabled off contract spend to be reduced to c. 0.7% of total spend this financial year, well within the Unit's target of 2.5%.

3.26   Where invoices/payments are processed via the council's financial management system (FMS Leeds), contract and other procurement information is captured at the point when the order is raised and non-contract/off-contract spend can be monitored via FMS Leeds reporting

3.27   Where orders for goods and services originate from other departmental ordering systems, these are processed through FMS Leeds for payment. The feeder files uploaded to FMS have not historically contained contract and other procurement information. As such, it has not been possible to report contract/off-contract spend from these feeder systems from FMS Leeds without manual intervention.

However, over the past few months the PMO, following support from Scrutiny Board (Strategy and Resources) and through working with colleagues in the wider Council, have been able to implement ways in which contract data can be captured in the feeder systems which will aid the automation of data matching. Several feeder systems have been improved to enable spend analysis without manual intervention, which is a significant improvement in visibility for the council.

Challenges to procurement activity

3.28   There have been a number of requests for additional information in response to standstill letters however none of those requests have developed into formal proceedings challenging the decision by the Council on award. It should be noted

however that i) requests for additional feedback and querying of evaluation scores are becoming more frequent, and ii) there have been more court cases recently nationally, and the courts have not hesitated to scrutinise records and scoring by authorities.

Brexit

3.29   This is being kept under review, and Leeds has contributed to a review by the Local Government Association is respect of procurement rules after the UK leaves the EU. There are no current implications.

Savings initiatives

3.30   The Unit continues to look for savings through collaboration, and within individual procurements. Additionally the Unit has supported specific savings initiatives such as an early payment scheme in return for discounts on payments.

FOI requests

3.31   The unit continues to receive increasing numbers of FOI requests. In the 9 months to December 2016 a total of 73 were received. Many of the requests relate to information available on Leeds Data Mill (see paragraphs 3.26 to 3.28 above).

4   Corporate Considerations

Consultation and Engagement

4.1   Reviews of template procurement documentation involve consultation with users in the services. The annual CPR review involves wider consultation involving commissioners, and the City Solicitor. Third sector representatives are periodically asked whether any barriers exist to small/third sector organisations, and any comments are fed into the document reviews.

Equality and Diversity / Cohesion and Integration

4.2   There are no implications for this report. The procurement processes require consideration of equality matters and social value within procurement activity

Council policies and Best Council Plan

4.3   Effective procurement activity supports the Council's ambitions of a strong economy and a compassionate city. Individual procurements support most/all of the Council's priorities and breakthrough projects.

Resources and value for money

4.4   The Chief Procurement Officer considers that the systems and processes in place continue to represent an appropriate use of resources and good value for money. Additionally the procurement activity supported enables both cashable and non-cashable savings to be made in the commissioning lifecycle.

4.5   The Chief Officer is satisfied that the arrangements put in place through the Procurement Strategy, Contracts procedure Rules and procurement tools and documentation meet all legal requirements.

4.6   This report is not eligible for call-in

Risk Management

4.7   The Chief Officer PPPU gives assurance that the systems and processes that form part of the Council's procurement framework are currently functioning well. One of the Strategy and Resources Directorate risks relates to risk of procurement challenge. As set out in paragraph 3.38 above there have been no formal challenges to procurement activity in the year to date, and work is continuing to ensure the tender guidance is embedded through training and monitoring.

5   Conclusions

5.1   From the review, assessment and ongoing monitoring carried out the Chief Officer PPPU has reached the opinion that, overall, systems are operating effectively and that there are no fundamental control weaknesses. Compliance remains an issue in some areas, notably around justification in reports considering waivers.

6   Recommendations

6.1   Members are requested to consider and note the assurances provided in this report in relation to procurement policies and practices, and in particular; the assurance provided that procurement policies and practices are compliant with legislation, up to date, fit for purpose, and effectively communicated; and that off and non-contract spend continues to reduce year on year.

7   Background documents[1]

7.1   None

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[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.

Procurement Expenditure by Directorate

April 2016 to Dec 2016

Directorate	£ Amount	% of Expenditure
Adult Social Care	£193,533,903	31.35%
Environments and Housing	£155,398,284	25.17%
Childrens Services	£109,899,795	17.80%
City Development	£94,871,030	15.37%
Strategy and Resources	£38,859,675	6.29%
Civic Enterprise Leeds	£19,676,559	3.19%
Citizens and Communities	£5,148,856	0.83%
Total Procurement Expenditure	**£617,388,102**	

Legend:
- Adult Social Care
- Environments and Housing
- Childrens Services
- City Development
- Strategy and Resources
- Civic Enterprise Leeds
- Citizens and Communities
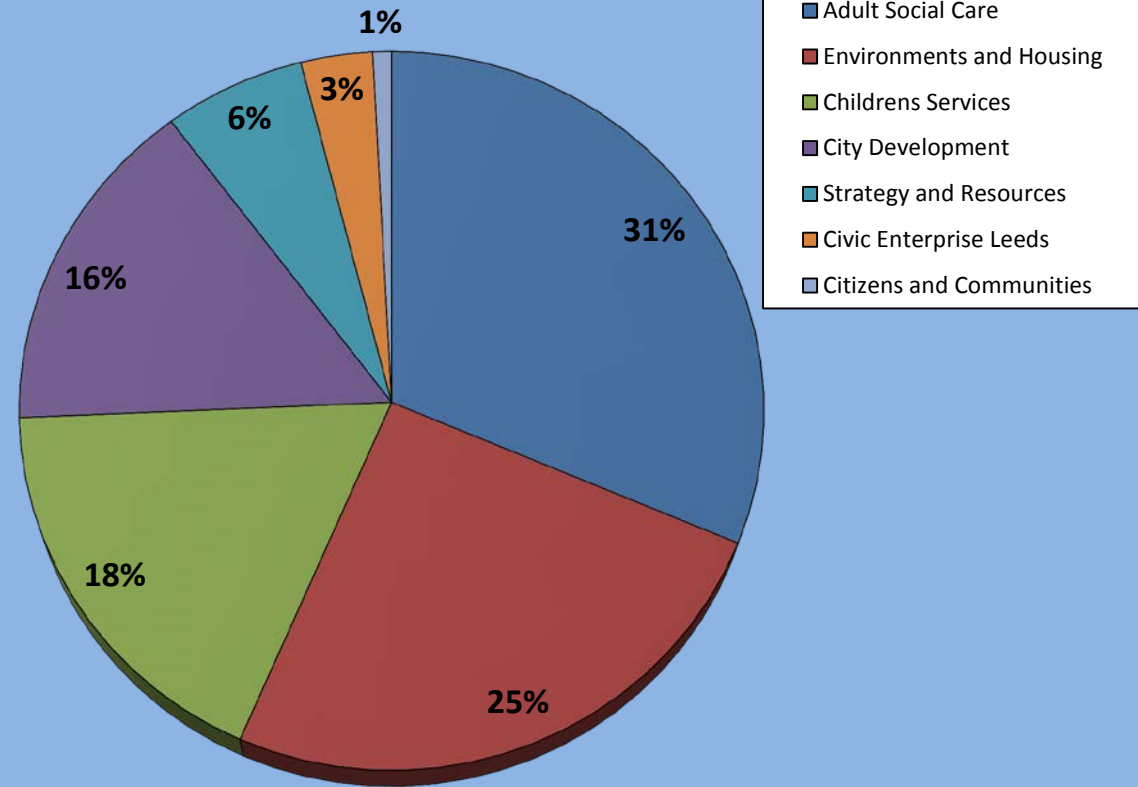
Attn: Yorkshire and Humber Chief Executives Group

From: YorProcure / Strategic Procurement Group

Date: 27 January 2017

Purpose of this report:

This report provides the Yorkshire and Humber Chief Executives Group (CEX) with:

- An update on the progress of the YorProcure Strategic Procurement Group (SPG) to implement the actions set out below which were agreed by the CEX in June 2016:
    - ✓ Develop and implement a collaboration strategy
    - ✓ Implement the SPG forward plan
    - ✓ Explore the development of social care commissioning frameworks
    - ✓ Provide a regional update (key statistics)
- The forward plan for 2017 including regional priorities and data

Recommendations:

	Report item	Request of CEX
1	Background information	To note the background information
2	Collaboration Strategy	To note the revised Collaboration Strategy
3	2016 SPG key activity and data	To note the 2016 SPG key activity and data
4	SPG roles and responsibilities 2017	To note the new SPG roles and responsibilities 2017
5	2017 SPG regional developments and priorities	To note 2017 developments and priorities

1

1. Background information

The objectives of SPG are to undertake the following activities:-

- ✓ 1 Lobby / be the voice of the region
- ✓ 2 Horizon scan for opportunities – collaboration / innovation
- ✓ 3 Knowledge sharing (e.g. sharing of best practice)
- ✓ 4 Stakeholder engagement/coordination
- ✓ 5 Market shaping
- ✓ 6 Encourage representation across the whole region

Work streams of activity are undertaken to address each of the objectives during the course of the year.

Chief Executives are asked to note the background information

2. Collaboration Strategy

The SPG Collaboration Strategy has been developed to give a central focus to market shaping rather than bulk buying. At the meeting on 17 June 2016 the Yorkshire and Humber Chief Executives Group endorsed this approach. The revised strategy can be found in Appendix 1 of this report for information.

Chief Executives are asked to note the Collaboration Strategy

3. 2016 SPG key activity and data

 A range of stakeholders have attended SPG meetings during 2016 to develop strategy, relationships, horizon scan for opportunities, share knowledge and best practice, and facilitate market shaping.

3.1 Key activities

Key activities undertaken by the group can be found in Appendix 2 of this report. In summary SPG has focussed efforts on strategic supplier engagement and policy development as first steps to date.
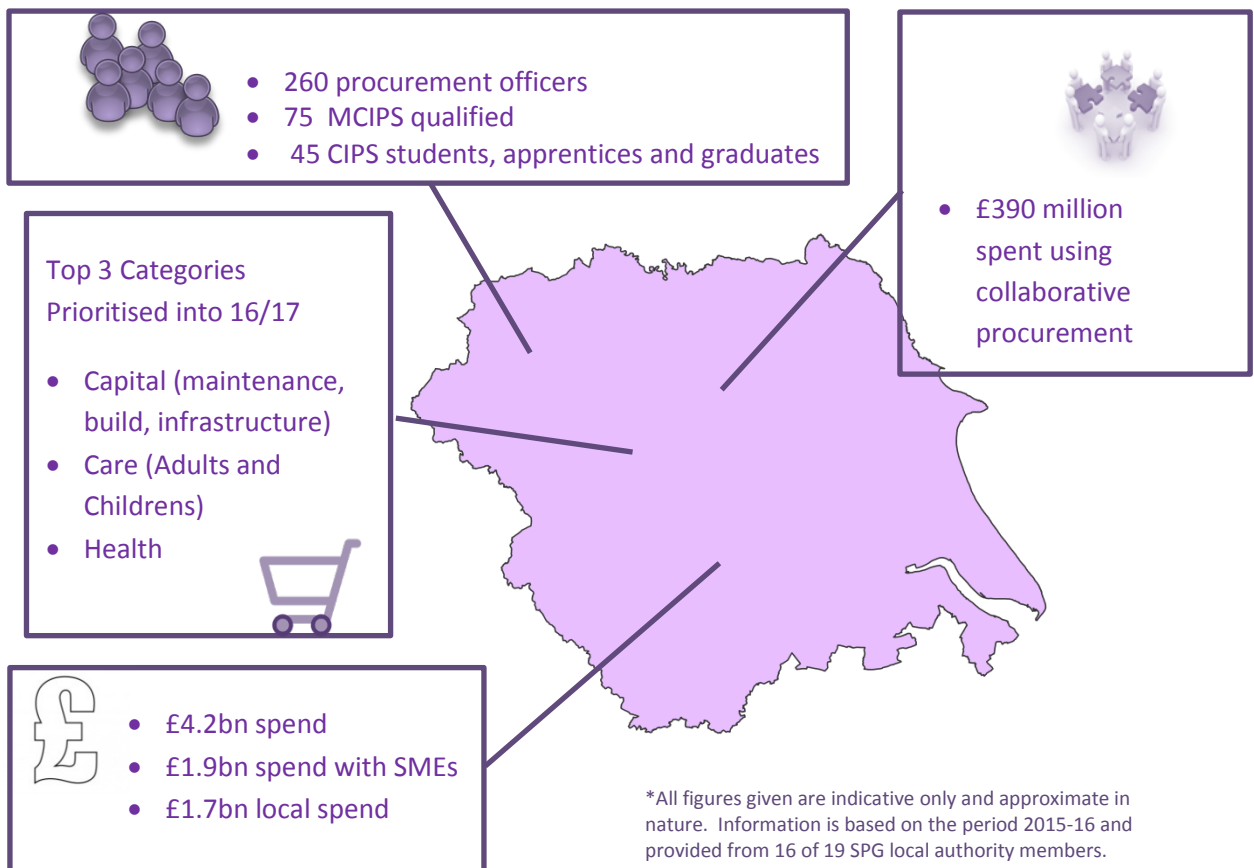
The emphasis has been to reshape relationships with key suppliers we consistently use across the region to leverage greater opportunity and in future use their capacity to help us problem-solve. Operational issues that members address with their suppliers can and should be addressed locally outside SPG meetings.

The emphasis has resulted in a future programme of work with key stakeholders and suppliers which include a workshop between SPG and Yorkshire Purchasing Organisation (YPO) with a focus on innovation in adult social care.

2

In addition, SPG remain engaged nationally and regionally to help shape policies via engagement with groups and organisations such as the Local Government Association - National Advisory Group for Procurement (NAG) and Crown Commercial Services (CCS).

3.2   Indicative statistics 2016*

Sixteen of the nineteen Local Authority SPG members have provided the data set out below which provides a flavour of procurement activity, spend, and category management priorities across the region. The data is indicative in nature but comes from a robust sample size. It is intended that this data will inform our 2017 forward plan priorities.

- 260 procurement officers
- 75 MCIPS qualified
- 45 CIPS students, apprentices and graduates

- £390 million spent using collaborative procurement

Top 3 Categories Prioritised into 16/17

- Capital (maintenance, build, infrastructure)
- Care (Adults and Childrens)
- Health

- £4.2bn spend
- £1.9bn spend with SMEs
- £1.7bn local spend

*All figures given are indicative only and approximate in nature. Information is based on the period 2015-16 and provided from 16 of 19 SPG local authority members.

Chief Executives are asked to note 2016 key activities and data

3

4. SPG roles and responsibilities 2017

The SPG Chair: Marianne Betts (Sheffield City Council), and Deputies: Denise Bann (Doncaster Metropolitan Council) and Neil Daynes (Hull City Council) stood down at the end of 2016. The new appointments for 2017 are:

Role	Officer	Organisation
Chair	Denise Bann	Doncaster Metropolitan Borough Council
Deputy Chair	Kevin Draisey	North Yorkshire County Council
Deputy Chair	Jane Lockwood	Kirklees Council
Local Government Association National Advisory Group for Procurement (NAG) representatives	Deputy Chairs	
Programme Management	Keri Wilkins	Leeds City Council
Training and development lead	Deborah Gaunt	Calderdale Metropolitan Borough Council

A full list of SPG members can be found at Appendix 3.

Chief Executives are asked to note the SPG 2017 roles and responsibilities

5. 2017 regional developments and priorities

5.1 Regional developments

Common themes emerging for the region regarding procurement are still heavily focussed on changing existing procurement practices/models of procurement delivery and implementing central government policies within the supply chain.

4

Regional developments

Restructuring of procurement services to include aspects such as category management and bringing services in-house
Improving procurement processes with a focus on standardisation and savings
Ensuring compliance with procurement processes
Improving finance systems including procure-to-pay and purchasing cards
Including social value in procurement outcomes

5.2 Future priorities

The region is already sharing best practice from those authorities who have already embedded the models being pursued by others. But further opportunity lies in focussing on the following in particular:

1. Better spend analytics
2. Market engagement and shaping including work with Yorkshire Purchasing Organisation e.g. on adult social care innovation and commissioning
3. Training and development including a training programme of free monthly events for up to 200 officers per annum across the region. The programme has a focus on developing commercial skills including contract management for procurement officers around the region.
4. National procurement developments including work with the other 8 regions (equivalent to the Y&H region) on procurement priorities

SPG members are proposing to take forward these priorities in 2017, whilst recognising that not all authorities have the capacity. In this connection, we will also continue to data share to ensure the region as a whole benefits.

The Forward Plan for 2017 can be found in Appendix 4 of this report for information.

Chief Executives are asked to note 2017 developments and priorities

5

Recommendations:

Report item	Request of CEX
1	Background information	To note the background information
2	Collaboration Strategy	To note the revised Collaboration Strategy
3	2016 SPG key activity and data	To note the 2016 SPG key activity and data
4	SPG roles and responsibilities 2017	To note the new SPG roles and responsibilities 2017
5	2017 SPG regional developments and priorities	To note 2017 developments and priorities

Appendices
Appendix 1 – SPG Collaboration Strategy
Appendix 2 – SPG activity and data 2016
Appendix 3 – SPG core membership
Appendix 4 – SPG forward plan 2017

6

1.   2016-17 Procurement Report

1.1   The Chief Officer for the Projects Programmes and Procurement Unit is required
       to provide statistical procurement information to Executive Board every quarter.
       This report provides information in relation to **Q1-Q3 of the 2016/17** financial year.

2.   Procurement Savings

2.1   The delivery of procurements, and in turn procurement savings, are a result of
       cross-functional working with directorates. The procurement category teams work
       closely with directorate colleagues to seek to secure procurement and contract
       efficiencies and to reduce off-contract and non-contract spend. Agreeing and
       'capturing' procurement savings, in discussion with directorates, enables budget
       holders to make informed choices and, where possible, translate identified saving
       opportunities into 'cashable' savings. The high level forecast savings are detailed
       below.

Updated December 2016	**Prior Years** **£000s**	**2016/17** **£000s**	**Future Years** **£000s**	**Projected Whole Life Saving** **£000s**
Savings already deducted from previous year's and future budgets *	**(18,312)**	**(5,356)**	**(9,083)**	**(32,750)**
Additional Projected savings against the 2016/17 budget		**(4,189)**		**(4,189)**
Total Forecast Savings on Current contracts	**(18,312)**	**(9,546)**	**(9,083)**	**(36,940)**
*Savings reflect the whole life of the contract and are reflected in the budget for the year the contract is awarded				

2.2   Anticipated savings on new procurements for contracts awarded as at 31st
       December are £4.189m.

2.3   Forecast savings are based on predicted contract usage and will be updated on a
       quarterly basis to reflect this.

2.4   Further savings are anticipated in the remainder of the year however as market
       conditions dictate the final tender values, savings will only be calculated, and
       incorporated, once the final tender values are known.

2.5   In addition to the cashable savings identified above, the savings report also
       identifies cost avoidance or 'non cashable savings', for example whereby having
       implemented good procurement controls, or contract management, a price
       increase has been avoided or where the re-procurement of a contract has resulted
       in 'more for less'. By definition it is difficult to quantify these savings as they are
       usually difficult to price, or 'prove', from a budget perspective. Nevertheless they
       do demonstrate the value added by effective procurement intervention and add
       value to the outcomes for the city.

1

2.6   Graph of Cumulative Procurement savings Forecast from 2016/17 to 2019/20
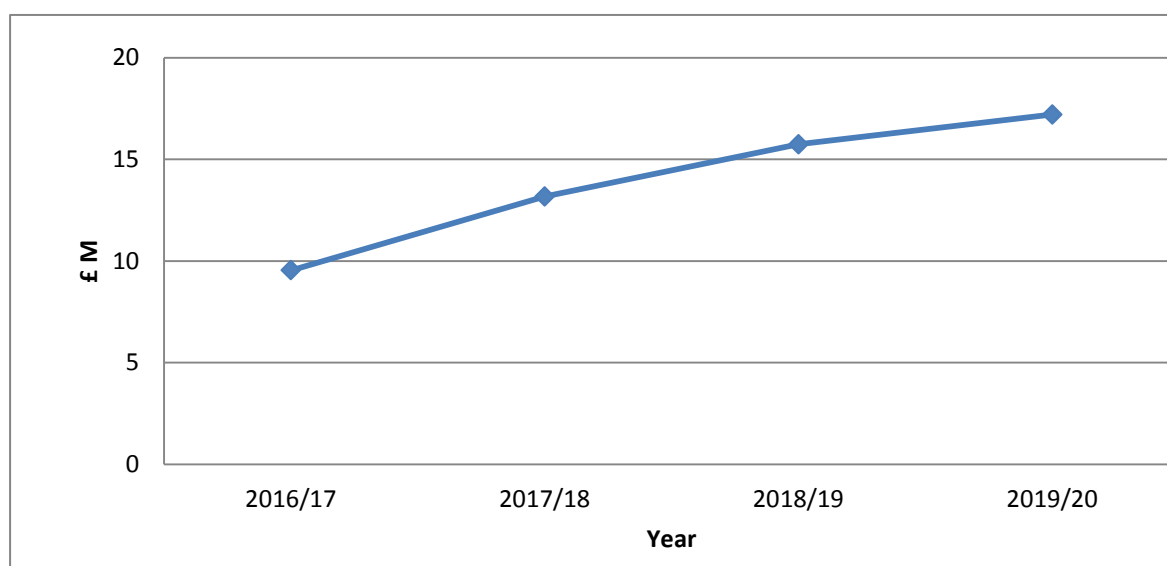
## 3.   Orders Placed on the Financial Management System (FMS)

3.1   The following financial information is sourced from an analysis of all orders recorded in the council's main financial system, FMS. On the payments system, each creditor (a body or person to which a payment is made by the council) has an indicator on their record which allocates them to a category. Such categories include private companies, commercial individuals (sole traders), other public sector bodies, and the third sector. The classification of organisations is carried out by colleagues in corporate finance with typically several hundred new creditor organisations allocated to a category each month.

3.2   These figures do not include orders placed through feeder systems, such as Orchard[1], purchasing cards, or payment requisitions where BACS or cheque payments are made through FMS without the Business Support Centre processing an invoice and where therefore there is no associated order.

3.3   The table below shows all orders placed in FMS during Q1-Q3 2016/17. Data from the corresponding period in 2015/16 is included for comparison.

Classification	Q1-Q3 2015/16			Q1-Q3 2016/17		
	Order Value	Number of Orders	% of Total	Order Value	Number of Orders	% of Total
On Contract	£220,456,436	12409	75.56%	£228,598,377	11407	69.67%
Non-Contract	£19,647,344	11936	6.73%	£11,068,637	9286	3.37%
On Contract - Quasi	£41,103,906	4534	14.09%	£73,903,194	5563	22.52%
On Contract - Waiver	£953,413	58	0.33%	£3,620,663	505	1.10%
Off-Contract	£6,490,654	2461	2.22%	£2,333,433	1106	0.71%
Non-Contract - One off or non-influenceable	£3,124,767	927	1.07%	£7,035,899	2257	2.14%
Grand Total	**£291,776,520**	**32325**	**100.00%**	**£328,119,432**	**30891**	**100.00%**

---

[1] Orchard is used by various council functions for dealing with the financial aspects of council owned property, for example to pay contractors for undertaking repairs to the housing stock.

2

On, off and non-contract orders placed on FMS

3.3.1 The graph below shows the percentage of on, off and non-contract orders placed on FMS from April 2015 to December 2016.
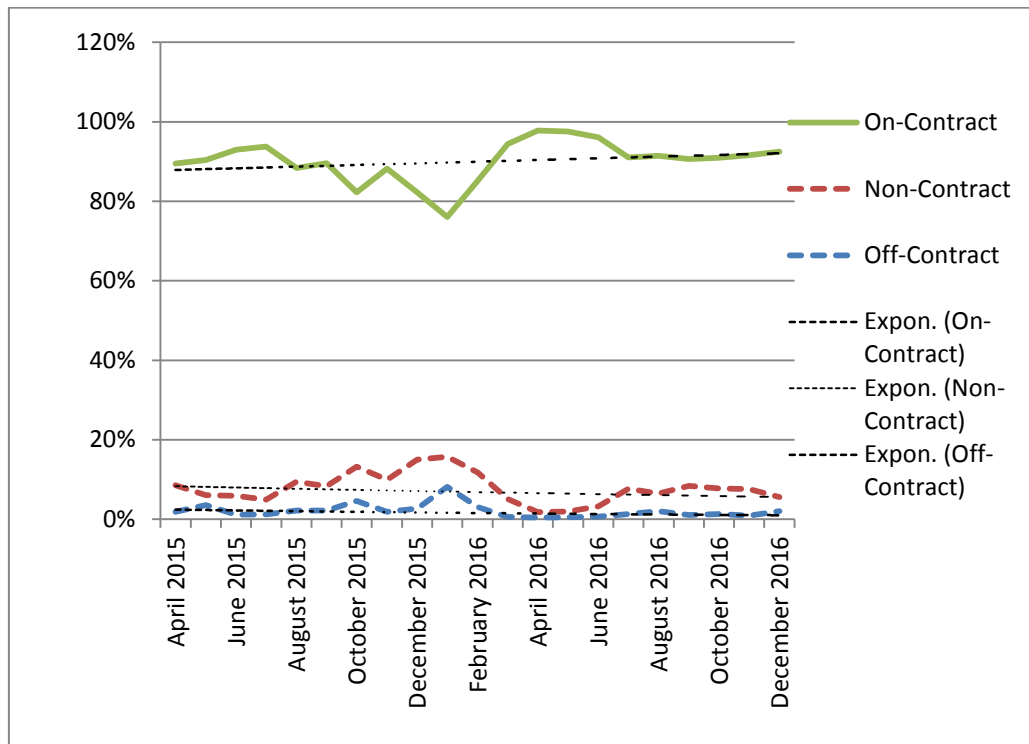
4. Local Suppliers

4.1 Orders placed with local suppliers in **Q1-Q3 2016/17** are detailed below. Data from the corresponding period in 2015/16 is included for comparison.

Classification	Q1-Q3 2015/16			Q1-Q3 2016/17		
	Order Value	Number of Orders	% of Total	Order Value	Number of Orders	% of Total
Local Spend	£119,217,586	14269	40.86%	£157,698,727	12536	48.06%
Non-Local Spend	£172,558,934	18056	59.14%	£170,420,705	18355	51.94%
Grand Total	**£291,776,520**	**32325**	**100.00%**	**£328,119,432**	**30891**	**100.00%**

Suppliers with a Leeds metropolitan area postcode have been included in the above data. These are postcodes LS1 to LS29 plus BD3, BD4, BD10, BD11, WF2, WF3, WF10, WF12, WF17.

3

5. Third sector

5.1 Orders placed with third sector suppliers in **Q1-Q3 2016/17** are detailed below. Data from the corresponding period in 2015/16 is included for comparison.

Classification	Q1-Q3 2015/16			Q1-Q3 2016/17		
	Order Value	Number of Orders	% of Total	Order Value	Number of Orders	% of Total
Third Sector	£52,257,226	3948	17.91%	£89,180,361	2817	27.18%
Non Third Sector	£239,519,295	28377	82.09%	£238,939,071	28074	72.82%
Grand Total	**£291,776,520**	**32325**	**100.00%**	**£328,119,432**	**30891**	**100.00%**

6. Small and Medium Enterprises (SMEs)

6.1 Orders placed with SMEs in **Q1-Q3 2016/17** are detailed below. Data from the corresponding period in 2015/16 is included for comparison.

Classification	Q1-Q3 2015/16			Q1-Q3 2016/17		
	Order Value	Number of Orders	% of Total	Order Value	Number of Orders	% of Total
Not an SME	£149,224,465	12227	51.14%	£168,268,376	11748	51.28%
SME	£142,552,055	20098	48.86%	£159,851,056	19143	48.72%
Grand Total	£291,776,520	32325	100.00%	**£328,119,432**	**30891**	**100.00%**

7. Glossary
7.1 **On contract** is an order placed with a contracted supplier.
7.2 **Non-contract** is an order placed where no contract exists for the goods or service.
7.3 **Off contract** is an order placed where there is a contracted supplier but the order raiser uses a different supplier.
7.4 **Waivers** are required where the relevant Chief Officer is able to justify a genuine exception to the requirements for competition under Contract Procedure Rules.
7.5 **Quasi** contracts are virtual contracts put in place to aggregate spend with a view to evaluating the requirements of a contract.
7.6 The Local Government Association defines the third sector as "non-governmental organisations" (NGOs) that are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives.
7.7 **Third sector** includes charities, community groups, churches and faith groups, sports and recreational clubs, social enterprises and partnerships and trade unions and associations.
7.8 **SMEs** are defined as having a turnover of less than £25.9 million and fewer than 250 employees. This data was collated by using the categorisation selected by the supplier upon registration on YORtender (the council's electronic tendering site) and then verified where possible against data from the Department of Business Innovation and Skills.

4

Procurement Documents Guide

Procurement strategy
(the council's procurement policy)

Contracts procedure rules	Assurance guide
(the council's procurement rules for any stage in your procurement, including when you are not undertaking a competitive tender	(a guide to help you navigate decision making, documents, consultation and quality assurance at any stage in your procurement)

Planning documents	Delivery documents
(tools to help you consider and record all key issues before you get underway)	(tools to help you consider and use appropriate tender and contract documents)
Annual review notes	Pre-qualification questionnaire (PQQ)
Exit plan	Below threshold suitability assessment guidance
End of contract report	Part 1 – Tender instructions including:
Category plan	Tender schedule
communications plan (PM lite)	Pricing schedule
Procurement scoping notes	Part 2 – Specification
Procurement plan	Part 3 – Contract terms and conditions
Contract management plan	Financials
TUPE Union protocol	Tender evaluation guidance
	Tender evaluation methodology
	Tender evaluation scoresheet booklet

Workshop packs and guidance
(tools to help you look at some key policy areas at any stage in your procurement)

Social

Social responsibility including community benefits, social value and social capital

Ethical and fair-trade

Employment and skills

Health and wellbeing

Equality and diversity

Environment

Environment

Economic

Third sector

Small and Medium Enterprises (SMEs)

Supported businesses

Models of delivery

Management

Communications:
- stakeholders
- members involvement
- staff and trade unions
- providers

Locality working

Risk

Lessons

Benefits

Options appraisal

Market analysis

Contract management

Templates and memos
(key templates and memos to be used on your procurement)

Contract award memo	Contract extension memo	Tender report	Waiver report template	Letters

Attachments
(tools to help you log and track key issues at any stage on your procurement)

Benefits realisation plan (PM lite)	Lessons log (PM lite)	Risk register (PM lite)	Issues log (PM lite)	Checklists

Management information – contracts awarded, procurement calendar, waivers, savings, supplier information (local, SME, third sector, Internal Service Providers), on/off/non-contract spend

Leeds
CITY COUNCIL

Report author:	Mary Hasnip
Tel:	x74722

Report of the Chief Officer (Financial Services)

Report to   **Corporate Governance and Audit Committee**

Date: **7ᵗʰ April 2017**

Subject: **KPMG Audit Plan 2016/17**

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

Summary of main issues

1. In order to discharge their statutory duties, KPMG issue an annual audit plan which covers the Council's accounts and the process for assessing its arrangements to secure value for money in the use of resources. The attached report from KPMG represents their full audit plan for 2016/17, covering their audit approach, timing of audit work, and the significant audit risks identified to date.

Recommendations

2. Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of the audit plan presented by KPMG.

1   Purpose of this report

1.1   To inform members of KPMG's audit plan for the audit of the Council's accounts and value for money arrangements. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2016/17.

2   Background information

2.2   KPMG's statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice. As the Council's external auditors, KPMG are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

3   Main issues

3.1   KPMG's audit has two key objectives, to give an opinion on the council's financial statements (including the annual governance statement), and to review and report on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Their audit plan sets out their approach to this work and the planned timing of their reporting to the council during the year.

3.2   In relation to their audit of the council's statement of accounts, KPMG have identified two areas where, due to the size of the assets and liabilities involved, there is potentially a significant risk of a material misstatement. These are the valuation of property plant and equipment, and the valuation of the net pension liability. The figures for pensions liabilities and asset in the 2016/17 accounts will incorporate the data and assumptions from the 2016 Triennial Valuation of the West Yorkshire Pension Fund.

3.3   KPMG have also identified as a further area of audit focus some presentational changes which councils are required to make for the 2016/17 statement of accounts. This year's Comprehensive Income and Expenditure Statement will show the Net cost of services on the basis of the council's directorate structure rather than on the basis of standard service categories. A new disclosure note called the Expenditure and Funding Analysis will also be required, which will analyse the difference between directorates' outturn positions and their net expenditure on an accounting basis as it appears in the Comprehensive Income and Expenditure account. More summarisation of figures within the Movement of Reserves statement is also permitted for 2016/17, although councils are not required to adopt this change.

3.4   In relation to their audit of the council's arrangements for securing value for money, KPMG have identified the key risk as being the council's overall financial standing, given the continuing significant financial pressures which it faces.

3.5   The audit plan confirms that KPMG's proposed audit fee for 2016/17 is £232k, the same as the fee for 2015/16.

4   **Corporate Considerations**

4.1   **Consultation and Engagement**

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

4.2   **Equality and Diversity / Cohesion and Integration**

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

4.3   **Council policies and Best Council Plan**

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

4.4   **Resources and value for money**

4.4.1   The report outlines the areas which KPMG will review in assessing whether the Council has proper arrangements for securing value for money.

4.5   **Legal Implications, Access to Information and Call In**

4.5.1   The report by KPMG outlines how they propose to discharge their responsibilities as defined by in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

4.5.2   As this is a factual report 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   The report identifies the key risks which KPMG have identified in their audit planning process so far.

5   **Conclusions**

5.1   KPMG have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council's 2016/17 accounts and for assessing the Council's arrangements for securing value for money. They have also identified what they see as the main risks.

6   **Recommendations**

6.1   Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of KPMG's external audit plan.

7   **Background documents**[1]

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[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.

External Audit Plan 2016/2017

Leeds City Council

February 2017

The Local Government Landscape

Headlines

Financial Statement Audit

There are no significant changes to the underlying accounting principles set out in the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with. There are however a number of additional presentational requirements, including the introduction of an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£18 million.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.6 million**.

Significant risks

In addition to the mandatory risk required by auditing standards, those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation
- Valuation of Property, Plant and Equipment

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Disclosure associated with retrospective restatement of CIES, EFA and MiRS

See pages 3 to 6 for more details

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial Standing

See pages 7 to 12 for more details.

Logistics

Our team is:

- Tim Cutler – Partner
- Richard Lee – Senior Manager
- Robert Fenton – Assistant manager

More details are on **page 15.**

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14.**

Our fee for the audit is £231,953 (£231,953 2015/2016) see **page 13.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning	Control Evaluation	Substantive Procedures	Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.

Risk Assessment	Identification of significant VFM risks	VFM audit work	Conclude	Reporting

Financial statements audit planning
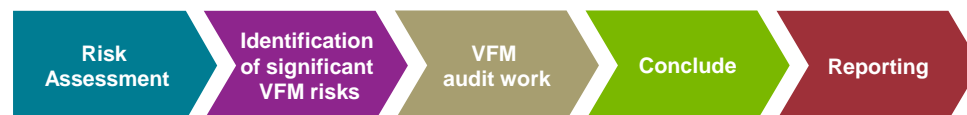
Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

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

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.
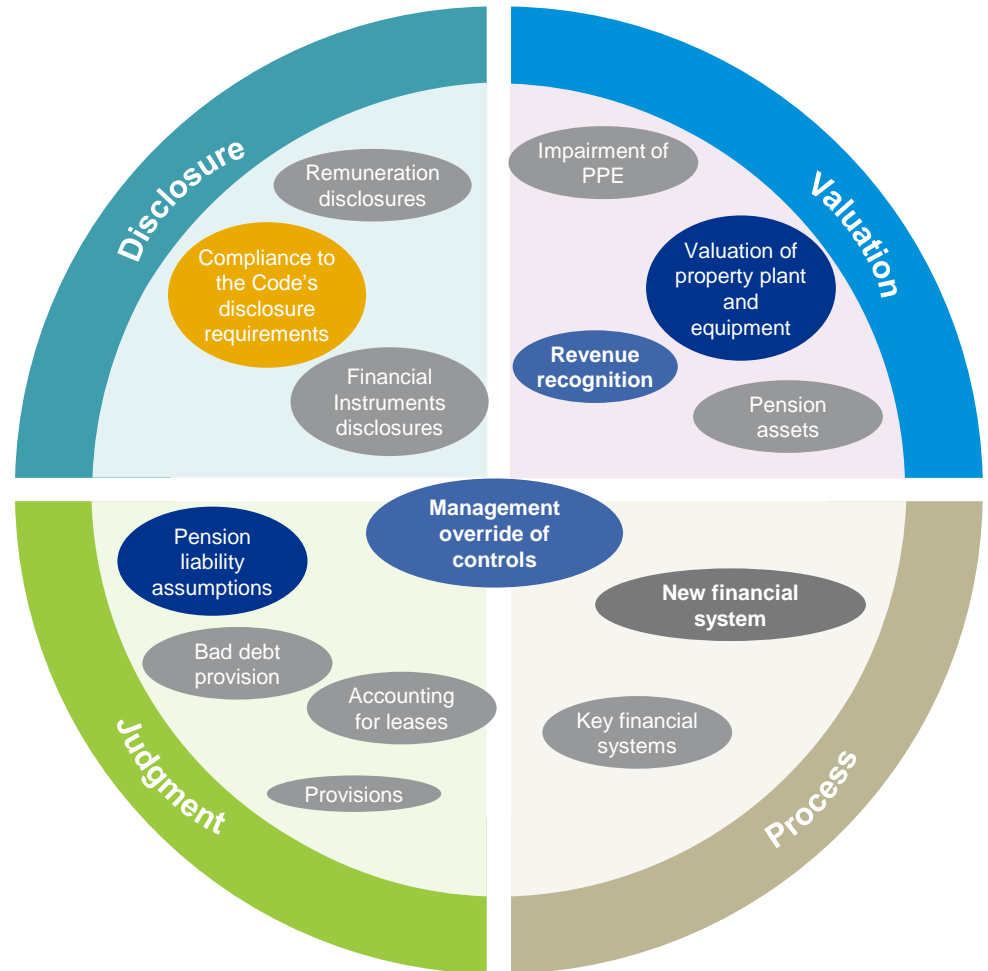
Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

4

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for West Yorkshire Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Bradford City Council who administer the Pension Fund.

Approach:

As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Mazars who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.

Risk : Valuation of Property, Plant and Equipment

In accordance with the Code, all valuations are subject to review as part of a five year rolling revaluation programme. In order to reflect a more accurate value of the authority's assets any asset which is not revalued in the year or not included at either cost or nominal value is uplifted based on appropriate indices.

As at 31 March 2016, the net book value (NBV) of PPE was £4,124 million. Given the significance of the balance there is a greater risk of material misstatement in the financial statements. We have therefore identified this a significant audit risk which will be addressed using the approach outlined below.

Approach:

We will undertake the following work over the valuation of material land and building balances:

- assess the competence, capability, objectivity and independence of the internal valuer;
- critically assess the calculation of market value indices movements, including a re-performance of this calculation to confirm that no material movement in the value of land and building assets is indicated;
- critically assess the Authority's formal consideration of indications of impairment within its estate, including the process undertaken and the adequacy of the formal, written decision document used in the process; and
- consider the adequacy of the disclosures about the key judgements and degree of estimation involved in concluding any change in value of land and buildings since 31 March 2016.
- In addition, we will use KPMG's internal valuation specialists to critically evaluate the valuation methodologies adopted.

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Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue: Disclosure associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project.

The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how Local Authorities are funded and how they use their funding to serve the local population.

The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and

- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards .

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Approach:

As part of our audit:

- We will assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and

- We will check the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance.

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Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £18.0 million, which equates to 1 percent of gross expenditure.
We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Corporate Governance and Audit Committee
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.
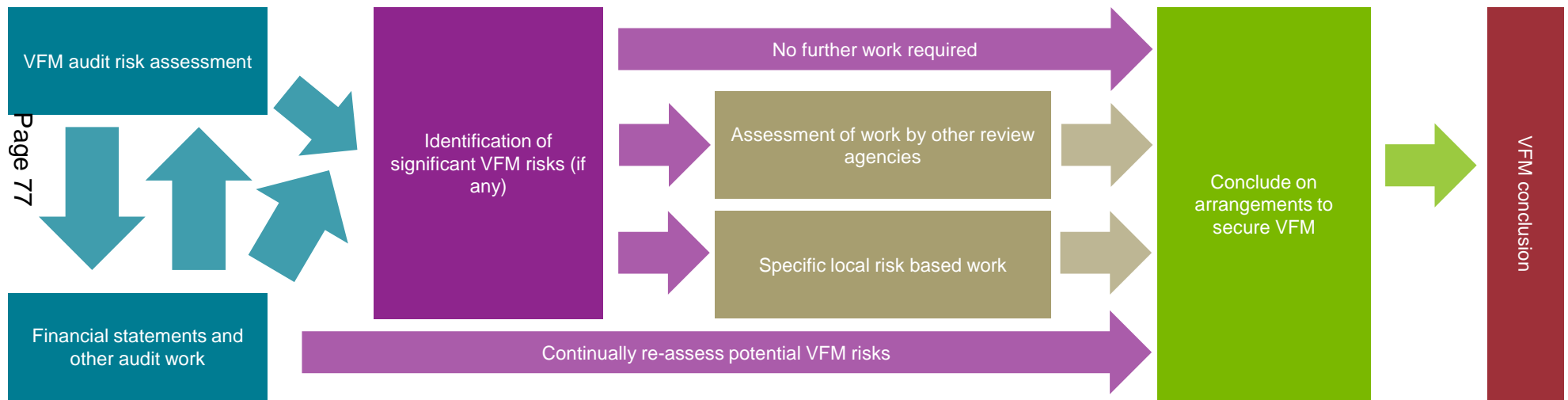
Document Classification: KPMG Confidential

Value for money arrangements work
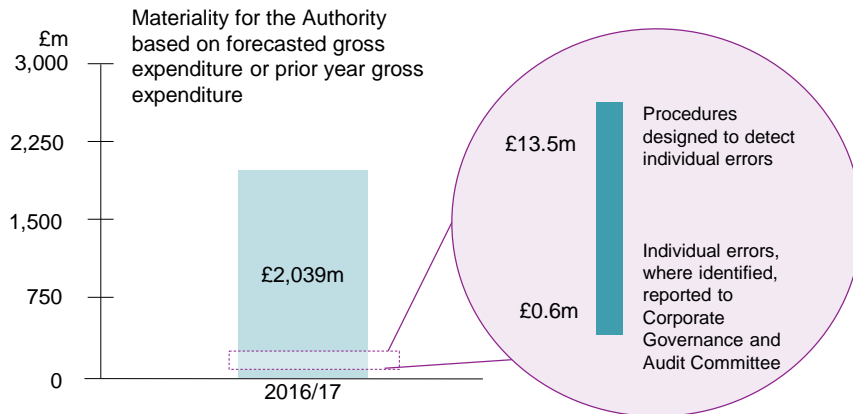
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.

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VFM audit risk assessment

Financial statements and other audit work

Identification of significant VFM risks (if any)

No further work required

Assessment of work by other review agencies

Specific local risk based work

Continually re-assess potential VFM risks

Conclude on arrangements to secure VFM

VFM conclusion

Document Classification: KPMG Confidential

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Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Sustainable resource deployment

Working with partners and third parties

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- Reliable and timely financial reporting that supports the delivery of strategic priorities.

- Managing risks effectively and maintaining a sound system of internal control.

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

- Managing and utilising assets to support the delivery of strategic priorities.

- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.

- Commissioning services effectively to support the delivery of strategic priorities.

- Procuring supplies and services effectively to support the delivery of strategic priorities.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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Document Classification: KPMG Confidential

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

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Page 81

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Financial Standing

■ Risk

There are significant financial pressures facing the Authority. General reserves were £21.6 million at 31st March 2016, having reduced from £22.3 million as at 31 March 2015. The Authority is expecting further reduction to £18.1 million by the end of March 2017 with no planned use or contribution for 2017/18. At month 9, a £0.9m overspend is forecast, the main pressures arising from Children's Services (£6.64m) being offset by a £5.4m underspend in the Strategic and Central Directorate.

Between the 2010/11 and 2016/17 budgets, the Authority's core funding from government has reduced by around £214m and in addition the Authority has faced significant demand-led cost pressures. This means that the Authority will have to deliver reductions in expenditure and increases in income totalling over £400m by March 2017. This includes £76m savings target for 2016/17. Looking ahead to 2017/18, a combination of reduced funding and cost pressures means that the Authority will need to deliver £81.8m of savings by 31 March 2018. Given the Authority's strong track record, it is confident that the required savings in 2017/18 will be achieved.

■ Approach

Through our VFM work, we will consider how the Authority is managing its savings plans and we will review key performance indicators to assess whether this has had an unintended adverse impact on service delivery.

We will also assess the level of reserves available at 31st March 2017 against the Authority's reserves policy, taking into account any contingent liabilities which could have a significant impact on the Authority's financial standing if they were to crystallise.

Document Classification: KPMG Confidential

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

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

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Tim Cutler, supported by Richard Lee and Rob Fenton. Together they will bring a wealth of local government experience and a fresh perspective. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Corporate Governance and Audit Committee. Our communication outputs are included in Appendix 1.
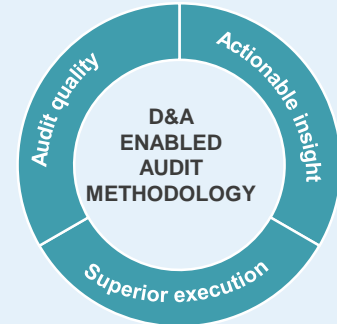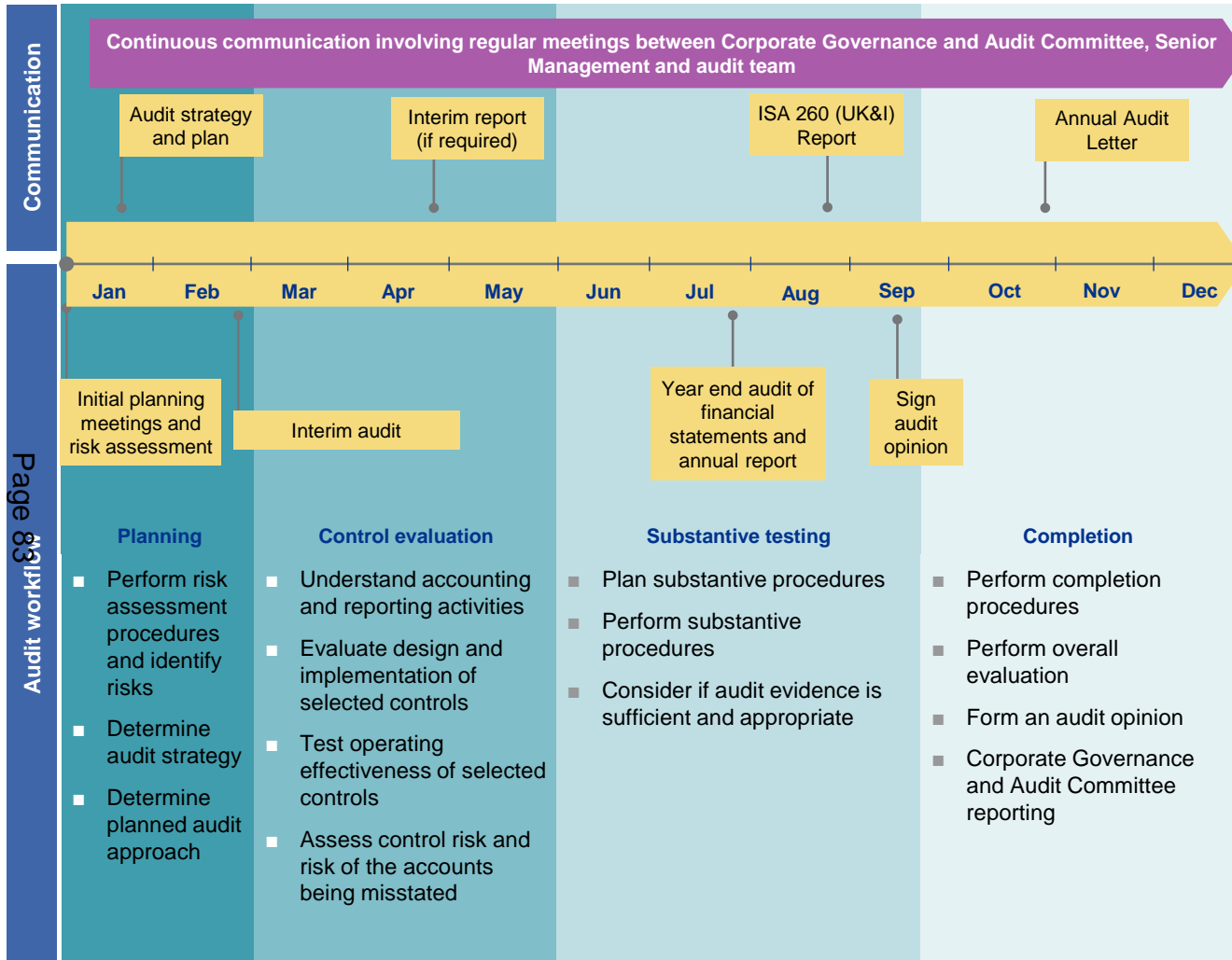
Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £231,953 (£231,953 2015/16). Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Communication

Continuous communication involving regular meetings between Corporate Governance and Audit Committee, Senior Management and audit team

Audit strategy and plan	Interim report (if required)	ISA 260 (UK&I) Report	Annual Audit Letter

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Audit workflow

Initial planning meetings and risk assessment

Interim audit

Year end audit of financial statements and annual report

Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Corporate Governance and Audit Committee reporting

D&A ENABLED AUDIT METHODOLOGY — Audit quality · Actionable insight · Superior execution

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

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Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department.

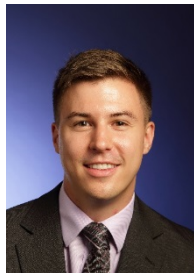| Name	Tim Cutler
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Corporate Governance and Audit Committee and Chief Executive.

Tim Cutler

Partner

Tel: 07818 845252

tim.cutler@kpmg.co.uk

Name	Richard Lee
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the partner to ensure we add value.

Richard Lee

Senior Manager

Tel: 07788 718618

richard.lee@kpmg.co.uk

Name	Robert Fenton
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Robert Fenton

Assistant Manager

Tel: 07990 572392

robert.fenton@kpmg.co.uk

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Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

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

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

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

— Carry out their work with integrity, independence and objectivity;

— Be transparent and report publicly as required;

— Be professional and proportional in conducting work;

— Be mindful of the activities of inspectorates to prevent duplication;

— Take a constructive and positive approach to their work;

— Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

— Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

■ No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

■ Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.

■ Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.

■ Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.

■ Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.

■ Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.

■ Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

During 2016/17, KPMG has been engaged to support the Council undertake a Children's Services Traded Service Review. This work has been approved by PSAA. We will report any additional fees charged to the Council within our 2016/17 ISA 260 report.

Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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. 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: Tim Pouncey/ Sonya McDonald

Tel: 74214

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Internal Audit Update Report January to March 2017

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ 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 from January to March 2017 and highlights the incidence of any significant control failings or weaknesses.

Recommendations

2. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from January to March 2017 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.

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 January to March 2017 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 from January to March 2017.

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 January to March 2017

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Housing Leeds			
Leeds Building Services - Stores	Good	Acceptable[1]	Minor
Rent Arrears	Good	Acceptable	Minor
Environment and Housing			
Compliance with Corporate Risk Management Policy	N/A	Acceptable[2]	Moderate
Adult Social Care			
Unannounced Establishment Visit	Good	Good	Minor
Community Care Finance	Acceptable	Limited	Moderate
Implementation of the Client Information System (CIS)	Good	Acceptable[3]	Moderate
Safeguarding	Substantial	N/A	Minor
ICT and Information Governance			
ICT Business Continuity Planning	Good	N/A	Minor
Key Financial Systems			
Benefit Reconciliations	Substantial	Substantial	Minor
Central Sundry Income	Substantial	Substantial	Minor
Business Rates	Substantial	Substantial	Minor
Capital	Substantial	N/A	Minor
Housing Rents	Substantial	Good	Minor

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[1] Acceptable assurance provided overall, with limited assurance provided for the maintenance of stock records.
[2] Acceptable assurance provided overall, with limited assurance provided for documenting how risks are assessed.
[3] Acceptable assurance provided overall, with some areas of limited assurance for compliance.

Report Title	Audit Opinion		
	Control Environment Assurance	**Compliance Assurance**	**Organisational Impact**
Central Purchasing Card Controls	Substantial	N/A	Minor
Council Tax	Substantial	N/A	Minor
Schools			
School Voluntary Funds x 4	Certification of balances		
Follow Up Reviews			
Sundry Income Lettings	Acceptable	N/A	Minor
Primary School	Acceptable	Acceptable	Minor
Kirkgate Market	Acceptable	Acceptable	Minor
Children's Services			
Contract Review – Independent Support Work	Good	Good	Minor
Analytical review work on costs (school maternity costs)	N/A		

3.1.3   In addition to the reports detailed in Table 1 above, the following grant certification has been finalised during the reporting period:

- Troubled Families January 2017

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 25 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   Each of the seven audits that have been completed in respect of the council's key financial systems have received Substantial or Good assurance opinions. This provides the Committee with assurance that these systems are well established and operating as intended.

Limited or No Assurance Opinions

3.2.3   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.

3.2.4   The following four audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:

- Community Care Finance

- Implementation of the Client Information System (CIS)

- Leeds Building Services (LBS) – Stores

- Environment and Housing compliance with the Corporate Risk Management Policy

3.2.5   Adult Social Care implemented a new customer record and finance system, the Customer Information System (CIS) in August 2015. Social Care records were migrated from the previous system, ESCR; and financial records for external placements and direct payments from ESCR Financials (a system independent of ESCR).

3.2.6   As part of our audit coverage we have reviewed the processing of payments for external placements and direct payments (which are paid through Community Care Finance) and the implementation of CIS.

Community Care Finance

3.2.7   As part of the scope for the Community Care Finance audit we reviewed procedures in place for both the current (CIS) and previous system (ESCR Financials).

3.2.8   Our review found that there were good controls in place to ensure that:

- new placements for residential and nursing care are properly authorised;

- contributions are correctly calculated;

- payments are made in line with the relevant contract or agreement and are accurately recorded in the council's accounting system; and

- direct payments are appropriately authorised and accurately processed in a timely manner.

3.2.9   The audit found that processes require strengthening to ensure that all changes in circumstances and all deferred and statutory charges are identified. Opportunities were also identified to improve the efficiency of the process in respect of recovering overpayments due from providers.

3.2.10   We found that a number of issues were encountered with payments to providers following the introduction of CIS. The issues were addressed at the implementation stage through workarounds and by making payments outside of the system, which has caused some inefficiencies.

Implementation of CIS

3.2.11   The Executive Board gave approval in July 2012 to enter into a partnership agreement with Calderdale Metropolitan Borough Council for the purchase of an initial 20% share of their Adult Social Care Client Information System (CIS) to replace the ESCR and ESCR financial systems. Responding to specific concerns raised by Executive Board as to whether the Adult Social Care Client Information System used by Calderdale Council would be fit for Leeds' purpose, it was requested that related matters were referred to the Corporate Governance and Audit Committee, so that the acquisition of the system could be monitored. Members of this Committee sought assurance from the Director of Adult Social Services that the new system would be fit for Leeds' purpose and that the acquisition of the system complied with the Council's procurement process. This assurance was provided by the Director of Adult Social Care through a series of reports on the *'Shared Service Partnership with Calderdale Metropolitan Borough Council to meet Adult Social Care Technology Requirements'* between 2012 and 2015.

3.2.12   Our review of the implementation of CIS was included in the audit plan to provide this Committee with separate independent assurance on the management of the project. Our review found that, overall, the project was well managed in line with the Council's approved project methodology. However, the documentation of the decision making around managing the key risks and issues in the 4 months preceding go live was not maintained. There was no documentary evidence to confirm that the Board had been provided with appropriate information at the latter stages of the project or that the final sign off had been obtained before the project went live. The project was very complex and time pressured, and some compromises were evident (e.g reduction in testing) in order to meet the implementation target date. We have recommended that a lessons learnt review is undertaken to inform similar future projects.

3.2.13   There is evidence that measures are being put in place to resolve the issues identified in the audits of Community Care Finance and the Implementation of CIS. A number of the recommendations made during our review have already been implemented.

LBS Stores

3.2.14   LBS provides repairs and maintenance services for tenants of Housing Leeds and for Council buildings. Our review of LBS Stores sought to obtain assurance that there are appropriate processes in place for the purchase, allocation and recording of direct materials and stock and that security of stock is in line with financial regulations. The audit found that there were good processes in place overall with the exception of the maintenance of the stock records. Our review found variances between stock records and stock held for a high number of the sample we tested. The discrepancies included examples of holding more stock

than the records indicated as well as examples of holding less stock than recorded. The implementation of the recommendations made from the audit will provide greater assurance that stock has been correctly allocated to jobs and can be accounted for.

<u>Environment and Housing – Compliance with the Corporate Risk Management Policy</u>

3.2.15   The audit found that there are processes in place to identify and manage risks within the Environment and Housing directorate. Risk registers are in place at a service level and for individual programmes and projects. However, there is no single risk register that captures the directorate's significant risks. We were able to provide independent assurance that a sample of generic risks are being effectively managed, but it is not possible to provide objective assurance that a structured and consistent approach has been taken to communicate, assess and evaluate the risks and prioritise resources due to how the directorate records risk information.

3.2.16   The audit report was considered by the directorate's senior leadership team and it was agreed that, in view of the directorate changes taking place, senior managers will identify and assess their risks and discuss these with the relevant director. These will then be considered within the risk management arrangements in place within the new directorates.

Follow Up Reviews

3.2.17   Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. Our audit reports include an assurance opinion for each objective reviewed within the audited area. Follow up audits are 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.

3.2.18   Table 2 below provides tracking information on the follow up audits due to be completed together with the Corporate Governance and Audit Committee meeting date where the initial audit findings were reported.

Table 2: Follow Up Audit Tracker

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Follow up results reported at the current meeting		
Sundry Income Lettings	Closed	See 3.2.20
Primary School	Closed	See 3.2.20
Kirkgate Market	Closed	See 3.2.20

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Follow up reviews due in 2017/18		
Commissioning of external residential and independent fostering agency placements	Follow up audit initially postponed to allow time for audit recommendations to be implemented. Follow up audit now in progress.	September 2015
Contract Extensions	In progress	March 2016
Administration of Client Monies	In progress	June 2016
Spending Money Wisely Challenge – off-contract spend	In progress	March and June 2016
Children's Services Direct Payments	In progress	September 2016
LBS Tools and Equipment	Planned	September 2016
LBS Subcontractors and Quality Management Systems	In progress	September 2016
Sundry Income Events	In progress	September 2016
Leeds Grand Theatre – Contract Procedure Rules	Planned	January 2017
Housing Leeds Tenancy Management – Use and Occupation	Planned	January 2017
Contract Review - Joint Venture: professional property and building services	Planned	January 2017
Community Care Finance	Planned	See 3.2.7
Implementation of Client Information System	Planned	See 3.2.11
LBS Stores	Planned	See 3.2.14

3.2.19 During this reporting period we have finalised 3 follow up reviews:

- Sundry Income Lettings

- Primary School

- Kirkgate Market

3.2.20 All three follow up reviews resulted in an improved assurance opinion, reflecting the progress made since the previous audits.

Continuous Audit

3.2.21 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 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

3.2.22 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 Anti-Fraud Work

3.2.23 During the reporting period, we have continued to raise awareness of fraud risks and preventative action through presentations and reviews of the anti-fraud and corruption measures in place in key areas across the organisation.

3.2.24 Internal Audit resources have also been focussed on reviewing the National Fraud Initiative data matches and undertaking investigations as appropriate.

Reactive Anti-Fraud Work

3.2.25 During the reporting period we have received 10 potential irregularity referrals. Of these, 6 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 50 referrals received to date in the 2016/17 financial year, 32 have been closed (9 within the period January to March 2017).

3.2.26 Previously, Members have requested that they are informed of the departments where fraud has been discovered. We are in the early stages of investigating potential fraudulent activity at one of our schools. We have alerted the police to our concerns and will provide the Committee with further information on this when it is appropriate to do so. In the meantime, we have reviewed the internal control arrangements in place at the school and provided a series of recommendations, the implementation of which will mitigate against the fraud risks identified.

Internal Audit Performance

3.2.27 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.

3.2.28   All our work is undertaken in accordance with our quality management system and we have been ISO certified since 1998.

3.2.29   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.

3.2.30   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.

3.2.31   During the period April 2016 to March 2017, 40 completed Customer Satisfaction Questionnaires have been received. A summary of the scores is presented in Table 3 below.

Table 3: Results from Customer Satisfaction Questionnaires for the period April 2016 to March 2017

Question	Average Score (out of 5)
Sufficient notice was given	4.90
Level of consultation on scope	4.74
Auditor's understanding of systems	4.50
Audit was undertaken efficiently	4.78
Level of consultation during the audit	4.78
Audit carried out professionally and objectively	4.93
Accuracy of draft report	4.62
Opportunity to comment on audit findings	4.90
Clarity and conciseness of final report	4.70
Prompt issue of final report	4.64
Audit recommendations will improve control	4.59
The audit was constructive and added value	4.65
Overall Average Score	**4.73**

3.2.32   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.

3.2.33   Table 4 below provides a broad indication of progress against the Internal Audit Plan for 2016/17. 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
Audit Plan 2016/17	16	26	71
Follow up audits	7	7	11

3.2.34   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).

4   Corporate Considerations

4.1   Consultation and Engagement

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

4.2   Equality and Diversity / Cohesion and Integration

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

4.3   Council policies and Best Council Plan

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

4.4   Resources and value for money

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

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

4.5   Legal Implications, Access to Information and Call In

4.5.1   None.

4.6   Risk Management

4.6.1   The Internal Audit Plan has been and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

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

5   Conclusions

5.1   There are no issues identified by Internal Audit in the January to March 2017 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 January to March 2017 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.

7   Background documents

7.1   None.

Leeds
CITY COUNCIL

Report author: Tim Pouncey/ Sonya McDonald

Tel: 74214

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Internal Audit Plan 2017-18

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No	
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No	
Is the decision eligible for Call-In?	☐ Yes	☒ No	
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ 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.

2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement. The standards also refer to the need for a risk-based plan to take into account the requirement to produce an annual internal audit opinion which includes input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.

3. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the Council's arrangements relating to internal audit requirements and specifically, reviewing and approving the risk-based plan and any additional significant work.

4. This report therefore provides members with the proposed Internal Audit Plan for 2017-18.

Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2017-18.

1   Purpose of this report

1.1   The purpose of this report is to present the proposed Internal Audit Plan for 2017-
         18 to the Corporate Governance and Audit Committee for review and approval.
         This report also includes a summary of the basis for the plan. The plan has been
         developed in consultation with senior management.

2   Background information

2.1   The Corporate Governance and Audit Committee has responsibility for reviewing
         the adequacy of the Council's corporate governance arrangements.

2.2   From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a
         common set of Public Sector Internal Audit Standards (PSIAS) to be adopted
         across the public sector. The PSIAS set out the standards for internal audit.

2.3   The principles of the PSIAS are consistent with the previous CIPFA Code of
         Practice for Internal Audit that applied across local government. They include the
         need for risk-based plans to be developed for internal audit and for plans to
         receive input from management and the Corporate Governance and Audit
         Committee. Standard 2020 requires that internal audit plans are communicated to
         senior management and the Committee for review and approval.

2.4   The Chief Officer (Financial Services), as the council's Section 151 Officer, is
         responsible under the Local Government Act 1972 for ensuring that there are
         arrangements in place for the proper administration of the authority's financial
         affairs. The work of Internal Audit is an important source of information for the
         Chief Officer (Financial Services) in exercising his responsibility for financial
         administration.

3   Main issues

3.1   Background

3.1.1   Internal audit contributes to Leeds City Council achieving its key priorities by
         helping to promote a secure and robust internal control environment, which
         enables a focus on achieving the key priorities.

3.1.2   Internal audit also supports the Chief Officer (Financial Services) in discharging
         his statutory duties. The following are two key pieces of legislation that internal
         audit supports the Chief Officer (Financial Services) to comply with:

         •   Section 151 of the Local Government Act 1972. The Chief Officer (Financial
             Services), as the Council's Section 151 Officer, is responsible under the
             Local Government Act for ensuring that there are arrangements in
             place for the proper administration of the authority's financial affairs. The
             work of internal audit is an important source of information for the Chief
             Officer (Financial Services) in exercising his responsibility for financial
             administration.

- The Accounts and Audit Regulations 2015. The regulations state that 'A relevant authority must 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'.

3.1.3 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'. Within Leeds City Council, the Corporate Governance and Audit Committee fulfils the key duties of the Board laid out in the PSIAS. This report sets out the proposed plan for 2017-18.

3.2 The Planning Process

3.2.1 The PSIAS require that the Head of Internal Audit *'must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'* The standards state that the risk-based plan should take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight).

3.2.2 Given the resources available for internal audit, there will continue to be a need for greater reliance to be placed on management controls within the internal control framework and for a potentially higher level of risk to be accepted. Directorate Leadership Teams must have appropriate arrangements in place to ensure that they have assurance on key risk areas and that the risk management process supports and enables the delivery of objectives. Internal audit resource will need to be focused on the most significant risk areas and on the robustness of financial control.

3.2.3 The proposed plan has taken into account other sources of assurances and known areas of ongoing work that contribute to the assurance framework (for example, in the area of cyber assurance), to avoid duplication and broaden the span of overall assurance. These, taken together with the work of internal audit, will provide the assurance coverage necessary to support the needs of the Corporate Governance and Audit Committee.

3.2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach using the following sources:

- the Council's risk management processes and the corporate and directorate risk registers;
- the results of previous internal audit work and our ongoing assessment of the auditable entities within the authority;
- planned work deferred from 2016-17;
- awareness of relevant local and national issues;

- consultation with Corporate Governance and Audit Committee, the Council's Section 151 Officer, senior management and colleagues from across the organisation; and
- regular dialogue with the core cities and authorities within South and West Yorkshire helps to ensure that we are aware of emerging risks within other councils so that they can be considered during audit planning.

3.2.5   The outputs from the planning process have been prioritised to produce a plan that balances the following:

- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
- the time required for anti-fraud and corruption activity
- the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
- the need to retain a contingency element to remain responsive to emerging risks; and
- the resource and skill mix available to undertake the work.

3.3   Resources

3.3.1   The number of days allocated in the plan to specifically provide the Head of Internal Audit with the evidence for the opinion on the control environment is 2,426 days (2016/17 – 2,685 days.) The level of resources required to provide internal audit services to external clients is 247 days. The total Internal Audit Plan for 2017/18 is therefore 2,673 days (2015/16 – 2,897 days). In my opinion, this is sufficient to perform the work necessary to deliver the annual internal audit opinion and report that is used by the organisation to inform its governance statement.

3.4   Internal Audit Plan 2017/18

3.4.1   Appendix A provides a breakdown of the individual audits that are proposed for inclusion within the audit plan for 2017/18. The work is grouped at directorate level or functional area to align with risk registers and accountabilities. An overview of the assurance that each audit aims to achieve is provided together with an estimate of the audit resource that will be required to complete the review.

3.4.2   The plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key issues facing the organisation throughout the year.

3.4.3   Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

3.4.4   Table 1: Comparison with Internal Audit Plan 2016/17

Assurance Block	2017/18 Plan		2016/17 Plan	
	Days	% of total assurance days	Days	% of total assurance days
Anti Fraud and Corruption	316	13.03%	358	13.33%
Grants / Head of Audit Assurances	92	3.79%	92	3.43%
Continuous audit	150	6.18%	150	5.59%
ICT and Information Governance	110	4.53%	115	4.28%
Key Financial Systems	438	18.05%	455	16.95%
Procurement	180	7.42%	235	8.75%
Schools	50	2.06%	30	1.12%
Follow up	150	6.18%	85	3.17%
Directorate and cross cutting	820	33.80%	1020	37.99%
General Contingency	120	4.95%	145	5.40%
Total Assurance Days	**2426**	**100.00%**	**2685**	**100.00%**
Other				
External Contracts - existing	157		197	
External Contracts - new	90		0	
PSIAS External Assessment	0		15	
Total Other	**247**		**212**	
Total Days	**2673**		**2897**	

4   Corporate Considerations

4.1   Consultation and Engagement

4.1.5   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 (including matters such as internal control and risk management.) They also require the Committee to consider the Council's

arrangements relating to internal audit requirements including reviewing and approving the risk-based plan and any additional significant work.

4.3.2   The Council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

4.4   Resources and value for money

4.4.1   In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the Council's value of spending money wisely. These will be included in the regular update reports to the Committee.

4.4.2   The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

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 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 will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

5   Conclusions

5.1   The proposed Internal Audit Plan for 2017-18 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

5.2   The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service that focuses on those key risks facing the organisation throughout the year.

5.3   Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

6   **Recommendations**

6.1   The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2017-18.

7   **Background documents**

7.1   None

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Anti-Fraud and Corruption		
Whistleblowing hotline and reactive work	Risk assessment and investigation of allegations and referrals.	100
Anti-fraud and corruption strategies and proactive work	Risk-based proactive work to prevent and detect fraud.	201
Anti-fraud and corruption policy update	Update of anti-fraud and corruption policies.	15
		316
Grants and Head of Audit Assurances		
Local Transport Capital Block Funding Grant (Integrated Transport and Highway Maintenance) Claim	Independent examination of accounts and /or assurance that the grant has been spent in accordance with the grant determination.	9
West Yorkshire Combined Authority Treasury Management Assurance		2
Leeds City Region Core Cities Green Deal Grant Claim		7
Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Claim		1
Troubled Families Grant Claim		20
Schools Central Financial Controls		15
Cycling Ambition Grant Claim		5
West Yorkshire Plus Transport Fund Grant Claim		5
Disabled Facilities Grant Claim		5
Childhood Obesity Grant		3
Fuel Poverty Grant		10
Other Grants / Head of Audit Assurances arising in year		10
		92

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Continuous Audit		
Programme of continuous audit	Evaluation of control effectiveness across key systems on an ongoing basis, highlighting and reviewing high risk events or transactions. The programme will be updated throughout the year to include emerging risk areas.	150
ICT and Information Governance		
General Data Protection Regulation (GDPR)	To gain assurance that the appropriate arrangements are in place to manage the risks associated with the new legal framework.	25
Information Security	To provide assurance on compliance with the requirements of the Information Management System (ISMS) embodied in ISO/IEC 27001 (International Standard on Information Security).	10
Electronic Records Management	To provide assurance that there are appropriate arrangements in place to ensure that electronic records are securely managed.	25
Business applications	Individual reviews of the key computer applications looking at system access and administration, input, processing and output controls.	25
ICT related projects	To provide support for ICT related project	15
Password Configuration	A compliance audit to provide assurance that systems enforce the password requirements in line with the council's Password Policy.	10
		110
Key Financial Systems		
Housing Benefits - Accounting and Subsidy	System and compliance audits to provide assurance over the effectiveness of the Council's key financial systems.	10
Housing Benefits - Assessment and Payments		30
Benefits Counter Fraud		5
Council Tax		45

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Business Rates	System and compliance audits to provide assurance over the effectiveness of the Council's key financial systems.	30
Capital Programme		20
Financial Management Central Controls		10
Treasury Management and Bankline		25
Housing Rents		20
Sundry Income Central Controls		20
Sundry Income - Directorate Reviews		30
Income Management System		14
Payroll Central Controls		70
Creditors Central Controls (including duplicate payments)		50
Central Purchasing Card Controls		10
Bank Reconciliation and Cash Book		24
Total Repairs		25
		438
Procurement		
Procurement maturity review	Review of organisational procurement arrangements against best practice.	30
Procurement decision making	To gain assurance that procurement decision making arrangements are fit for purpose and routinely complied with.	20
Contract management	To gain assurance that contracts are being managed to deliver their intended outcomes, incorporating open book review where necessary.	60
Tendering system controls	To gain assurance that controls are in place within the YORtender system in order to ensure compliance with Contract Procedure Rules	20
Programmes and complex projects	To gain assurance that project and programme management is in line with the council's methodology and best practice.	30

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Emerging procurement risks	Time reserved to assess and respond to emerging procurement risks.	20
		180
Schools		
Schools	Individual audits of LCC maintained schools undertaken on a risk basis.	30
School clusters and Area Inclusion Partnerships (AIPs)	To provide assurance on the governance, risk management and control arrangements in respect of school clusters and AIPs.	20
		50
Follow up		
Follow up audits	Individual follow up audits of areas that have previously been given a low assurance audit opinion.	150
		150
Adult Social Care and Health		
CIS Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances.	40
Deprivation of Liberties (DoLs)	To gain assurance that there are appropriate arrangements in place to ensure that the Council complies with relevant legislation.	30
Reablement	To gain assurance that there are appropriate processes and procedures to provide support to service users to enable them to regain their independence after an illness or a stay in hospital.	20
Homecare review	To undertake a review of the homecare contract to gain assurance over care quality and timeliness of commissioning care for service users.	20

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Transitions	To provide assurance that there are suitable arrangements in place to ensure that people with disabilities have a smooth transition between childhood and adulthood and there are effective arrangements in place to ensure budget commitments for ASC are identified at the earliest opportunity.	25
Safeguarding	The work undertaken in 2016/17 will be used to identify a specific area for review.	15
Public Health Information Governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	20
Unannounced visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies.	10
		180
Children's and Families		
Payments and contract monitoring of third sector	To gain assurance that there are effective monitoring arrangements in place where payments are made to third sector organisations.	25
Payments for Special Education Needs Placements	To gain assurance that there are appropriate arrangements in place for payments in relation to special education needs placements, including eligibility and accuracy of payments.	25
Governance arrangements for Leeds City Council's role as Lead Authority for One Adoption West Yorkshire	To gain assurance that there are appropriate governance arrangements in place to fulfil LCC's responsibilities as Lead Authority for adoptions.	20
Information governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	25
Arrangements for forecasting and planning for school places	To review the assumptions made around demand for future schools places.	10
Collection of income from Children's Centres	To review the processes in place to ensure that all income due is received and banked and ensure that any debts are managed in line with agreed procedures.	20

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Management of school deficits	To gain assurance that school deficits are managed effectively and in line with agreed procedures.	20
Programme of unannounced visits	Individual establishment visits to provide assurance on cash handling arrangements, including safeguarding of service user monies.	10
		155
Resources and Housing		
Spending Money Wisely Ideas Service	On-going maintenance of the staff ideas service including responses to submissions and the transfer of information to directorate contacts.	20
Organisational culture	An ethics-related audit that will assess the extent to which arrangements are in place to embed the ethical principles of good governance within the organisation.	25
Personal service companies	To gain assurance that the Council is complying with the new HMRC responsibilities effective from April 2017.	20
Vehicle frameworks	To gain assurance that the cost of vehicle hire is adequately controlled and the contract is managed to ensure charges are in line with agreed rates.	20
Belle Isle Tenant Management Organisation Assurances	Reviews to provide assurance that the Belle Isle Tenant Management Organisation is managing the key risks that have been delegated under the Modular Management Agreement.	20
Lettings Enforcement	To gain assurance that properties have been allocated in line with the Lettings Policy and that the waiting list is appropriately managed.	50
Major Adaptations	A review of the process for undertaking major adaptations to properties funded by the Disabled Facilities Grant and by the Council.	25
Housing Advisory Panel Grants	To gain assurance that there are robust processes in place for the allocation of Housing Advisory Panel Grants	25
Former Tenant Arrears	To gain assurance that the Rent Arrears Policy and Former Tenant Arrears Procedures are complied with.	15
Leeds Building Services Assurances	Reviews to provide assurance that Leeds Building Services is appropriately managing key risks.	40

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
Disrepair Service	A review of the disrepair process to ensure that there is a robust system in place to ensure that any disrepair claims received are processed appropriately.	30
Housing Leeds follow ups, contingency and management	To review the progress made in implementing audit recommendations, respond to emerging risks identified during the year and manage the Housing Leeds audit portfolio.	45
		335
Communities and Environment		
Partnership risk management	To gain assurance that partnership risks within the directorate are being identified and managed appropriately.	20
Information governance	The review will aim to provide assurance that there are appropriate controls in place at a directorate level to ensure that information is managed in accordance with LCC policies and legislation.	20
Taxi and Private Hire Licensing	To gain assurance that taxi licensing arrangements sufficiently address safeguarding risks	10
Income collection	A review of the income collection processes in a sample of material (e.g parking) and new (e.g bulky waste) areas.	20
Preparations for meeting air quality targets	To provide assurance on the management of the plans in place to achieve air quality objectives	20
Unannounced visits programme	Individual establishment visits to provide assurance on cash handling arrangements	10
		100
City Development		
Income review	A review of the controls over income generation, income collection, invoicing and debt management for commercial services.	20
Flooding operations	A review of flooding operations preparedness	20
External advertising contract	To provide assurance that income is received in accordance with the advertising	10

Internal Audit Plan for 2017/18		
Audit	**Overview of Assurance**	**Audit Days**
	contract.	
		50
Contingency		
Contingency	Time reserved for new emerging risks and unplanned work.	120
		120
Total Assurance Days 2017-18		**2426**

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Report author: Tim Pouncey/ Sonya McDonald

Tel: 74214

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Internal Audit Charter

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ 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.

2. The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility of the internal audit activity is formally documented in an Internal Audit Charter. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements relating to internal audit requirements and specifically, reviewing and approving the Internal Audit Charter.

3. The Head of Audit must periodically review the Charter and present it for approval. The Charter was previously updated and approved by the Committee in July 2015.

4. This report outlines the recommended updates to the Charter which incorporates the recommendations made in the recent external assessment of the internal audit activity.

Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Charter.

1   Purpose of this report

1.1   The purpose of this report is to present the proposed Internal Audit Charter to the Corporate Governance and Audit Committee for review and approval.

2   Background information

2.1   The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements.

2.2   From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for internal audit.

2.3   A key requirement of the PSIAS is that the purpose, authority and responsibility of the internal audit activity must be formally defined in the Internal Audit Charter. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the Council's arrangements relating to internal audit requirements and specifically, reviewing and approving the Internal Audit Charter.

2.4   The PSIAS also introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years. The results of this assessment were reported to this Committee at the last meeting. The external assessment concluded that Leeds City Council's Internal Audit Service conforms to the requirements of the PSIAS. The external assessors made three recommendations to enhance and improve the Internal Audit Charter.

3   Main issues

3.1   In line with the requirements of PSIAS for a periodic review and in response to the recommendations made following our external assessment, the Internal Audit Charter has now been reviewed and updated.

3.2   Table 1 provides a summary of the recommendations made following our external assessment and explains how these have been incorporated into the Charter. The Charter is appended to this report.

Table 1: Summary of updates to the Internal Audit Charter

External Assessment Recommendation	Update to Charter	Charter Reference
Ensure that the wording in the Charter allows access to all relevant assets and explanations.	The Charter has been updated to specifically mention information and assets held by third parties on behalf of the authority.	16.3

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 the 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 requirements.	The Charter has been updated to broaden the definition of senior management and reflect current practices in line with our existing protocols.	4.3 and 5.2
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.	The Charter has been updated to make it clear that the PSIAS are mandatory in respect of both the Attribute Standards and the Performance Standards, and that the requirements of the PSIAS have been incorporated within the Charter.	1.3 and 1.4

3.3   In addition to the amendments detailed in the table above, the Charter has also been updated to reflect the new roles and responsibilities and directorate changes that have taken effect from 1st April 2017. The new processes that have previously been agreed with the Corporate Governance and Audit Committee for undertaking follow up reviews have also been incorporated within the Charter, and references to the annual review of Internal Audit performed by External Audit have been removed, as these are no longer undertaken.

3.4   The reviewed and updated Internal Audit Charter is provided at Appendix A.

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. They also require the Committee to consider the Council's arrangements relating to Internal Audit requirements including reviewing and approving the Internal Audit Charter.

4.3.2   The Council's Financial Regulations require that an effective Internal Audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

4.4   Resources and value for money

4.4.1   Assurance is provided to the Committee through conformance with the PSIAS that internal audit resources are used efficiently and effectively and that a value for money service is delivered. Ensuring that the purpose, authority and responsibility of the internal audit activity is formally defined in an up to date Internal Audit Charter that is fit for purpose is a key requirement of the PSIAS.

4.5   Legal Implications, Access to Information and Call In

4.5.1   None.

4.6   Risk Management

4.6.1   The Internal Audit Charter forms a key part of the section's governance arrangements, through which the Internal Audit Plan is formed. The Plan 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 will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

5   Conclusions

5.1   The proposed Internal Audit Charter has been reviewed and updated in line with the requirement of the PSIAS and reflects the recommendations made in the recent external assessment.

6   Recommendations

6.1   The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Charter.

7   Background documents

7.1   None.

Appendix A: Internal Audit Charter

1.   Background

1.1   Prior to 1 April 2013, Internal Audit operated in accordance with the Code of Practice for Internal Audit in Local Government in the UK which was issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006. A requirement of the Code of Practice was the preparation of a "terms of reference" document by each Internal Audit Section; this set out the purpose, authority and responsibility of Internal Audit.

1.2   The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013. These are the first Internal Audit standards to apply across the whole public sector. The Standards are issued by the Relevant Internal Audit Standard Setters (RIASS) including CIPFA.

1.3   The PSIAS are mandatory in respect of both the Attribute Standards and the Performance Standards. They require that an Internal Audit Charter is in place. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.

1.4   This Internal Audit Charter has been drawn up in line with the PSIAS requirements and is further informed by the CIPFA Local Government Application Note (April 2013) published to assist in the implementation of the PSIAS. The requirements of the PSIAS are incorporated within this Charter.

1.5   This Internal Audit Charter replaces all previous Internal Audit Terms of Reference and earlier versions of the Charter.

1.6   This Internal Audit Charter is subject to approval by the Corporate Governance and Audit Committee of Leeds City Council, in line with PSIAS requirements.

2.   PSIAS Requirements

2.1   The PSIAS requires the Internal Audit Charter to reflect the following points:

a.   Recognise the mandatory nature of the PSIAS (specifically the Definition of Internal Auditing, Code of Ethics and the Standards)

b.   Define the terms 'Chief Audit Executive', 'Board' and 'Senior Management' for the purposes of internal audit activity. Definitions for Leeds City Council are noted below in respect of key duties outlined in the PSIAS. As in the CIPFA Application Note guidance, the authority will decide for each occurrence which committee/group/individual best fits the role in that situation, considering the need to preserve Internal Audit's independence and objectivity

c. Set out the responsibility of the 'Board' and also of the statutory officers with regard to Internal Audit as defined in the Council's Financial Regulations

d. Establish responsibilities and objectives of Internal Audit

e. Define the scope of Internal Audit activities

f. Define the nature of consulting services

g. Cover the arrangements for appropriate resourcing

h. Establish the organisational independence of Internal Audit

i. Establish the accountability, reporting lines and relationships between the Chief Audit Executive (CAE) and:

- The Board
- Those to whom the CAE must report functionally
- Those to whom the CAE may report administratively

j. Include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities

k. Set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety, to inform his or her annual internal audit opinion and the risk-based plan

l. Define the role of Internal Audit in any fraud-related work

m. Recognise that Internal Audit's remit extends to the entire control environment of the organisation and not just financial controls

n. Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and it's authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

3.   Definition of the Chief Audit Executive (CAE)

3.1   Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the PSIAS *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards.* Within Leeds City Council the Head of Internal Audit is the designated 'Chief Audit Executive'

4.   Definition of the Board

4.1   The PSIAS lays out the role of a Board in relation to specific standards. In a local authority the role of the Board may be satisfied by an Audit Committee. In Leeds City Council the Corporate Governance and Audit Committee fulfils the role of an audit committee and, for the purposes of the key duties laid out in the PSIAS, is the Board.

4.2   The key duties of the Board as laid out in the PSIAS are as follows:

- Approve the Internal Audit Charter (Standard 1000);
- Approve the risk based Internal Audit Plan including the approval of the Internal Audit budget and resource plan (Standard 1110);
- Receive communications from the Head of Internal Audit on internal audit's performance relative to its plan and other matters (Standard 2020);
- Receive an annual confirmation from the Head of Internal Audit with regard to the organisational independence of the internal audit activity (Standard 1110);
- Receive the results of the Quality Assurance and Improvement Programme from the Head of Internal Audit (Standard 1320);
- Make appropriate enquiries of management and the Head of Internal Audit to determine whether there are inappropriate scope or resource limitations.

4.3   The budget and resource plan for Internal Audit is approved at full Council as part of the wider budget setting process. The Head of Internal Audit will raise any budget or resource concerns with the Section 151 Officer and the Corporate Governance and Audit Committee.

5.   Definition of Senior Management

5.1   The PSIAS anticipates the role of Senior Management includes the following:

- Input to the risk based Internal Audit plan (Standard 2010);
- Receive periodic reports from the Head of Internal Audit on internal audit activity (Standard 2060); that includes follow up reports (Standard 2500);
- Receive the results of the Quality Assurance and Improvement Programme from the Head of Internal Audit (Standard 1320.)

5.2   Within Leeds City Council 'Senior Management' is defined as the Section 151 Officer, the Deputy Section 151 Officer and members of the Corporate Leadership Team (or their delegated representative).

6.   Definition of Internal Audit

6.1   Leeds City Council has adopted the PSIAS definition of internal auditing as follows:
"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

7.   Purpose, Responsibilities and Objectives of Internal Audit

7.1   Internal Audit is an independent appraisal function established within the authority with the following objectives:

- To provide an effective Internal Audit Service, on behalf of the Section 151 Officer, in line with legislation and the appropriate audit standards;
- To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
- To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

7.2   It is the responsibility of the Head of Internal Audit to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

7.3   The Head of Internal Audit reports to the Corporate Governance and Audit Committee on a regular basis in line with the agreed work programme. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment and regular updates on reports issued. The Head of Internal Audit's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.

7.4   Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.

7.5   Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any disclosure of information unless there is a legal

or professional requirement to do so. Confidential information gained in the course of an audit will not be used to effect personal gain.

8.   Scope of Internal Audit Activities

8.1   The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the Council's operations, resources, services and responsibilities in relation to other bodies. This description shows the wide potential scope of Internal Audit. In order to translate this description into individual audit reviews, a risk assessment methodology is applied that allows high-risk review areas to be prioritised (also see Section 10.)

8.2   To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:

- review of controls within existing systems and systems under development
- compliance with policies and procedures including Financial Regulations
- transactions testing to ensure accuracy of processing
- contract audit
- establishment reviews
- computer audit including data analytics
- anti-fraud work
- investigation of suspected fraud and irregularities
- value for money reviews and transactions testing
- provision of advice to Directorates and establishments including consulting services
- provision of audit services to external clients.

8.3   All Internal Audit work is undertaken in accordance with internal quality procedures incorporated in its quality management system.

9.   Definition of Consulting Services

9.1   The PSIAS defines consulting services as follows: *"Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."*

9.2   The PSIAS requires that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within Leeds City Council significant is defined as any single assignment equivalent to 5% of annual planned days; these will be brought to the Corporate Governance and Audit Committee for approval.

10. Arrangements for Appropriate Resourcing

10.1 As stated in the CIPFA Application Note, "No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage."

10.2 The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.

10.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.

10.4 In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Head of Internal Audit will identify the shortfall and advise the Section 151 Officer followed by the Corporate Governance and Audit Committee as required to assess the associated risks or to recommend additional resources are identified.

10.5 The audit plan will include a contingency allocation to address unplanned work including responding to specific control issues highlighted by senior management during the year.

10.6 Internal audit work is prioritised according to risk, through the judgement of the Head of Internal Audit, informed by the Council's risk registers and in consultation with senior management.

10.7 Achievement of the annual plan is reported to Corporate Governance and Audit Committee on a regular basis throughout the year. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Head of Internal Audit will advise the Section 151 Officer and the Corporate Governance and Audit Committee.

11. Organisational Independence of Internal Audit

11.1 The PSIAS requires that reporting and management arrangements must be put in place that preserve the Head of Internal Audit's independence and objectivity, in particular with regard to the principle that the Head of Internal Audit must be independent of the audited activities.

11.2 PSIAS Standard 1110 requires that the Head of Internal Audit reports to a level within the organisation that allows the internal audit activity to fulfil its responsibilities and reporting to the Board is the generally accepted method of helping to ensure that organisation independence is attained. The Head of Internal Audit reports directly to the Corporate Governance and Audit Committee within Leeds City Council.

11.3 CIPFA and the Chartered Institute of Internal Auditors expect that the Head of Internal Audit should report to at least corporate management team level. Within Leeds City Council, the Head of Internal Audit reports to the Chief Officer (Financial Services) who in turn reports to the Director of Strategy and Housing. In addition, the Head of Audit is able to report without fear or favour in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee, and the Scrutiny Function. Reports can also be made to the Corporate Leadership Team.

11.4 The Internal Audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.

11.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to Head of Internal Audit and reported to Corporate Governance and Audit Committee and/or Section 151 officer as appropriate.

11.6 Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.

11.7 The Head of Internal Audit will confirm to the Corporate Governance and Audit Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

12. Planning

12.1 The annual audit plan will be submitted to the Corporate Governance and Audit Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Section 151 Officer and individual Directors and Heads of Finance as appropriate and is documented in the audit plan methodology.

12.2 The risk-based plan will outline the audit assignments to be carried out.

12.3 The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment that covers financial materiality and business risks as well as any suspected or detected fraud, corruption or impropriety that has come to the attention of the Head of Internal Audit under their remit as laid out in the Council's Policy Statement on Fraud and Corruption, Whistleblowing Policy, Anti-Bribery Policy and Anti-Money Laundering Policy. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.

12.4 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.

12.5 As part of the planning process, the Head of Internal Audit will identify other potential sources of assurance and will include in the risk based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

12.6 The plan is prepared based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in year risks.

12.7 For each audit assignment, internal auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes.

13. Reporting and Follow Up

13.1 A written report will be prepared by the appropriate auditor for every audit review and distributed in line with established and agreed reporting protocols. This will include an opinion on the adequacy of controls in the area that has been audited.

13.2 The draft report will be discussed with the auditees and a response obtained for each recommendation stating their response to each recommendation along with a timescale for implementation. The final report will include the management responses and will be issued to the relevant Director and other officers in line with directorate protocols.

13.3   Any reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment and has been assessed as having a major impact, will be reported to the Corporate Leadership Team in the first instance.

13.4   The PSIAS also requires the Head of Internal Audit to establish a follow up process to monitor and ensure actions have been effectively implemented. This is an established process within Leeds City Council with a follow up review being undertaken on any assignments with limited assurance/no assurance to ensure recommendations have been adopted and suggested controls are working well in practice. Follow up audits are 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.

13.5   Regular update reports to Corporate Governance and Audit Committee will show the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings.

13.6   The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP.)

14.   Assurances to external organisations

14.1   The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms/service level agreement or equivalent. The work carried out to provide such assurances will be conducted in accordance with Internal Audit's quality procedures and service standards. These will be included in the annual audit plan.

15.   Fraud and Corruption

15.1   Managing the risk of fraud and corruption is the responsibility of management.

15.2   Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.

15.3   Whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective

Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Head of Internal Audit. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

16.   Authority of Internal Audit

16.1   Internal Audit is a statutory requirement in local government. The current Accounts and Audit Regulations 2015 which came into force on the 1st April 2015 state that:

5.—(1) A relevant authority must 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.
(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
(a) make available such documents and records; and
(b) supply such information and explanations;
as are considered necessary by those conducting the internal audit.
(3) In this regulation "documents and records" includes information recorded in an electronic form.

16.2   The statutory role is recognised and endorsed within the Council's Financial Regulations (Section 19 - Internal Audit), which provides the authority for access as follows:

Directors must ensure that Internal Audit is allowed to:
(a)   Enter any council premises or land at all reasonable times:
(b)   Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties:
(c)   Receive such explanations as are necessary concerning any matter under examination.
(d)   Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee's duties.

16.3   The authority for access stipulated at 16.2 above includes access to information and assets held by third parties on behalf of the authority, e.g. in partnership, group companies, contracting and community / social enterprise arrangements.

17.   Code of Ethics

17.1   All our Internal Auditors must conform to the Code of Ethics (see Appendix 1.) The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.

17.2   The Code of Ethics includes two essential components – the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications.)

17.3   Internal Auditors will adhere to LCC relevant policies and procedures (including the Employee Code of Conduct) and the LCC Internal Audit Quality Procedures Manual.

17.4   All Internal Auditors will hold a professional qualification or be training towards a professional qualification.

17.5   In addition, all Internal Auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

18.   Quality Assurance and Improvement Programme (QAIP)

18.1   The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.

18.2   The Head of Internal Audit is responsible for providing an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through an annual self-assessment using the checklist in the CIPFA Local Government Application Note. Results of these IQAs will be communicated to the Section 151 Officer and the Corporate Governance and Audit Committee.

18.3   Internal Audit issues a customer satisfaction questionnaire following each audit assignment. The results are used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.

18.4   External quality assessments (EQAs) will be conducted at least once every five years and may be a full external assessment or a self-assessment with independent validation in line with the PSIAS. These reviews will be commissioned in line with

the PSIAS and will be agreed by the Corporate Governance and Audit Committee with outputs reported to the Committee by the Head of Internal Audit.

Appendix 1 – Code of Ethics

1.1   A Code of Ethics is necessary for the profession of internal auditing as trust is placed on its objective assurance about risk management, control and governance.

1.2   Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

1.3   The PSIAS sets out a Code of Ethics around 4 principles which Internal Audit will adhere to. The 4 principles are: **Integrity, Objectivity, Confidentiality** and **Competency.**

2.   Integrity

2.1   *The principle* - The integrity of internal auditors establishes trust and this provides the basis for reliance on their judgement.

2.2   *Rules of Conduct* - Internal auditors:

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosures expected by the law and the profession;
- Shall not knowingly be a party to an illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

3.   Objectivity

3.1   *The principle* – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

3.2   *Rules of Conduct* - Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement;
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

4. Confidentiality

4.1 *The principle* – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4.2 *Rules of Conduct* - Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties;
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

5. Competency

5.1 *The principle* – Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

5.2 *Rules of Conduct* - Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing;
- Shall continually improve their proficiency and effectiveness and quality of their service.

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Report of the Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Annual assurance report on the financial management and control arrangements

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

Summary of main issues

1. The purpose of this report is to provide assurance that the council has in place robust arrangements for proper and effective financial control, governance and other financial management activities.

2. Recognising the significant financial challenges facing the council, not least the continuing reduction in government funding, it is critical that the council has in place sound arrangements for financial planning and management.

3. The council has established and effective financial control environment and specifically robust arrangements for strategic financial planning and effective financial management and control.

4. The council also has a sound framework for reviewing and challenging financial performance, has realistic plans in place to make the necessary savings in the 2017/18 financial year, and is taking the appropriate steps to deliver them. Directorates have contingency plans in place to help to manage unforeseen variations against the budget.

5. The financial management and control framework is subject to a number of independent assessments, including the council's internal audit function which has reviewed and given substantial assurance on the council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.

6.   The financial management and control framework is continually being assessed and reviewed to ensure that it remains fit for purpose. This will continue and any issues and developments will be reported back to this committee.

Recommendation

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

1.   Purpose of this report

1.1   The overall purpose of this report is to provide assurance to this committee that the council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.

1.2   Given the significant financial challenges facing the council both currently and in the medium-term it is essential that we continue to ensure that we have in place appropriate arrangements around financial performance, strategic financial planning, financial governance and financial control. This report outlines;

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

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

2.   Background information

2.1   This is the sixth year of reporting to this committee on the financial planning and management arrangements of the council. Previous reports have outlined the following arrangements;

a) Overarching controls;
- The strategic role within the council of the Responsible Financial Officer;
- Professionally qualified and accountable staff;
- Financial regulations;
- Monitoring of the integrity of financial systems;
- A statutory code of practice for treasury management arrangements.

b) Main financial processes;
- Budget preparation and setting.
- In-year budget monitoring and management.
- Closure of accounts and reporting.

2.2   Reports to this committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. As in previous reports, rather than just report the main processes and arrangements again, this report seeks to highlight progress on addressing previously identified weaknesses and any new developments or risks that have emerged over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A.

2.3   The financial procedures and controls are part of the overall financial control environment and form a fundamental part of the assurances received by this committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.

3.   Main issues

3.1   Chief Financial Officer & Section 151 Officer

3.1.1   Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements. Up to March 2017, the role of Chief Financial Officer and the statutory Section 151 officer was fulfilled by the Deputy Chief Executive.

3.1.1   The Chartered Institute of Public Finance and Accountancy (CIPFA) sets out the role of the Chief Financial Officer in local government in its Statement which was last updated in February 2016. This Statement sets how the requirements of legislation and professional standards should be fulfilled by Chief Financial Officers in the carrying out of their role.

3.1.2   In its Statement, CIPFA asserts that the Chief Financial Officer in a local authority;

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest,

- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy,

- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

And to deliver these responsibilities the Chief Financial Officer must lead and direct a finance function that is resourced to be fit for purpose and must also be professionally qualified and suitably experienced.

3.1.3   The governance requirements in the Statement are that the Chief Financial Officer should be professionally qualified, report directly to the chief executive and be a member of the leadership team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the Annual Governance Statement, together with an explanation as to how these different arrangements deliver the same impact.

3.1.4   Full Council at its meeting on the 22nd February 2017, approved a number of organisational changes and, following the Deputy Chief Executive's decision to retire at the end of March 2017, approved the designation of the Chief Officer Financial Services, Doug Meeson, as the council's Chief Financial Officer and statutory section 151 officer. Recognising that Doug Meeson reports to the Director of Resources & Housing and is not a member of the corporate leadership team it is necessary in this governance statement to explain how these arrangements fulfil the statutory section 151 officer role.

3.1.5   To this end, the Chief Officer Financial Services;

- Where relevant business requires will attend corporate leadership team and have advance notice of all meetings, agenda and reports and the right to attend and speak,

- Will attend meetings of the council's Executive Board and have advance notice of all meetings, agenda and reports and the right to attend and speak,

- Will have advance notice, (including receiving agendas, minutes, reports and related papers) of all relevant meetings of the authority (including meetings at which officer delegated decisions are taken) at which a binding decision may be made (including a failure to take a decision where one should have been taken),

- Will have the right to attend (including the right to be heard) any meeting of the authority (including meetings at which officer delegated decisions are taken) before any binding decision is taken (including a failure to take a decision where one should have been taken),

- Will report directly to the Chief Executive in terms the statutory section 151 responsibilities,

- Will have sufficient resources to enable him/her to address any matters concerning his/her section 151 functions,

- Will appoint a deputy and keep him/her briefed on any relevant issues that s/he may be required to deal with in the absence of the section 151 officer,

- Will meet regularly with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with corporate governance issues and other matters of concern regarding any legal, ethical standards,

probity, propriety, procedural or other constitutional issues that are likely to (or do) arise,

- Will report annually to the Corporate Governance and Audit committee regarding whether the arrangements are satisfactory and have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.

3.1.6   Taken together with a draft Section 151 protocol, these arrangements have the same impact as the expectations and arrangements as set out in CIPFA's Statement.

3.2   Strategic Financial Planning.

3.2.1   It is clear that the current and future financial climate for local government represents a significant risk to the council's priorities and ambitions. The council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without significant changes in the way the Council operates. The report to council in February 2017 'Best Council Plan 2017/18 proposals' explains how this will be done: that, while continuing its programme of efficiencies, the council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and skilling up staff to grow their commercial and business acumen.

3.2.2   The final local government finance settlement was announced on the 20th February 2017 ahead of a formal motion and parliamentary debate on the 22nd February 2017. Through the settlement, government re-confirmed the multi-year funding settlement to 2019/20. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners and local authorities should also use their multi-year settlements to strengthen financial management and efficiency.

3.2.3   The 2017/18 budget was approved by Full Council on the 22nd February 2017. The headlines from the 2017/18 budget proposals, when compared to the 2016/17 budget, are as follows:

- A reduction in revenue support grant from government of £28m (30.1%).
- A reduction in the settlement funding assessment of £25.1m (10.5%).
- A reduction in the net revenue budget of £3.7m.
- An increase in the general council tax of 1.99% together with a further 3% in respect of the adult social care precept generating an additional £13.5m of local funding.
- A combination of reduced funding and cost pressures of £81.8m in the 2017/18 financial year.

- A further net reduction in staffing of 484 full-time equivalent posts.

3.2.4   The council has a proven and comprehensive approach to the development of its medium-term financial strategy, its annual budget setting and the identification of saving plans. The 2017/18 to 2019/20 medium-term financial strategy was agreed by Executive Board in September 2016 and work is already underway to update this strategy in preparation for a report to the Executive Board in July 2017.

3.3   Financial Health Performance.

3.3.1   Budget management and monitoring is a continuous process which operates at a number of levels throughout the council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability and service decision-making and accountability. Every budget has a named accountable budget holder, supported by a budget monitoring officer and a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.

3.3.2   Financial monitoring across the council is facilitated by the council's Financial Management Systems (FMS). On a monthly basis budget holders, taking a risk-based approach, review their spend and commitments against the approved budgets and project their year-end position   There are also instances where spending is controlled on systems other than the council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS. Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the corporate Financial Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services.

3.3.3   Financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. To reinforce this risk-based approach, specific support and reporting around the achievement of the key budget actions plans is in place in 2017/18.

3.3.4   As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Chief Officer Financial Services and the Corporate Leadership Team and are also reviewed and challenged by the corporate Finance Performance Group. In addition, budget monitoring reports are presented monthly to directorate leadership teams, individual executive members and the Executive Board as well as quarterly to scrutiny committees.

3.3.5   In line with the council's financial regulations and value of 'Spending Money Wisely', it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved budgets or to identify

other sources of funding such as areas of under spend. All Directorates are required to have an agreed contingency plan in place before the beginning of each financial year.

3.3.6   Within the year, any decision to amend the approved budget has to be undertaken within the virement rules which, as part of the budget and policy framework, are agreed annually by Full Council as part of the annual budget setting process.

3.4   Financial Control Arrangements.

3.4.1   External audit provide independent assurance on the council's accounts and accounting practice as well as the arrangements to ensure value for money and the controls around the key financial systems.

3.4.2   It is important that this Committee is informed of the key assurances provided and that these processes are still fit for purpose and are being complied with. Members should therefore note the following assurances;

- The council has tried and trusted arrangements for treasury management which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report Treasury Management Governance Report in January 2017 which reported on the robustness of these arrangements.

- In response to the government's deficit reduction plans and subsequent cuts in the grants which we receive from government, the council will have to deliver reductions in expenditure and increases in income totalling over £400m by March 2017 with a further £64m of savings assumed in the 2017/18 budget. Establishing robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. KPMG provide independent assurance that the council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

- Internal Audit continues to provide assurance to members that all of the key core financial systems and processes are robust and are operating effectively.

- The Corporate Financial Integrity Forum, which meets each month and is chaired by the Chief Officer (Financial Services), has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;

  - The regular review and reconciliation of financial systems to the financial ledger
  - The regular review and reconciliation of balance sheet accounts.
  - The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.

- That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.
- Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.

3.5 Key issues and developments for 2017/18 and future challenges and improvements;

3.5.1 Government has re-confirmed the proposal to end national uniform business rates and the introduction of 100% retention of business rates for local government by 2020. The plans to devolve business rates, need to be managed carefully as the rates are a volatile source of income that can vary according to how the national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks. Leeds has previously participated in the consultative working groups which have looking at the phasing out of the revenue support grant, designing a new business rates retention system and assessing the new functions/responsibilities that could be devolved to local authorities as part of phasing out the core revenue support grant and fully-retaining business rates income. A series of consultations is anticipated in the Spring/Summer 2017.

3.5.2 National funding formula for schools - resources have been prioritised within Financial Services to financially model and assess the impact of the national funding formula on schools in Leeds – this work will continue through 2017/18. In addition, work is also ongoing to assess the financial impact and risk to the council should maintained schools become academies.

3.5.3 Accounts and Audit Regulations 2015 & future accounting changes – in 2017/18 we need to continue to review and develop the processes for closing down the financial accounts and the preparation of the statement of accounts in line with the reducing timescales (from 2017/18 the unaudited accounts will need to be certified by the 31st May with the final accounts published by the 31st July).

3.5.4 Financial management systems - the current Financial Management System (FMS) is an in-house developed and managed oracle-based system. The system is an excellent ledger system, but the general feel of the system is not modern and not user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. Work will continue in 2017/18 to develop the system whilst also looking at longer-term procurement options.

3.5.5 Financial Management System (FMS) – the integrity of the data within the Council's core FMS is very much dependent on the data and information from a multiple of source feeder systems, for example SAP for employee costs, Framework-i for Children's Services and CIS for Adult Social Care, Total Mobile for Property Maintenance, etc. In 2017/18 the work programme for the corporate financial integrity forum will include seeking specific additional assurances as to the integrity of the source data that feeds into the core FMS.

3.5.6   Supporting the Best Council Plan – the 2017/18 budget recognises the Best Council ambition of becoming a more enterprising organisation and includes a range of proposals around securing additional income from commercial activities and traded services. Financial Services have a key role to play in this around supporting service managers to grow their commercial and business acumen and in particular working with them around service costing, pricing and price sensitivity and understanding risks, pension liabilities, accounting for traded services, etc. The 2017/18 Financial Services Service Plan includes a specific objective around supporting the Council to become a more commercial organisation.

3.5.7   Financial Services review – as part of the council-wide review of support services Financial Services have a budget savings plan target of £1.3m with a commensurate reduction of 32.0 fte staffing posts by March 2018. Further budget savings are also assumed in the 2018/19 financial year as part of the medium-term financial strategy. Given the reductions already achieved to date and the scale of the challenge going forward, and whilst accepting that further efficiencies can be made, there is a clear need for a more radical review of the operating model to ensure that we deliver the reductions/efficiencies needed whilst maintaining a robust financial planning and control environment. With a target implementation date of September 2017, the Financial Services Management Team are looking at opportunities for a more centralised budgeting and accounting function co-located in the Civic Hall. As part of this review, the proposal is that relatively smaller cross-service Finance Business Partnering teams will work more closely with directorates and services focussing on key organisational priorities, budget risks and delivery of budget/service action plans.

4.   Corporate Considerations

4.1   Consultation and Engagement

4.1.1   Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2017/18 report to Full Council on the 22nd February 2017. This report has no direct issues requiring consultation or engagement.

4.2   Equality and Diversity / Cohesion and Integration

4.2.1   A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 22nd February 2017 as part of the Revenue Budget and Council Tax 2017/18. This report has no direct equality and diversity/cohesion issues.

4.3   Council policies and Best Council Plan

4.3.1   The 2017/18 Best Council Plan's ambitions, outcomes and priorities underpin the 2017/18 budget and have been used to ensure that the council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the core council's values, with the priority being for directorates and services to keep within their budgets. Ensuring that the council has appropriate

financial management systems and procedures in place is clearly a key aspect and as such this report does provide some assurances, albeit not comprehensive, assurance that money is being spent wisely.

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

4.4 Resources and value for money

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

4.5 Legal implications, access to information and call In

4.5.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements. The Accounts and Audit Regulations 2015 came into force on the 1st April 2015 and sets out the responsibility for internal control, the published accounts and audit.

4.5.2 This report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

4.6.1 An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.

4.6.2 The council's external auditors provide a risk assessment on the council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.

5. Conclusions

5.1 The Responsible Financial Officer has established an effective overall financial control environment framework for financial planning and exercises effective financial management and control which, in his opinion, discharge his statutory responsibilities.

5.2 The framework of control and developments outlined in this report are fit for purpose, up to date, embedded and are regularly complied with.

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

- Internal audit provide annual assurances on the major financial systems and controls.

- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget continues to meet the council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the council's accounts.

- Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, directorate leadership teams and the Corporate Leadership Team.

- Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.

- External audit evaluated the council's key financial systems as part of their audit work in respect of the 2015/16 accounts and will do so again as part of the 2016/17 audit.

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

There are a number of improvement priorities and objectives outlined in the 2017/18 Financial Services Service Plan for example reviewing the financial management systems, continuing to develop integrated working with other support services, supporting the council's Best Council Plan priorities and Breakthrough projects, assessing the impact of the reform to the system of financing local government, considering the financial impact on schools of the implementation of a national funding formula as well as the potential financial impact from increasing academisation of schools and providing assurances around value for money.

6.   Recommendations

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

7.   Background documents[1]

7.1   None

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[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.

1.   Overarching financial control environment

1.1   In order that the council's statutory Chief Financial Officer can discharge his duties a number of overarching arrangements and controls are in place as part of an effective financial control environment;

1.1.1   **Chief Financial Officer** - The Chief Officer Financial Services, in the role of the Council's Chief Financial Officer, undertakes a strategic role and has established appropriate arrangements to discharge his responsibilities in line with CIPFA's recommended practice.

1.1.2   **Professionally qualified and accountable staff** - financial management across the council, both corporately and directorate-based is delivered by colleagues who are managerially responsible to the Chief Officer Financial Services. Many of the staff within the Financial Management service are professionally qualified accountants with many years of experience, and are themselves personally and professionally responsible for their actions and advice. This is reinforced through the council's performance and appraisal scheme which incorporates identifying key skills for finance staff, programmes of training, development and continuing professional development and peer review forums to ensure integrity as to the accounts and budget management and monitoring processes.

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

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

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

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

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

1.1.6 **Framework for the council's treasury management arrangements** - the Council also has tried and trusted arrangements for treasury management based on CIPFA's code of practice on treasury management and the prudential code.

2. Main financial processes

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

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

2.1.1 Financial planning and budget setting

2.1.1.1 Local authorities are under a statutory duty to set a balanced budget each year. Whilst at a basic level this can simply be seen as an annual exercise, given the financial challenges facing local authorities this needs to be set within a context of a medium term financial strategy. The 2016/17 financial year was the first year covered by the 2015 Spending Review and again presented significant financial challenges to the Council. The council will have to deliver reductions in expenditure and increases in income totalling over £400m by March 2017 with a further £64m of savings in the proposed 2017/18 budget.

2.1.1.2 The medium-term Financial Strategy provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget but it does recognise the council's ambitions, policies and priorities and sets out the main financial challenges facing the council and a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy was last presented to the Executive Board in September 2016 and will be updated and reported to the Executive Board in July 2017 to reflect the 2017/18 local government finance settlement and the council's 2017/18 budget.

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

2.1.1.4 The annual budget process is led by the Chief Financial Officer and involves a wide range of officers and members across the council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves

a range of assumptions including the level of core government grant and other specific funding, council tax base, inflation, demand and demography trends, interest rates, levels of income and fees & charges as well as new or developing spending pressures. This part of the process is led by corporate finance staff, but will involve financial and non-financial staff based in directorates and service areas. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.

2.1.1.5   Directorates start to prepare and input detailed estimates into the budget module of the council's financial management system (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their service priorities, spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.

2.1.1.6   The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the council's ambitions, policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio members at appropriate points in the process.

2.1.1.7   The council's constitution determines that initial budget proposals are submitted to scrutiny eight weeks prior to the council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board.

2.1.1.8   Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just process planning but also engagement with elected members and senior management.

2.1.1.9   In many ways the budget is an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a list of key budget risks which attempts to identify and assess the risks built into the budget. It is important to appreciate that the time frame of the list of budget risks is a single budget year. The list of key budget risks not only assists in assessing the robustness of the budget but also acts as a means of assessing the adequacy of the general reserve in that it provides an assessment of what may go wrong in-year.

2.1.1.10 Reaching a view of the robustness of the budget and the adequacy of the general reserve not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial management and control.

2.1.2   In-year Budget Management and Monitoring

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

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

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

2.1.2.4   In line with the council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. All directorates have agreed contingency plans identified to the value of the key risks identified in the budgets. In-year, any decision to amend budgets is undertaken within the virement rules agreed annually by Full Council as part of the budget-setting process. All such decisions are recorded as part of the delegated decision making process.

2.1.2.5   It is also important to appreciate that external and internal audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the council has put in place proper

arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of accounts

2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board, usually in June each year. This report compares the budget to the final outturn for each directorate and provides an explanation as to the reason for any variation, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.

2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the strategic accounting team within corporate finance to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.

2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in corporate finance. All finance officers and relevant directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the council's external auditors and reported back to members of this committee.

2.1.3.4 Staff in corporate finance oversee the closedown process and the Chief Financial Officer will review both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the council's financial position and that they comply with proper accounting practice.

2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

Report author: Andy Hodson

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Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Approval of Corporate Governance Code and Framework

Are specific electoral wards affected? If yes, name(s) of ward(s):	☐ Yes	☐ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☐ No
Is the decision eligible for call-in?	☐ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	☐ No

Summary of main issues

1. Leeds City Council is required to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

2. The review must be prepared in accordance with proper practices in relation to accounts – that proper practice has been recently revised and jointly published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) as '*Delivering Good Governance in Local Government: Framework 2016*'.

3. Each local authority must therefore, set out its commitment to the principles of good governance included in the 2016 Framework; determine its own governance structures, or local code, underpinned by these principles and ensure that the arrangements operate effectively in practice.

4. The 2016 Framework applies to annual governance statements prepared to report from the financial year 2016/17 onwards. It is therefore timely to review and amend the existing Code of Corporate Governance in light of the new proper practice requirements contained in the 2016 Framework.

Recommendations

Members are asked to consider the requirements of the 2016 Framework and agree the Corporate Governance Code and Framework at Appendix 2.

1.   Purpose of this report

1.1   The purpose of this report is to seek approval from Corporate Governance and Audit Committee to a revised Corporate Governance Code and Framework for Leeds City Council.

2.   Background information

2.1   In 2004, the Independent Commission on Good Governance in Public Services published a set of common principles for all public sector organisations to adopt. The commission, set up by the Chartered Institute of Public Finance and Accountancy (CIPFA) in conjunction with the Office for Public Management, advocated that a common governance standard for public services was necessary similar to the private sector's UK Corporate Governance Code.

2.2   As a result, the *Good Governance Standard for Public Services (2004)* established six core principles to underpin the governance arrangements for public services – this framework formed the basis of proper practice for the preparation and assessment of annual governance statements for local authorities and formed the basis for the Leeds City Council Code of Corporate Governance.

2.3   In July 2014 CIPFA, in association with the International Federation of Accountants (IFAC) published *the International Framework: Good Governance in the public Secto*r. The international framework has superseded the 2004 standard and places the attainment of sustainable economic, societal and environmental outcomes as the key focus of governance structures and processes and stressed the importance of taking account of the impact of current decisions and actions on future generations.

2.4   The principles from the International Framework have been interpreted for a local government context by CIPFA and the Society of Local Authority Chief Executives (SOLACE) as '*Delivering Good Governance in Local Government: Framework 2016'.*

2.5   Leeds City Council continues to be required to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

2.6   The review must be prepared in accordance with proper practices in relation to accounts – that proper practice being the recently published '*Delivering Good Governance in Local Government: Framework 2016' (the 2016 Framework)*.

2.7   Leeds City Council must therefore review its existing arrangements, and;

   • Ensure that a commitment is given to the principles of good governance included in the 2016 Framework;
   • Determine its own governance structures, or local code, underpinned by those principles and;
   • Ensure that the arrangements operate effectively in practice.

2.8   The Framework applies to annual governance statements prepared to report on accounts from the financial year 2016/17 onwards.

3. Main issues

3.1 It is timely to review and amend the existing Code of Corporate Governance in light of the new proper practice requirements contained in the 2016 Framework.

3.2 The 2016 Framework recognises that local government continues to develop and shape its own approach to governance, taking account of the specific environment within which individual local authorities operate.

3.3 However, within those flexibilities the focus of the 2016 Framework differs from previous proper practice in that now;

- There is a defined emphasis on achieving outcomes while acting in the public Interest at all times and;
- The attainment of sustainable economic, societal and environmental outcomes has been identified as a key focus of governance processes and structures.

3.4 The Framework also defines the principles which should underpin the governance of local authorities. Attached at Appendix 1 is a copy of *Delivering good governance in Local Government Framework 2016*. Members attention is drawn to Chapter Six of the document (page 11 of the appendix). This defines both core and sub principles of good governance and it is these which the authority needs to review and interpret within its own circumstances and ensure that the arrangements operate effectively in practice and provide an annual assessment of them (by way of the Annual Governance Statement).

3.5 Attached at Appendix 2 is a newly drafted document – *Leeds City Council Corporate Governance Code and Framework* which has been prepared to;

- Reflect and demonstrate those commitments;
- Reflect the governance arrangements operating within Leeds City Council and how they contribute to the principles contained in the 2016 Framework;
- Simplify the presentation of Council's governance arrangements and code in one document and aid understanding.

3.6 The main changes to the existing Code of Corporate Governance are;

- A change in the title of the document; from Code of Corporate Governance to Corporate Governance Code and Framework - clarifying that the document sets out the Council's Governance Principles and how those principles are supported and evidenced.

- Amendments to the wording of the principles as detailed in the table below;

Code of Corporate Governance Principles	Proposed new Corporate Governance Code and Framework Principles
1. Focussing on the Council's purpose and community needs;	3. Focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.
2. Having clear responsibilities and arrangements for accountability;	4. Ensure we have clear responsibilities and arrangements for transparent and effective accountability.
3. Good conduct and behaviour;	1. Behave lawfully, with integrity and in the public interest and demonstrate this through our conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and risk management;	5. Take informed and transparent decisions.
5. Developing the capacity and capability of members and officers to be effective;	7. Develop our capacity and capability to be effective.
6. Engaging with local people and other stakeholders.	2. Be open and engage with local communities, service users and our other stakeholders.
	6. Ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management controls.

- A simplified more accessible format.

3.7   Members are asked to consider the requirements of the 2016 Framework and agree the Corporate Governance Code and Framework at Appendix 2.

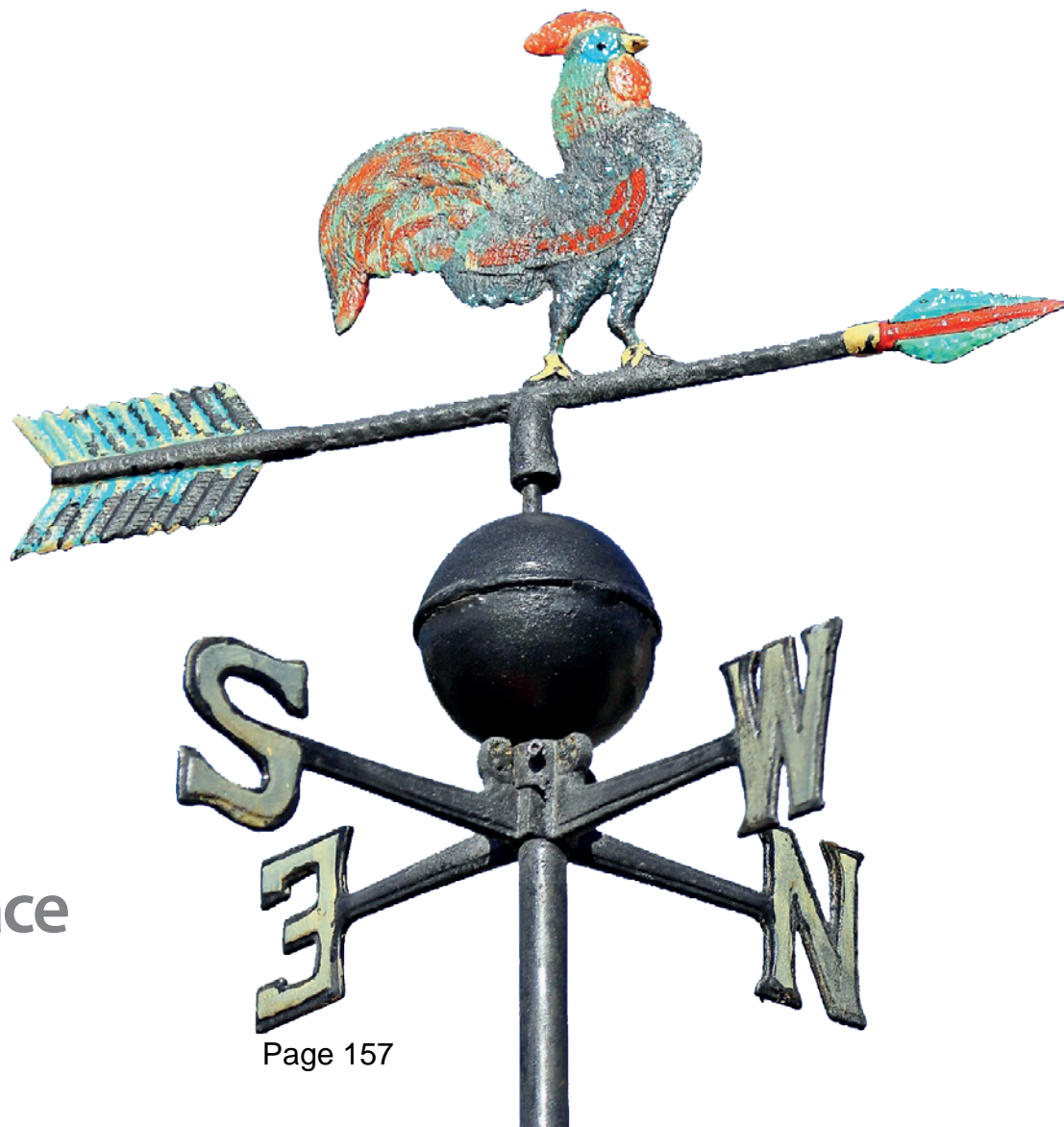## 4. Corporate considerations

4.1   Consultation and engagement

4.1.1 The Deputy Chief Executive and Monitoring Officer have assisted in the drafting of the Corporate Governance Code and Framework and Corporate Leadership Team has been consulted on the content and are supportive of the approach taken.

4.1.2 The Deputy Leader and Executive Member for Resources has also been consulted on the document and are similarly supportive.

4.2   Equality and diversity / cohesion and integration

4.2.1 The council's arrangements for Equality and diversity / cohesion and integration are important components of our Corporate Governance arrangements and are reflected and referenced in Code and Framework at Appendix 2 (see Principle 3).

4.3   Council policies and best council plan

4.3.1 The draft Corporate Governance Code and Framework recognises the importance of the Best Council Plan in setting the ambitions for the City, that this is closely aligned with a range of associated partnership plans and that central to the Council's ambition to be the Best Council is being 'An Efficient and Enterprising Organisation'.

4.4   Resources and value for money

4.4.1 The purpose of Corporate Governance Code and Framework is to demonstrate the council's commitment to devise and deliver services to the citizens of Leeds in a way that demonstrates accountability, transparency, effectiveness and value for money, integrity, and inclusivity.

4.4.2 The council's arrangements for Resources and Value for Money are important components of our Corporate Governance arrangements and are reflected and referenced in Code and Framework at Appendix 2 (see Principles 3 and 6).

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

4.5.1 The Article 15 (Annex 1) of the Constitution gives authority to the Corporate Governance and Audit Committee to approve the Corporate Governance Code.

4.5.2 The decision of the committee on this matter is not open for Call In as the decision it is not an Executive Function.

4.6   Risk management

4.6.1 The proposals contained in this report seek to ensure that the Council's arrangements remain up-to-date, fit for purpose and compliant with the newly introduced proper practices.

4.6.2 The council's risk management arrangements are important components of our Corporate Governance arrangements and are reflected and referenced in Corporate Governance; Code and Framework at Appendix 2 (see Principle 6).

5.   Conclusions

5.1   The authority must ensure that the Annual Governance Statement is compiled in accordance with proper practices. For Annual Governance Statements produced for the 2016/17 onwards those proper practices have changed (superseding the Good Governance Standard for Public Services (2004)) and must now be undertaken in accordance with the Delivering Good Governance in Local Government Framework 2016.

5.2   This change has necessitated a review of the council's Code of Corporate Governance to ensure that the framework of governance on which the Annual

Governance Statement reports is up-to-date and fit for purpose and sufficiently references the requirements of the new proper practice.

5.3 The newly drafted Corporate Governance; Code and Framework incorporates elements of those proper practices that were not sufficiently referenced in the council's Code of Corporate Governance.

6. Recommendations

6.1 Members are asked to consider the requirements of the 2016 Framework and agree the Corporate Governance Code and Framework at Appendix 2.

7. Background documents[1]

7.1 None.

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[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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Acknowledgements

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Introduction

1.1 Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract huge attention – as they should – and one significant failing can taint a whole sector. Local government organisations are big business and are vitally important to tax payers and service users. They need to ensure that they meet the highest standards and that governance arrangements are not only sound but are seen to be sound.

1.2 It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. The main principle underpinning the development of the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) ('the Framework') continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

1.3 The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance. Furthermore, the focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term. Local authorities have responsibilities to more than their current electors as they must take account of the impact of current decisions and actions on future generations.

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Status

2.1   Section 3.7 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 notes:

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code.

2.2   This Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

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Requirements

3.1 The Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance. Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:

- reviewing existing governance arrangements

- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness

- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

3.2 The term 'local code' essentially refers to the governance structure in place as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.

3.3 To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.

3.4 It is also crucial that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

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Applicability and terminology

APPLICABILITY

4.1 The Framework is for all parts of local government and its partnerships, including:

- county councils

- district, borough and city councils

- metropolitan and unitary councils

- the Greater London Authority and functional bodies

- combined authorities, city regions, devolved structures

- the City of London Corporation

- combined fire authorities

- joint authorities

- police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable

- national park authorities.

4.2 The Framework is applicable to a system involving a group of local government organisations as well as to each of them individually. The Framework principles are therefore intended to be relevant to all organisations and systems associated with local authorities, ie joint boards, partnerships and other vehicles through which authorities now work. However, a one-size-fits-all approach to governance is inappropriate. Not all parts of the Framework will be directly applicable to all types and size of such structures, and it is therefore up to different authorities and associated organisations to put the Framework into practice in a way that reflects their structures and is proportionate to their size.

TERMINOLOGY

4.3 The terms 'authorities', 'local government organisations' and 'organisations' are used throughout this Framework and should be taken to cover any partnerships and joint working arrangements in operation.

4.4 In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as 'leader' should be interpreted as relating to the PCC or the chief constable as appropriate.

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CHAPTER FIVE

Guidance notes

5.1 In recognition of the separate legislation applicable to different parts of local government, guidance notes to accompany the Framework have been developed for:

- local government in England (excluding police)
- local government in Wales (excluding police)
- police in England and Wales
- local government in Scotland.

5.2 The guidance notes, which should be used in conjunction with the Framework, are intended to assist authorities across their governance systems, structures and partnerships in reviewing their governance arrangements. It will also help them in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them.

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CHAPTER SIX

The principles of good governance – application

DEFINING THE CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE

6.1 The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'), illustrates the various principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times
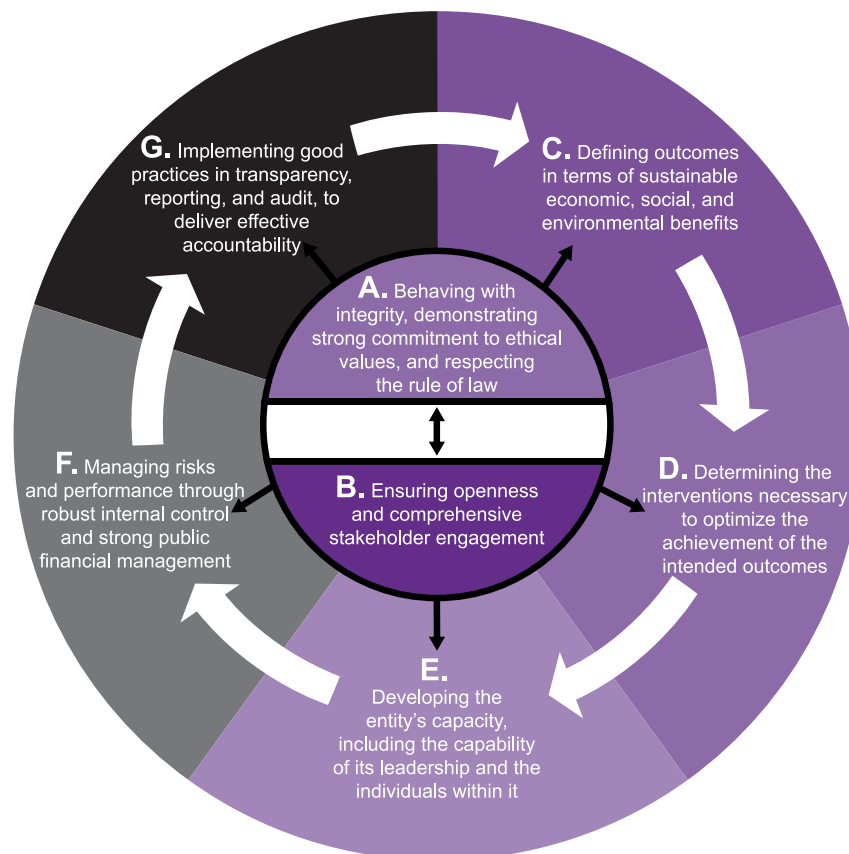
The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

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DEFINING GOVERNANCE

6.2   The International Framework defines governance as follows:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The International Framework also states that:

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

6.3   In local government, the governing body is the full council or authority. In the police, PCCs and chief constables are corporations sole and are jointly responsible for governance. The many references to 'members' in the tables which follow should be read in the context that the principles set out apply equally in the police.

PRINCIPLES OF GOOD GOVERNANCE IN LOCAL GOVERNMENT

6.4   The core principles and sub-principles of good governance set out in the table below are taken from the International Framework. In turn they have been interpreted for a local government context.

It is up to each local authority or local government organisation to:

- set out its commitment to the principles of good governance included in this Framework
- determine its own governance structure, or local code, underpinned by these principles
- ensure that it operates effectively in practice.

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Core principles and sub-principles of good governance

Core principles (shown in bold)	Sub-principles (shown in bold)
Acting in the public interest requires a commitment to and effective arrangements for:	Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	**Behaving with integrity** ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation ■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) ■ Leading by example and using the above standard operating principles or values as a framework for decision making and other actions ■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively **Demonstrating strong commitment to ethical values** ■ Seeking to establish, monitor and maintain the organisation's ethical standards and performance ■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation ■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values ■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

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Core principles (shown in bold)	Sub-principles (shown in bold)
	Respecting the rule of law ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations ■ Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements ■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders ■ Dealing with breaches of legal and regulatory provisions effectively ■ Ensuring corruption and misuse of power are dealt with effectively
B. Ensuring openness and comprehensive stakeholder engagement Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	**Openness** ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness ■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided ■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear ■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action **Engaging comprehensively with institutional stakeholders** NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable. ■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

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Core principles (shown in bold)	Sub-principles (shown in bold)

	■ Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
	
	■ Ensuring that partnerships are based on:
	  – trust
	  – a shared commitment to change
	  – a culture that promotes and accepts challenge among partners
	
	and that the added value of partnership working is explicit
	
	Engaging with individual citizens and service users effectively
	
	■ Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
	
	■ Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
	
	■ Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
	
	■ Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account
	
	■ Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
	
	■ Taking account of the impact of decisions on future generations of tax payers and service users

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Principles (shown in bold)	Sub-principles (shown in bold)
In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:	Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	**Defining outcomes** ■ Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions ■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer ■ Delivering defined outcomes on a sustainable basis within the resources that will be available ■ Identifying and managing risks to the achievement of outcomes ■ Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available **Sustainable economic, social and environmental benefits** ■ Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision ■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints ■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs ■ Ensuring fair access to services

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Principles (shown in bold)	Sub-principles (shown in bold)
D. Determining the interventions necessary to optimise the achievement of the intended outcomes Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.	**Determining interventions** ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided ■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts **Planning interventions** ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets ■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered ■ Considering and monitoring risks facing each partner when working collaboratively, including shared risks ■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances ■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured ■ Ensuring capacity exists to generate the information required to review service quality regularly ■ Preparing budgets in accordance with objectives, strategies and the medium term financial plan ■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Principles (shown in bold)	Sub-principles (shown in bold)
	Optimising achievement of intended outcomes ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints ■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term ■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage ■ Ensuring the achievement of 'social value' through service planning and commissioning
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.	**Developing the entity's capacity** ■ Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness ■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently ■ Recognising the benefits of partnerships and collaborative working where added value can be achieved ■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources **Developing the capability of the entity's leadership and other individuals** ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained ■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body ■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority

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Principles (shown in bold)	Sub-principles (shown in bold)
	■ Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
	– ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
	– ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
	– ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
	■ Ensuring that there are structures in place to encourage public participation
	■ Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
	■ Holding staff to account through regular performance reviews which take account of training or development needs
	■ Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

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Principles (shown in bold)	Sub-principles (shown in bold)
F. Managing risks and performance through robust internal control and strong public financial management Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.	**Managing risk** ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making ■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively ■ Ensuring that responsibilities for managing individual risks are clearly allocated **Managing performance** ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review ■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook ■ Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making ■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement ■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

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Principles (shown in bold)	Sub-principles (shown in bold)
	Robust internal control
	■ Aligning the risk management strategy and policies on internal control with achieving objectives
	■ Evaluating and monitoring risk management and internal control on a regular basis
	■ Ensuring effective counter fraud and anti-corruption arrangements are in place
	■ Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
	■ Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body:
	– provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
	– that its recommendations are listened to and acted upon
	Managing data
	■ Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
	■ Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
	■ Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring
	Strong public financial management
	■ Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
	■ Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

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Principles (shown in bold)	Sub-principles (shown in bold)
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	**Implementing good practice in transparency** - Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate - Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand **Implementing good practices in reporting** - Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way - Ensuring members and senior management own the results reported - Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) - Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate - Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations **Assurance and effective accountability** - Ensuring that recommendations for corrective action made by external audit are acted upon - Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon - Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations - Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement - Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

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Annual review and reporting

THE ANNUAL GOVERNANCE STATEMENT

7.1   Local authorities are required to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in this Framework. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

7.2   The annual governance statement is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority's particular features and challenges.

7.3   The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style.

7.4   The annual governance statement should be focused on outcomes and value for money and relate to the authority's vision for the area. It should provide an assessment of the effectiveness of the authority's governance arrangements in supporting the planned outcomes – not simply a description of them. Key elements of an authority's governance arrangements are summarised in the next section.

7.5   The annual governance statement should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance

- reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate

- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework

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- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues

- reference to how issues raised in the previous year's annual governance statement have been resolved

- a conclusion – a commitment to monitoring implementation as part of the next annual review.

7.6 The annual governance statement should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority.

7.7 The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance).

7.8 Local authorities are required to include the annual governance statement with their statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published. It is important that it is kept up to date at time of publication.

GOVERNANCE ARRANGEMENTS

7.9 Key elements of the structures and processes that comprise an authority's governance arrangements are summarised below. They do not need to be described in detail in the annual governance statement if they are already easily accessible by the public, for example through the authority's code of governance.

- Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.

- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

- Documenting a commitment to openness and acting in the public interest.

- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

- Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.

- Translating the vision into courses of action for the authority, its partnerships and collaborations.

- Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.

- Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.

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- Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.

- Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) or CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable (2014) as appropriate and, where they do not, explain why and how they deliver the same impact.

- Ensuring effective arrangements are in place for the discharge of the monitoring officer function.

- Ensuring effective arrangements are in place for the discharge of the head of paid service function.

- Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

- Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.

- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).

- Ensuring an effective scrutiny function is in place.

- Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.

- Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).

- Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.

- Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.

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CORPORATE GOVERNANCE

CODE & FRAMEWORK

Introduction

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a council relates to the communities that it serves.

Our Best Council Plan articulates two ambitions framed around our Best City and Best Council Vision: Best City being defined as, 'Leeds….A Strong Economy and a Compassionate City' with the aim of tackling poverty and inequalities, closely aligned with a range of associated partnership plans; and Best Council as 'Leeds City Council … An Efficient and Enterprising Organisation'.

The purpose of our corporate governance arrangements are to devise and deliver services to the citizens of Leeds in a way that demonstrates accountability, transparency, effectiveness and value for money, integrity, and inclusivity.

Our Corporate Governance Code and Framework is based upon 7 Principles;

We will:

1. **Behave lawfully, with integrity and in the public interest and demonstrate this through our conduct and behaviour.**
2. **Be open and engage with local communities, service users and our other stakeholders.**
3. **Focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.**
4. **Ensure we have clear responsibilities and arrangements for transparent and effective accountability.**
5. **Take informed and transparent decisions.**
6. **Ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management controls.**
7. **Develop our capacity and capability to be effective.**

It is the role of our Corporate Governance and Audit Committee to oversee and receive assurances relating to our governance arrangements and also to provide challenge on how our arrangements can be continually improved.

Councillor James Lewis
Deputy Leader and Executive Member with
Responsibility for Corporate Governance

Councillor Pauleen Grahame
Chair
Corporate Governance and Audit Committee

1) We will behave lawfully, with integrity and in the public interest, and will demonstrate this through our conduct and behaviour.

And commit to;

Embed values and codes of conduct for both employees and councillors.

Ensure that those who provide services on our behalf act in accordance with these principles.

Deal with breaches of legal and regulatory requirements and ensure fraud, corruption and allegations of misuse of public funds are dealt with effectively.

Supported and evidenced by our;

- Values and behaviours

- Members' Code of Conduct

- Officer Code of Conduct

- Partnership agreements

- Procurement Terms and Conditions

- Arrangements for the registration and declaration of interests (including gifts and hospitality)

- Anti-Fraud and Corruption Policy

- Complaints and Compliments Procedures

2) We will be open and engage with local communities, service users and our other stakeholders

And commit to;

Ensuring that service users, local communities and other stakeholders have access to the council and are involved and consulted about major changes that may affect them.

Welcome peer challenges, reviews and inspections from regulatory bodies and implement recommendations which arise from them.

Supported and evidenced by our;

- Consultation

- Approach to restorative practice

- Community Committees

- Parish and Town Council Compact

- Leeds Citizens Panel

- Use of Scrutiny Inquiries

- Deputations to full Council and Community Committees

- Consideration of and response to Petitions

3) We will focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.

And commit to;

Ensure that services put the needs of the public first, are non-discriminatory and are appropriate to different needs in the community.

Make best use of resources and ensure that the People of Leeds receive excellent value for money.

Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions.

Supported and evidenced by our;

- Vision for Leeds

- Best Council Plan

- Equality and Diversity Policy

- Safeguarding arrangements

- Safer Leeds Strategy

- Youth Justice Plan

- Children and Young Peoples Plan

- Annual Performance Report

- Financial Strategy and Medium Term Financial Plan

- State of the City Events

- Performance Management Framework

- Annual Internal Audit Report

- External Audit Value for Money opinion

4) We will ensure we have clear responsibilities and arrangements for transparent and effective accountability

And commit to;

Document who is responsible for our functions and will ensure reports on our performance, delivery of value for money and stewardship of resources are routinely reported.

Review on a regular basis the vision for the city and its implications for the authority's governance arrangements.

Have in place effective arrangements to identify and deal with failure in service delivery.

Ensure that relationships and accountabilities between the authority, its partners and the public are clear.

Supported and evidenced by our;

- Constitution

- Executive Portfolios

- Monitoring of Revenue and Capital expenditure

- Delegation and sub delegation arrangements

- Committee Terms of Reference

- Protocol for the roles of Members and Officers in Decision Making

- Annual Internal Audit Report

- Customer service standards and dispute resolution arrangements

- Annual Accounts

- Access to Information Procedure Rules

- Executive and Decision Making Procedure Rules

- Annual Governance Statement

- Annual Scrutiny Report

- Annual Standards Report

- Partnership arrangements

- Information Governance Arrangements

- Health Safety and Wellbeing

- Annual Pay Policy Statement

5) We will take informed and transparent decisions

And commit to;

Ensure that all decisions are taken which are proportionate, respect human rights and natural justice, are open and transparent with clear aims and desired outcomes and promote equality of opportunity.

Consider and balance the economic, social and environmental impacts of policies and plans.

Ensure that:
- those making decisions are provided with information that is relevant, timely and gives clear explanations of technical issues and their implications;
- appropriate legal, financial and other professional advice is considered as part of the decision-making process; and
- decision-makers can be held to account for the decisions they take through effective overview and scrutiny arrangements.

Supported and evidenced by our;

- Executive Arrangements

- Committee Terms of Reference

- Executive and Decision Making Procedure

- Access to Information Procedures

- Delegation and sub delegation arrangements

- Procedures for decision making

- Provision of effective, timely, responsive and highly regarded legal, financial and professional services

- Equality and Diversity Policy

- Use of data to support decision making and effectively target resources

6) We will ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management arrangements.

And commit to;

Embed a risk management framework to achieve our priorities and protect the Council's reputation and assets.

Collect, use and store information and data appropriately.

Maintain a prudential financial framework which balances our commitments with available resources, monitors income and expenditure and ensures corrective action when necessary.

Supported and evidenced by our;

- Overview and Scrutiny Committee arrangements

- Vision for Scrutiny

- Medium Term Financial Plan

- Capital Programme and Treasury Management Strategy

- Financial Regulations and Contract Procedure Rules

- Performance and risk management arrangements

- Compliance with the Code of Practice on Data Transparency and the General Data Protection Regulations

- Business Continuity arrangements

- A 'Public Sector Internal Audit Standard' compliant Internal Audit function

7) We will develop our capacity and capability to be effective

And commit to;

Improving the use of our people resource by developing and maintaining an effective workforce plan.

Continually review our performance, including how the organisation is led, how we work, and how we make the most efficient use of our resources assets (including data) to ensure our continuing effectiveness.

Ensuring that all councillors and employees have the skills, knowledge and experience they need to perform their roles effectively.

Supported and evidenced by our;

- Code of practice for Member-Officer relations.

- Our values and behaviours

- Appraisal arrangements

- Staff surveys

- Training and development programmes for Councillors

- Training and development programmes for staff (including the 'PAL Offer', investment in our current and future leaders through the Best Council Leadership Team, the Manager Challenge programme and Annual Leadership events)

- Participation in peer reviews.

- Recognition of colleagues through our awards for excellence

- Workforce development plan

- Graduate and apprenticeship programmes

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Leeds City Council

Report author: A Hodson

Tel: (0113) 37 88660

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Draft Work Programme

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐	Yes	☒	No
Are there implications for equality and diversity and cohesion and integration?	☐	Yes	☒	No
Is the decision eligible for Call-In?	☐	Yes	☒	No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐	Yes	☒	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 forthcoming Municipal 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 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 draft work programme and provisional dates at Appendix 1 and determine whether any additional items need to be added to the work programme.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE
DRAFT WORK PROGRAMME**

30th June 2017		
Annual Decision Making Assurance Report	To receive an annual assurance report on the Council's decision making governance arrangements.	Andy Hodson Head of Governance and Scrutiny Support
Internal Audit Report and Opinion	To receive the annual Internal Audit report and opinion	Sonya McDonald Acting Head Of Internal Audit
Internal Audit Update report	To receive the Internal Audit update report	Sonya McDonald Acting Head Of Internal Audit
KPMG Interim Audit Report	To receive the Interim Audit report from the External Auditor	Doug Meeson Chief Officer (Financial Services)
Annual Risk and Performance Management Report	To receive an annual assurance report on the Council's Risk and Performance Management arrangements.	Coral Main Head of Business Planning & Risk
Annual Report on employment policies and practices	To receive an annual assurance report on the Council's employment policies and practices arrangements.	Helen Fallows Senior HR Business Partner
Publication of Draft Statement of Accounts	To approve the Publication of Draft Statement of Accounts	Doug Meeson Chief Officer (Financial Services)
The Annual Governance Statement	To agree the Annual Governance Statement	Andy Hodson Head of Governance and Scrutiny Support

22nd September 2017		
KPMG – Report to those Charged with Governance	To receive the annual report from the External Auditor to those charged with governance.	Tim Pouncey Chief Officer (Audit & Investment)
Approval of the Leeds City Council Accounts	To approve the accounts	Doug Meeson Chief Officer (Financial Services)
Internal Audit Update report	To receive the Internal Audit update report	Sonya McDonald Acting Head Of Internal Audit

19th January 2018		
KPMG – Annual Audit Letter – including opinion	To receive a report from the External Auditor presenting the Annual Audit Letter.	Tim Pouncey Chief Officer (Audit & Investment)
KPMG – Certification of Grant Claims and Returns	To receive a report from the External Auditor certifying grants and returns.	Tim Pouncey Chief Officer (Audit & Investment)
Customer Contact and Satisfaction Annual Report	To receive the annual assurance report concerning customer contact and satisfaction	Lee Hemsworth Chief Officer (Customer Access)
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Acting Head Of Internal Audit
Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Tim Pouncey Chief Officer (Audit & Investment)

16th March 2018		
Internal Audit Plan	To receive a report seeking views on the Internal Audit Plan for 2018/19	Sonya McDonald Acting Head Of Internal Audit
KPMG – External Audit Plan	To receive a report from the External Auditor presenting the external audit plan	Tim Pouncey Chief Officer (Audit & Investment)
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Acting Head Of Internal Audit
Annual Business Continuity Report	To receive the annual assurance report concerning the Council's Business Continuity arrangements.	Mariana Pexton (Chief Officer Strategy and Improvement)
Annual Assurance Report on the Procurement, Policies and Practices	To receive the annual assurance report concerning Procurement, Policies and Practices	Dave Outram Chief Officer (PPPU)
Annual Financial Management Report (Incorporating Capital) 2016/17	To receive the annual assurance report concerning Financial Planning and Management Arrangements at the Council	Neil Warren (Head of Corporate Finance)
Information Governance Annual Report	To receive an annual Assurance report on the Council's Information Governance arrangements.	Louise Whitworth, Chief Head of Information Management and Governance