



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, on
Friday, 22nd September, 2017 at 10.00 am

MEMBERSHIP

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

A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</p> <p>To consider any appeals in accordance with Procedure Rule 15.2 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</p> <p>1 To highlight reports or appendices which officers have identified as containing exempt information, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.</p> <p>2 To consider whether or not to accept the officers recommendation in respect of the above information.</p> <p>3 If so, to formally pass the following resolution:-</p> <p>RESOLVED – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-</p>	

Item No	Ward	Item Not Open		Page No
3			<p>LATE ITEMS</p> <p>To identify items which have been admitted to the agenda by the Chair for consideration</p> <p>(The special circumstances shall be specified in the minutes)</p>	
4			<p>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</p> <p>To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13-16 of the Members' Code of Conduct.</p>	
5			<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence (If any)</p>	
6			<p>MINUTES OF THE PREVIOUS MEETING</p> <p>To receive and approve the Minutes of the previous meeting held on 20th June 2017.</p> <p>(Copy attached)</p>	1 - 10
7			<p>MATTERS ARISING FROM THE MINUTES</p> <p>To consider any matters arising from the Minutes.</p>	
8			<p>INTERNAL AUDIT UPDATE REPORT JUNE TO AUGUST 2017</p> <p>To consider a report by the Chief Officer – Financial Services which provides a summary of the Internal Audit activity for the period June to August 2017 and highlight the incidence of any significant control failings or weaknesses.</p> <p>The report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.</p> <p>(Report attached)</p>	11 - 34

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9			<p>ANNUAL INFORMATION GOVERNANCE REPORT - UPDATE ON CYBER POSITION</p> <p>To consider a report by the Director of Resources and Housing which provides an update on the current position on Cyber Assurance and Compliance, specifically compliance to the PSN Assurance standard.</p> <p>(Report attached)</p>	35 - 40
10			<p>APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS AND KPMG AUDIT REPORT</p> <p>To consider a report of the Chief Officer - Financial Services which explains the requirement for the Corporate Governance and Audit Committee to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.</p> <p>(Report attached)</p>	41 - 84
11			<p>KPMG IT AUDIT FINDINGS 2016/17</p> <p>To consider a report by the Chief Officer - Financial Services which presents the results of KPMG's audit work in 2016/17 in respect of IT controls.</p> <p>(Report attached)</p>	85 - 100
12			<p>ANNUAL GOVERNANCE STATEMENT</p> <p>To consider a report by the City Solicitor which presents the Annual Governance Statement (AGS) to the committee for approval.</p> <p>(Report attached)</p>	101 - 126

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Agenda Item 6

Corporate Governance and Audit Committee

Tuesday, 20th June, 2017

PRESENT: Councillor P Davey in the Chair
Councillors J Bentley, P Harrand,
N Dawson, A Sobel, J Illingworth and
G Hussain

1 Chair's Opening Remarks

The Chair welcomed Members to the first meeting of the New Municipal Year. Congratulations were offered to Councillor Alex Sobel on his recent election as Member of Parliament for Leeds North West

2 Appeals Against Refusal of Inspection of Documents

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

3 Exempt Information - Possible Exclusion of the Press and Public

There were no 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.

4 Late Items

There were no late item of business.

5 Declaration of Disclosable Pecuniary and Other Interests'

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

6 Apologies for Absence

Apologies for absence were received from: Councillor K Bruce, Councillor J Heselwood and Councillor R Wood

7 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 7th April 2017 were accepted as a true and correct record.

8 Matters Arising from the Minutes

Minute No. 62 – Procurement Assurance Report – At the previous meeting Members had requested information on the value of off/non-contract spend

Draft minutes to be approved at the meeting
to be held on Friday, 22nd September, 2017

and contracts that had been entered into by waiver. It was reported that having reviewed the information with the Chair, it was considered too detailed. It was the wish of the Chair that the information be summarised and circulated to Members at a later date.

9 Publication of Draft Statement of Accounts 2016/17

The Chief Finance Officer submitted a report which presented the Draft Statement of Accounts 2016/17, prior to them being made available for public inspection.

Members were informed that the Chief Finance Officer had reviewed the 2016/17 accounts and certified that they were a true and fair view of the council's financial position and, that after consideration by the committee, the Accounts will be placed on deposit for public inspection and would be audited by the council's external auditors (KPMG) over the summer period. The final audited Accounts would be presented to the committee again in September for approval.

It was reported that the final outturn position for the year was a £0.8m use of the General Fund Reserve, which was £2.6m less than the figure budgeted for. Within this overall improved position there was an overspend of £7.9m against the Children's Services budget, which was offset by an underspend of £6.4m against the City Development budget and net savings across other directorates.

Members were informed that the Housing Revenue Account outturn position resulted in the use of £10.0m of its revenue reserves. This included the use of £7.7m of reserves set aside to contribute to the Swarcliffe PFI scheme and the Little London, Beeston and Holbeck PFI scheme, and was after additional contributions of £3m to the Major Repairs Reserve to fund future capital expenditure.

The Principle Finance Manager also advised the Committee that the council's net worth had increased during the year by £391m, and as at 31st March 2017 stands at £1,244m. Within this increase in the net worth, there has been an increase of £658m in the value of tangible fixed assets, partly offset by an increase in the net pension liability of £80m. Net borrowing for capital and treasury management purposes has increased by £174m, reflecting an increase of £163m in the capital financing requirement and a slight reduction in the level of revenue balances which can be used to offset external borrowing.

Members were informed the council's level of usable reserves decreased by £45m to £275m. The majority of the decrease was in ring-fenced reserves, with usable capital reserves decreasing by £12m and ring-fenced revenue reserves (primarily relating to the HRA and to schools) decreasing by £21m. The level of un-ring-fenced revenue reserves fell by £12m, primarily due to the planned use of £10m of health and social care reserves during the year.

The Principle Finance Manager reported that the position within the Collection Fund for business rates had slightly improved, with the closing deficit for

2016/17 having reduced by £25m to £49m, of which 49% (£24m) will fall on the council. A significant element of this deficit (£22m for the council) was taken into account when setting the 2017/18 budget. The outturn position therefore meant that a further £2m would have to be recovered when the 2018/19 budget was set.

Members asked for further clarification on the differences between the net pension liabilities shown in the accounts and the triennial actuarial review which showed a 94% funding position. The Principal Finance Manager advised the committee that the triennial review was a forward-looking assessment which took into account the expected future growth in the pension fund assets. Employer contribution rates were based on the triennial review and not on the accounting position.

In response to a query, the Chief Officer (Audit and Investment) assured the Committee that KPMG were allowed to undertake consultancy work subject to applying for permission from the Public Sector Audit Appointments body; the necessary permission was sought and obtained. Members were advised that the nature of the consultancy work undertaken was with Children's Service, looking into traded income with schools and recovery rates.

Clarification was sought around the basis of some Key Performance Indicators: particularly focusing on whether the figures for; (i) the creation of 36,300 new jobs and (ii) the building of 3,306 new homes (In all sectors) were for in-year performance or were cumulative.

The Principle Finance Manager was unable to confirm the basis of the figures quoted and offered to make enquires with a view to circulating to Members once the information was available.

RESOLVED – To note the 2016/17 unaudited Statement of Accounts as certified by the Responsible Financial Officer, prior to their release for public inspection.

10 Annual Assurance Report on Employment Policies and Procedures and Employee Conduct.

The Chief Officer Human Resources submitted a report which presented the Annual Assurance Report on Employment Policies and Procedures and Employee conduct.

The report provided assurances to the committee that employee conduct was properly managed, policies and procedures were fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.

Members discussed the issue of gifts and hospitality and sought assurance that employees were registering gifts and hospitality and that monitoring arrangements were in place.

The HR Service Manager provided an assurance that declarations around gift and hospitality were been registered and monitored. Members were advised that the rules on the acceptance of gifts and hospitality were communicated to managers and staff on an annual basis. Directors are required to approve individual declarations and on an annual basis they receive a full list of all the declarations that are made to allow them to identify any areas of concern.

Members discussed the Employment Engagement Survey noting that an overall engagement score of 7.5 out of 10 had been achieved. Members also requested further information on the % of staff without computer access and the extent to which such employees are engaged in the survey

A further query was raised about comparisons with other local authorities or other similar large organisations.

In responding, the HR Service Manager reported that the engagement survey was set around the council's core values and direct comparisons may be difficult to achieve, but further consideration would be given as to how to incorporate comparative information in future assurance reports

Members discussed the revised improving attendance policy introduced in August 2016. Members noted there had been an increase in days lost per FTE 9.31 days compared to 8.90 for the previous year and queried if there was an explanation for this.

The HR Service Manager said a new recording system (Self-service) introduced in early 2017 may have led to some variations in reporting and that future comparison information would be produced over a longer time frame.

One Member made reference to the take a "no wrong door" approach, suggesting that the introduction of the initiative as a council value was welcomed. Further information was sought on how the changes to the council values would be communicated to staff and Members.

Members discussed "Handling Disciplinary Matters" querying the number dismissals for sickness, suggesting that the figure for the current year appeared to be high and requested if it would be possible to receive data from the two previous years as a comparison.

Officers provided an assurance that the requested information would be provided

RESOLVED – To note and welcome the assurance provided in section 5 of the submitted report that employee conduct was properly managed, policies and procedures were fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.

11 Annual Assurance Report on Corporate Risk and Performance Management Arrangements

The Director of Resources and Housing submitted a report which presented the Annual Assurance Report on Corporate Risk and Performance Management Arrangements.

The report provided assurances to the committee that the Corporate Risk and Performance Management Arrangements were fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.

Members discussed assurances around risk management, in particular cyber security.

One Member highlighted the recent cyber-attack on NHS systems pointing out that a number of council directorates often shared information with the NHS.

Reference was also made for single step authorisation, particularly for mobile devices and whether more sophisticated sign on was needed

The Chair requested that the report on Cyber Assurance and Compliance due to be brought back to Members in September provided specific coverage and assurance regarding the security of our 'ICT frontiers' to the outside world (specifically organisations with whom we work closely), security of mobile device usage and whether more sophisticated sign on processes were needed (e.g. a two-step process) and arrangements for dedicated cyber training for; Officers and Members should be addressed in that report

RESOLVED –

- (i) To note the assurance provided in section 5.1 of the submitted report that the Corporate Risk and Performance Management Arrangements were fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.
- (ii) That the report on Cyber Assurance and Compliance due to be brought back to Members in September to also include more assurance regarding the security of our 'ICT frontiers' to the outside world (specifically organisations with whom we work closely), security of mobile device usage and whether more sophisticated sign on processes are required (e.g. a two-step process) and arrangements for dedicated cyber training for; Officers and Members should be addressed in that report

12 Annual Decision Making Assurance Report

The City Solicitor submitted a report which presented the Annual Decision Making Assurance Report.

The report provided assurances to the committee that the systems and processes that form part of the council's decision making framework were fit

for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.

Officers representing the Head of Governance Services & Scrutiny, the Chief Planning Officer, the Head of Service (Legal) and the Head of Elections, Licensing and Registration were in attendance to answer Members questions and queries

Referring to Planning matters, Members discussed the outcome of Planning Appeals Decisions for 2016-17 noting that of the 260 appealed decisions 63% had been dismissed, an 8% decrease on the previous year

The Head of Development Management suggested that changes in permitted development rights, the loss of a number PAS land appeals related to not having a 5 year land supply and the loss, on mass of 8 telephone kiosk appeals, all contributed to the decrease on the previous year.

Members also noted that of the 105 applications determined by Plans Panel in 2016-17, 11 were contrary to the recommendation put forward by officers

Members highlighted that although the majority of applications were determined in line with the officer recommendation, Members were often able to influence these applications by adding conditions or seeking changes to the design of the development.

Members requested that future Annual Assurance reports provide comparisons with other local authorities on headline figures and seek to highlight the impact made by members to decisions where officer recommendation is supported.

One Member referred to Strategic Planning Policy and in particular how long term problems may be identified and addressed at an early stage. In providing an example the Kirkstall Forge site was highlighted suggesting that as further development took place serious traffic and congestion issues may arise as a consequence.

Chair suggested that a discussion with Executive Member responsible may be a way forward.

Members considered the referral by the General Purposes Committee seeking the Committee's thoughts on whether an amendment to the definition of a key decision was necessary to exclude decisions relating to the receipt of external funding.

In the discussion that followed Members expressed caution about changing processes and procedure as a result of one example, suggesting instead to keep the matter under review.

RESOLVED –

- (i) To note the assurance provided in the submitted report by the Head of Governance and Scrutiny Support, the Chief Planning Officer, the Head of Service (Legal) and the Head of Elections, Licensing and Registration that the decision making framework in place within Leeds City Council was fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.
- (ii) That decisions relating to the receipt of external funding be kept under review

13 Internal Audit Update Report April to May 2017

The Chief Officer (Financial Services) submitted a report which provided a summary of the Internal Audit activity for the period April to May 2017 and highlighted any incidence of any significant control failings or weaknesses.

The Acting Head of Internal Audit presented an update on Internal Audit Activities during the period since the last meeting of the committee.

It was reported that there were no issues identified by Internal Audit in the April to May 2017 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

Whilst the update report to committee from Internal Audit assured the committee that the majority of the council's expenditure is made on contract, Members sought further information from the Chief Officer (PPPU) to establish a defensible estimate of the proportion and value of on and off contract spend within the council's expenditure.

Members made reference to paragraph 3.2.12 of the submitted report and the difficulty in obtaining assurance that value for money was being obtained when external providers of residential care and independent fostering agencies were being commissioned.

In responding the Acting Head of Internal Audit said that a follow up audit would be undertaken which would seek to ensure progress on these matters, which would be reported back to the Committee

RESOLVED –

- (i) To receive the Internal Audit Update report covering the period April to May 2017, noting the work undertaken by Internal Audit during this period
- (ii) To note there had been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period

- (iii) That further details of on and off contract spend within the council's expenditure be circulated to Members in due course

14 Internal Audit Annual Report and Opinion 2016-17

The Chief Officer (Financial Services) submitted a report which drew to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2016/17.

Members were informed that the overall conclusion was that on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating effectively in practice. It was reported that there were no outstanding significant issues arising from the work undertaken by Internal Audit. The work undertaken to support this opinion had been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

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

RESOLVED – To receive the Internal Audit Annual Report and opinion for 2016/17 and note the opinion given. In particular:

- That on the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating effectively in practice; and
- That the work undertaken to support the opinion had been conducted in accordance with an established methodology that promoted quality and conformance with the International Standards for the Professional Practice of Internal Auditing; and
- That there were no outstanding significant issues arising from the work undertaken by Internal Audit
- To note that there had been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period

15 Annual Governance Statement

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

RESOLVED –

- (i) To agree that the draft Annual Governance Statement be released to accompany the draft accounts when they are placed on public deposit
- (ii) To note that a final draft of the Annual Governance Statement would be provided at the September meeting of the Committee which would also incorporate the external audit opinion

16 Work Programme 2017/18

The Head of Governance and Scrutiny Support presented a report of the City Solicitor which set out the draft work programme for the 2017/18 year.

RESOLVED –

- (i) To approve the draft work programme for the 2017/18 year
- (ii) To note the meeting dates for the Committee in the 2017/18 year as detailed within Appendix 1 of the submitted report

17 Date and Time of Next Meeting

RESOLVED – To note that the next meeting will take place on Friday, 22nd September 2017 at 10.00am in the Civic Hall, Leeds.

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Report author: Tim Pouncey/
Sonya McDonald
Tel: 88693

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 22 September 2017

Subject: Internal Audit Update Report June to August 2017

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

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period from June to August 2017 and highlights the incidence of any significant control failings or weaknesses.

2. Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under the Regulation of Investigatory Powers Act 2000 (RIPA). The Head of Service (Legal) has provided this information within this report.

Recommendations

3. The Corporate Governance and Audit Committee is asked to receive the Internal Audit Update Report covering the period from June to August 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.

4. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

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 June to August 2017 and highlight the incidence of any significant control failings or weaknesses.
- 1.2 The report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

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 June to August 2017.
- 2.4 This update report also provides information from the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA, as recommended by the Office of Surveillance Commissioners.

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. 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 June to August 2017

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Key Financial Systems			
Financial Management Central Controls 2016/17	Substantial	N/A	Minor
Sundry Income – Network Management	Good	Good	Minor
Sundry Income – Sports Centre	Acceptable	Acceptable	Minor
Children’s and Families			
Safeguarding	Substantial	N/A	Minor
City Development			
Community Asset Transfers	Acceptable	N/A	Minor
Community Infrastructure Levy	Limited	Acceptable	Minor
ICT and Information Governance			
ICT Data Security	Acceptable	Acceptable	Moderate
Investigation into the use of council resources ¹	Not applicable	Not applicable	Not applicable
Resources and Housing			
Belle Isle TMO Assurance Framework – Customer Complaints, Satisfaction and Requests for Information	Good	Substantial	Minor
Belle Isle TMO Assurance Framework – Planned and Programmed Maintenance	Good	Substantial	Minor
Schools			
Primary School ²	Acceptable	Acceptable	N/A

¹ This report was issued on 1st September, outside of the normal reporting period. It has been included in this update report because of the unprecedented circumstances. Further information is provided at 3.2.3

² Although acceptable assurance was provided for both control environment and compliance, limited assurance was provided for two of the objectives covered as part of the review. Further information is provided at 3.2.10

Report Title	Audit Opinion		
	Control Environment Assurance	Compliance Assurance	Organisational Impact
Primary School Voluntary Fund x 2	Certification of balances		
Adults and Health			
Directorate Risk Management Arrangements for Information Governance	Substantial	N/A	Minor
Procurement			
Recycling and Energy Recovery Facility PFI Contract Review	Substantial	N/A	Minor
Follow Up Reviews			
Contract Extensions Follow Up	Good	Good	Minor
Leeds Building Services Subcontractors Follow Up	Good	Limited	Minor

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

- Local Transport Capital Block Funding Grant 2016/17
- Cycling Ambition Grant 2016/17
- West Yorkshire Plus Capital Grant 2016/17
- Local Authority Bus Subsidy Grant 2016/17

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 20 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 At the Corporate Governance and Audit Committee meeting in June 2017, we reported limited assurance opinions for compliance with Contract Procedure Rules (CPRs) for expenditure not linked to a contract across seven directorates. Since that meeting, we have reported to the Corporate Leadership Team (CLT) on the issue and we have been working with the Projects, Programmes and Procurement Unit (PPPU) to assist in progressing the actions necessary to improve performance in this area, such as developments in reporting and training arrangements.

Investigation into the use of council resources

- 3.2.3 Following the sentencing of the former Leeds councillor and former Lord Mayor, Neil Taggart in July, the Chief Executive asked Internal Audit to carry out an investigation into the council's arrangements in order to provide assurance that no council resources were used to commit his crimes. In the interests of transparency we have decided because of the unprecedented circumstances to make the report publically available. A copy of the report is attached at appendix 1.
- 3.2.4 The investigation found no evidence that council equipment was used for the offences committed by Neil Taggart. However, the council did provided an internet connection to the home of Neil Taggart for a period of at least eight years, during which time the offences were reported to have taken place. In the absence of any evidence to confirm which internet connection was used to obtain the images in question, there remains a possibility that the council-provided internet connection may have been used for this purpose. Whilst filtering controls were in place during this period, it is not possible for 100% of websites with inappropriate content to be blocked. The investigation has recommended the council implements proactive monitoring controls for the purposes of identifying offences of this nature.
- 3.2.5 There is evidence that Neil Taggart received training on the Code of Conduct and signed a disclaimer to confirm that he had understood and would comply with relevant policies, including the Electronic Communications Code of Practice. This provides assurance that the council has processes in place that re-enforce the standards of conduct and behaviour expected from those that serve it. However, the investigation has highlighted a potential control weakness in relation to undertaking Disclosure and Barring Service (DBS) checks for members. If this control had been in place during the period in question, the investigation has concluded that this would not have had any impact on this case.
- 3.2.6 To ensure that actions to implement the recommendations are taken forward a framework of proactive monitoring measures that would supplement the existing web filtering and conduct controls is to be put in place and that this includes proactive scanning of the council's digital storage including all council owned devices use by staff and members. Further work is to be carried out to formalise the existing process for undertaking DBS checking for all members, with an escalation process built into the process if checks are not completed in line with agreed timescales.

Limited or No Assurance Opinions

- 3.2.7 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a 'major' organisational impact.
- 3.2.8 The following three audited areas resulted in a limited assurance opinion overall or a limited assurance opinion for part of the audit coverage:
- Community Infrastructure Levy
 - Primary School
 - Leeds Building Services (LBS) Subcontractors Follow Up

Community Infrastructure Levy

- 3.2.9 The Community Infrastructure Levy (CIL) is a new levy that the council charges on many new developments to help pay for the infrastructure needed across Leeds as a result of growth. CIL monies received in 2015/16 totalled £126,878 and in 2016/17 totalled £1,865,696. The scope of the audit was to review the processes that ensure that CIL income is identified and that all sums due to the council are received. The review found that there are processes in place to capture where there is a CIL liability and our audit testing confirmed that the CIL calculation was correct for our sample. However, the review resulted in a limited assurance audit opinion as controls require strengthening in respect of the electronic system that holds the CIL data to ensure the integrity of the charging information held. The introduction of management checks and reconciliation processes will increase assurance that all CIL income is identified and received. The service has agreed to take forward all the recommendations made during the audit.

Primary School

- 3.2.10 During the reporting period, we have audited the financial management arrangements at one of our primary schools. Whilst the review resulted in an acceptable assurance opinion overall, the audit found some administration issues and we could not provide assurance that all income received was banked by the school, as supporting documentation was not retained for all strands of income (for example, school trips). This resulted in a limited assurance opinion for part of the audit coverage which will be subject to a follow up review later in the year.

LBS Subcontractors Follow Up

- 3.2.11 The previous audit of LBS Subcontractors found that there was a lack of evidence to confirm that Contract Procedure Rules (CPRs) had been followed when allocating work to subcontractors who were not on an existing framework contract. The council's CPRs set out the key responsibilities and actions that must be followed when undertaking procurements and support staff in demonstrating that they have given due consideration to value for money and any legal implications.
- 3.2.12 The follow up review has found that good progress has been made in implementing the audit recommendations in relation to the monitoring of the level of off / non contract spend and providing training to staff. However, as with our previous audit, there was a lack of evidence, such as waiver reports, to confirm that CPRs and the section's own internal procedures had been followed when allocating work to subcontractors, both on the existing framework contract and those not on these contracts.
- 3.2.13 The service has recognised the need to improve processes and follow CPRs and has advised that they have undertaken a full staffing review to create a new structure that will deliver an effective business plan by delivering value for money and complying with all council policies, including CPRs and Financial Regulations. The service has advised that these new management arrangements were introduced on 1 August 2017.

3.2.14 We will carry out further follow up work to review progress in this area during 2017/18.

Follow Up Reviews

3.2.15 Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. 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.

3.2.16 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		
Contract Extensions	Closed (see 3.2.17)	March 2016
Leeds Building Services Subcontractors	See 3.2.11	September 2016
Follow up reviews due in 2017/18		
LBS Tools and Equipment	Planned	September 2016
Leeds Grand Theatre – Contract Procedure Rules	In progress	January 2017
Housing Leeds Tenancy Management – Use and Occupation	In progress	January 2017
Contract Review - Joint Venture: professional property and building services	Planned	January 2017
Community Care Finance	Planned	April 2017
Implementation of Client Information System	Planned	April 2017
LBS Stores	Planned	April 2017
Contract Specification and Management	Planned	June 2017

Audited area	Follow up audit status	Corporate Governance and Audit Committee report reference
Commissioning of External Residential Placements and Independent Fostering Agency Payments Follow Up	Planned	September 2015 and June 2017
Direct Payments (Children's and Families)	Planned	September 2016 and June 2017
Directorate Compliance with CPRs: Non and Off Contract Spend	Planned	March 2016, June 2016 and June 2017
Central Control and Monitoring of Nursery Fees	Planned	June 2017
Payments in relation to In-House Fostering, Special Guardianship Orders and Leaving Care	Planned	June 2017
Community Infrastructure Levy	Planned	See 3.2.9
Primary School	Planned	See 3.2.10
Leeds Building Services Subcontractors	Planned	See 3.2.11

3.2.17 During this reporting period we have finalised two follow up reviews and closed one of these to reflect the progress made since the previous audit. A further follow up review will be undertaken for LBS Subcontractors due to the outstanding issues detailed above at 3.2.12.

Continuous Audit & Data analytics

3.2.18 This cross cutting audit programme aims to evaluate control effectiveness across key systems on an ongoing basis, and highlight high risk transactions or events. Coverage has included elements of the self-serve processes, payroll, overtime claims, purchasing card transactions, duplicate payments and income bankings. No significant issues have been identified.

Counter Fraud and Corruption

3.2.19 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.

Proactive Anti-Fraud Work

3.2.20 During the reporting period, we have continued to raise awareness of fraud risks and preventative action through communications with senior managers and

reviews of the anti-fraud and corruption measures in place in key areas across the organisation.

- 3.2.21 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force from 26 June 2017 and build upon the current regulatory framework. We are currently reviewing our existing Anti-Money Laundering Policy and arrangements to ensure they remain fit for purpose and in line with these new regulations.
- 3.2.22 We have also carried out an assessment of the council's arrangements to address the risk of procurement fraud. This has drawn on best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA) as well as recommendations issued by the Home Office in relation to organised procurement crime. The findings from this review, for example the potential to increase the guidance available in this area, will be taken forward through discussions with the Projects, Programmes and Procurement Unit (PPPU), and will also be used to inform procurement coverage within the Internal Audit plan.
- 3.2.23 Internal Audit resources have also been focussed on reviewing the National Fraud Initiative data matches and undertaking investigations as appropriate. One such data match investigated during the period resulted in the identification of an overpayment of approximately £16k made to a former employee. Established internal controls had not been applied in this instance resulting in the former employee continuing to be paid after they had left the organisation. The matter has been reported to the relevant director and we are undertaking further data analytical work in this area to provide assurance that there are no other similar cases. To date, £14k has been repaid by the former employee and there is a recovery plan in place for the remaining balance.

Reactive Anti-Fraud Work

- 3.2.24 During the reporting period we have received 19 potential irregularity referrals. Of these, 12 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.
- 3.2.25 During the reporting period 21 referrals have been closed. In accordance with our agreed protocols, a report is issued to the relevant director and chief officer for each investigation conducted by Internal Audit. The reports provide details of the allegations, findings and conclusions as well as value adding recommendations to address any control weaknesses identified during the course of the investigation. We have issued three such investigation reports during this period. There are 11 referrals that are currently open and being investigated.

Regulation of Investigatory Powers Act 2000

- 3.2.26 Members will recall that officers reported to the June 2017 meeting that in the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that members should receive regular reports about the use of the council's surveillance powers under RIPA.

3.2.27 The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS) authorisations, since the June 2017 meeting. In addition, there has been no use of the powers to obtain communications data, over the same period.

Internal Audit Performance

3.2.28 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.

3.2.29 During the reporting period, we have been shortlisted in the Outstanding Proactive Detection category of the Government Counter Fraud Awards. The Awards recognise exceptional achievement and innovation in fighting fraud and corruption in the public sector. They showcase the skills and professionalism of the individuals and teams working to protect public funds.

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

3.2.31 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.

3.2.32 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.

3.2.33 During the period 1 April to 31 August 2017, 19 completed Customer Satisfaction Questionnaires have been received. A summary of the scores is presented in table 3.

Table 3: Results from Customer Satisfaction Questionnaires for the period 1 April to 31 August 2017

Question	Average Score (out of 5)
Sufficient notice was given	4.78
Level of consultation on scope	4.47
Auditor's understanding of systems	4.26
Audit was undertaken efficiently	4.53
Level of consultation during the audit	4.61
Audit carried out professionally and objectively	4.79

Question	Average Score (out of 5)
Accuracy of draft report	4.53
Opportunity to comment on audit findings	4.79
Clarity and conciseness of final report	4.58
Prompt issue of final report	4.63
Audit recommendations will improve control	4.47
The audit was constructive and added value	4.53
Overall Average Score	4.58

3.2.34 Table 4 below provides an indication of progress against the Internal Audit Plan for 2017/18. 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 2017/18 Progress

Number of individual audit assignments	Planned	In progress	Completed
Audit Plan 2017/18 and brought forward jobs from 2016/17	60	22	18
Follow up audits	14	2	2

3.2.35 Due to a number of staffing changes, overall resources for 2017/18 are now less than was anticipated when the audit plan was set (147 days). We will actively manage resources to direct these towards the areas of highest risk 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 June to August 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 June to August 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.

- 6.2 The Corporate Governance and Audit Committee is asked to note the information in the report about the recent use of the Council's surveillance powers under RIPA. The Corporate Governance and Audit Committee is asked to note the information provided by the Head of Service (Legal) about the recent use of the council's surveillance powers under RIPA.

7 Background documents

- 7.1 None.

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Internal Audit Report

Investigation into the use of council resources

Date: 1 September 2017
Report Status: Final

Issued to	Chief Executive
Copy to	Director Resources and Housing
Report Author	Acting Head of Audit



Contents

1. Introduction
2. Scope of the Audit
3. Background
4. Investigation Findings
5. Conclusion
6. Recommendations

1. Introduction

- 1.1 Former Leeds councillor and former Lord Mayor, Neil Taggart, was recently sentenced to 32 months in prison after pleading guilty to making, distributing and possessing indecent images of children and possession of extreme pornographic images. The Chief Executive has requested an Internal Audit investigation into the council's arrangements in order to provide assurance that no council resources were used to commit these crimes.

2. Scope of the Audit

- 2.1 The Internal Audit investigation has been undertaken by:

- reviewing the records that identify and trace the council ICT equipment that was provided to Neil Taggart:
- reviewing the relevant training, development, committee membership, complaint and diary records:
- performing a search of the relevant sections of the council's network.

- 2.2 Meetings have been held with and / or information has been provided by:

- Chief Digital Information Officer
- Service Support Manager (Digital Information Service)
- Principal IT Infrastructure Officer
- Head of Governance and Scrutiny Support & Deputy Monitoring Officer
- Head of Civic and Member Support
- Head of Operational Services
- Senior Business Partner
- Business Planning Manager
- Service Support Manager
- Group Support Manager
- Lead Developer, Digital and Information Service

- 2.3 During the course of the investigation, I have held meetings with the police and shared information as appropriate.

3. Background

- 3.1 Neil Taggart was a councillor at Leeds City Council from 1 May 1980 to 22 May 2014 and was Lord Mayor from 19 May 2003 to 28 June 2004.

- 3.2 It is reported that Neil Taggart pleaded guilty to distributing indecent photographs of children, making indecent photographs of children, possession of prohibited images of children and possession of extreme pornographic images between 2007 and 2016.

4. Investigation Findings

4.1 Review of ICT evidence

- 4.1.1 In order to determine whether the council's ICT resources were used to commit the offences, I have considered the trail that may have been left on the council's network and the ICT devices used by Neil Taggart. Back-up tapes for emails and local user accounts are retained for six months, so these could not be reviewed as no tapes exist for the period of time relevant to this case.

Network

- 4.1.2 The police provided me with a list of key words that were relevant to the criminal investigation. In conjunction with colleagues from ICT, I have searched for these key words in the area of the council's network that covered, amongst others, files and folders which would have been accessible to Neil Taggart. Approximately 1.4 million documents were searched electronically and 15,000 potential matches were highlighted. I have reviewed the matches and found no evidence on the network in respect of these offences.

ICT devices used by Neil Taggart

- 4.1.3 Records relating to the allocation and use of ICT devices are available dating back to 2009. From these, I have traced the council ICT devices that were used by Neil Taggart. These are detailed in table 1 below. I have been advised by the Head of Civic and Member Support that, prior to 2009, Neil Taggart would have had access to shared desktop computers in the member's lounge and a dedicated desktop computer in the Lord Mayor's chambers during his tenure as Lord Mayor from June 2003 to June 2004. The Business Planning Manager has advised that the data on these devices would have been deleted prior to the devices being physically destroyed.
- 4.1.4 I have been advised by the Senior Business Partner that Neil Taggart was not issued with a mobile electronic device, such as a PDA. I am therefore satisfied from the enquiries that I have made and the evidence that I have seen that the four devices detailed in table 1 represent a complete history of the ICT equipment used by Neil Taggart since 2009.

Table 1: Leeds City Council ICT equipment used by Neil Taggart since 2009

ICT equipment	Status of equipment
Laptop (LAT <i>asset number</i>) and council-provided internet line (Asymmetric Digital Subscriber Line – ADSL) at Neil Taggart’s home address	The laptop was last used by Neil Taggart in September 2013 and the device was sanitised ¹ in May 2014.
Desktop computer (AT <i>asset number</i>) located in Civic Hall 4 th Floor East	The desktop computer was last used by Neil Taggart in May 2014 and the device was sanitised in April 2016.
iPAD (<i>serial number</i>)	<p>The iPad was last used by Neil Taggart in July 2014.</p> <p>The data was deleted from this device by colleagues in ICT in line with their procedures before it was re-allocated to another user. I have signed this device over to the police for forensic examination.</p>
Laptop (LAT <i>asset number</i>) for temporary use.	Neil Taggart logged on to this device on two occasions, the last being on 3 July 2014. The device was allocated to another user. I have signed this device over to the police for forensic examination.

4.1.5 Due to the length of time that has elapsed, there are no records to confirm when the laptop (LAT *asset number*) was issued to Neil Taggart or when the council-provided ADSL was installed and removed from his home. The Senior Business Partner has advised that the ADSL was in place when he came to post in May 2006 and would have been removed when the iPad was provided in 2014. Councillors paid a nominal charge per annum for the use of council equipment in the home as a ‘benefit in kind’. The council has no records to indicate whether there was any other internet connection in place at Neil Taggart’s home address during the period that the ADSL was provided by the council and I cannot confirm which internet connection was used to perpetrate the offences. This leaves a possibility that the council-provided ADSL may have been used for this purpose.

¹ Data cleansed and sold through the council’s contractual arrangements with SCC.

4.1.6 The historical record held in the Group Office indicates that only two memory sticks were issued or loaned to members, neither of whom were Neil Taggart. However, this was a manually updated document, the provenance and history of which is unknown due to the length of time that has elapsed and it does not fully reconcile to the memory sticks held in the office. Therefore, it is not a reliable source to support that Neil Taggart did not make use of a council memory stick. The Group Support Manager has advised that he has never received a request for a memory stick from any member since he came to post in 2014, which may indicate that the likelihood of Neil Taggart making use of a council memory stick is low.

4.1.7 The police will advise us of the results of their forensic examination of the iPad and laptop in due course.

4.2 Filtering controls

4.2.1 During the course of this review I have attempted to obtain evidence to confirm that appropriate web filtering controls have been in place during the period in question, that these have been working as expected and are in line with best practice. Due to the length of time that has elapsed and how assurance on these controls is documented, I am not able to provide independent assurance on this area. Instead, I have sought this assurance from senior management within ICT. The Head of Operational Services within the Digital & Information Service has provided the following assurance statement on the council's filtering control arrangements in place:

4.2.2 *Since 2002 ICT have regularly monitored Internet activity to ensure Council employees adhere to the policies relating to Internet access and to provide secure connectivity for users.*

During the period between 2002 and 2004 there was no content filtering available but users had to sign a disclaimer for Internet usage and adhering to Council Policies. Logs were reviewed regularly by the Security Team staff and evidence of this was the successful prosecution of a Council employee that viewed inappropriate content.

From 2004 to 2010 proprietary software A filtering was in place and from 2010 to the present day the Content Filtering is via proprietary software B.

The order for the first content filtering was found in records by the Software Licencing Team and had a date of 15th June 2004. The content filtering was in place shortly after this date. Due to the content filtering of categories to block inappropriate sites there has been a regular flow of Remedy tickets each week blocking user access and giving confidence that the content filtering is working. For every ticket logged the content filtering would have been tested by the Security Team to allow the user access if granted or to keep blocked for various security reasons. Evidence on this can be found in the number of Remedy tickets relating to proprietary software B.

4.2.3 These are important measures that may prevent inappropriate activity but it is important to note that it is not possible for 100% of relevant websites to be blocked

due to the constantly changing environment and that the filtering does not occur when a user accesses the internet but is not connected to the council network.

4.2.4 The Digital Information Service has advised that the council also has controls in place to identify and quarantine emails going out of the council or coming into the council that may be inappropriate. The limitation to this assurance is that it is not applied to internal emails for operational reasons and it cannot identify images that may be inappropriate.

4.3 **Governance**

4.3.1 The nature of the roles of councillor and Lord Mayor means that Neil Taggart made visits to establishments where children were present over the course of the 34 years he was with the council. I have therefore sought evidence and assurances around any potential safeguarding implications relating to these roles:

- The Code of Conduct applies to elected members in all aspects of their public life. Members must follow this Code when they are conducting the work of the council, representing the council on any external organisation and otherwise acting in their official capacity. The Code sets out the expected standards of conduct and the requirement for interests to be declared. There is evidence that Neil Taggart received training on governance and conduct.
- The council's Electronic Communications Code of Practice sets out what is unacceptable when using the council's communications systems. The policy specifically references the offences outlined at 1.1 above. Neil Taggart signed a disclaimer upon receipt of the council iPad to confirm that he had read, understood and would comply with the council's policies, including the Electronic Communications Code of Practice.
- The diary records for the period when Neil Taggart held the position of Lord Mayor show that visits were made to establishments where children were present. The Head of Civic and Member Support has advised that these visits are in line with normal mayoral duties and would have been accompanied by the Sergeant at Mace. I have provided the police with a copy of these diary records for their consideration.
- Disclosure and Barring Service (DBS) checks are not a requirement of the role of elected member and therefore not compulsory. However, Democratic Services make requests for DBS checks at the point of initial election and then again at every re-election. Democratic Services has advised that a Criminal Record Bureau check (the predecessor to the DBS check) was carried out on 31 August 2006. Neil Taggart would have been due a new check after re-election in 2010, but there is no record of this being completed, despite several reminders being sent to him. In this case however, my understanding is that even if DBS checks had been completed

on a regular basis, these would not have highlighted any issues that would have alerted the council to take action in respect of the offences committed.

- The Head of Civic and Member Support and the Head of Governance and Scrutiny Support have both confirmed that they are not aware that any Code of Conduct complaint was ever made in respect of Neil Taggart. This is supported by the records of Member's Code of Conduct complaints, which are available dating back to 2008. A review of these found no reference that any complaint was recorded against Neil Taggart.

5. Conclusion

5.1 I have found no evidence that council resources were used for the offences committed by Neil Taggart. However, the council provided an internet connection to the home of Neil Taggart for a period of at least eight years, during which time the offences were reported to have taken place. In the absence of any evidence to confirm which internet connection was used to obtain the images in question, there remains a possibility that the council-provided ADSL may have been used for this purpose. Whilst filtering controls were in place during this period, it is not possible for 100% of websites with inappropriate content to be blocked. This raises a consideration over whether the council should implement proactive monitoring controls for the purposes of identifying offences of this nature.

5.2 There is evidence that Neil Taggart received training on the Code of Conduct and signed a disclaimer to confirm that he had understood and would comply with relevant policies, including the Electronic Communications Code of Practice. This provides assurance that the council has processes in place that re-enforce the standards of conduct and behaviour expected from those that serve it. The investigation has highlighted a potential control weakness in relation to undertaking DBS checks for members. However, if this control had been in place during the period in question, I do not believe that it would have had any impact on this case.

6. Recommendations

6.1 In support of this investigation, colleagues in ICT have prepared a paper that outlines the technical options available to the council for future proactive scanning of the council's digital storage for the purposes of identifying instances of indecent images of children or indications of child sexual exploitation. These options could include all council-owned devices, such as those used by council staff and members, and those situated in libraries and schools, for example. Without an evidence trail confirming how the offences were committed, I cannot provide assurance that any of these options would have detected Neil Taggart's criminal activity. However, consideration should be given to establishing a framework of proactive monitoring measures that would supplement the existing web filtering and conduct controls, in light of this case. There are governance, resource and cost implications attached to each option

that would require careful consideration if the council decides to implement proactive monitoring and further work is required to ascertain these.

- 6.2 Consideration should also be given to formalising the process for undertaking DBS checking for members and ensuring that the matter is properly escalated and resolved if checks are not completed in line with defined timescales.

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Report of Director of Resources and Housing

Report to Corporate Governance and Audit Committee

Date: 22nd September 2017

Subject: Annual Information Governance Report – update on Cyber position

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

Summary of main issues

1. The 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 Government Connects Secure Extranet (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.
2. Due to more stringent compliance controls brought in by the Cabinet Office in 2014 the council are presently unable to meet the PSN certification requirements. The Cabinet Office has contacted the Council through the Chief Executive to ensure that the Council brings itself into compliance as soon as possible. The Council's access to the PSN has not been unduly restricted but this would be a likely consequence if prompt action was not taken.
3. In view of this, the Council is currently working with the Cabinet office to meet requirements by the end of September, a deadline set by the Director of Resources and Housing.
4. Multiple streams of work are supported by Project Managers and Professional leads.
5. The 2017 independent audit of controls revealed a large volume of issues, which must now be resolved before the end of September to prevent further escalation.
6. A programme of works continues beyond the September deadline to ensure the future of Leeds City Council compliance.

Recommendations

Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured that considerable effort is being undertaken to rectify the current situation with

regards to the Council's approach to information governance and specifically in this case PSN compliance.

1. Purpose of this report

- 1.1 To provide Corporate Governance and Audit Committee with an update on the current position on Cyber Assurance and Compliance, specifically compliance to the PSN Assurance standard.

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.
- 2.2 The report provides Committee Members with an update and answers to questions posed during the annual Information Governance review.

3. Main issues Cyber Assurance and Compliance PSN

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 (secure) 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. A number of services are accessed via PSN, Blue Badge, 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.
- 3.3. Due to more stringent compliance control brought in by the Cabinet Office in 2014 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.
- 3.4. The council has since received the IT Health Check (ITHC) results for 2017; an annual audit required for PSN compliance. The ITHC report for 2017 details vulnerabilities across the infrastructure. This audit followed the cabinet office' scope requirements for PSN and as such the number of issues the council must address has grown significantly from 2016.

- A significant number of individual vulnerabilities were revealed on a 10% sample of the estate. The sheer size and volume of unknown issues across the estate evidences systemic failure of controls, previously believed to be sufficient.
- The PSN Assurance team mandates that each vulnerability is extrapolated to the estate as a whole and resolved. Those identified as critical or high must be resolved before the authority can be determined compliant.

4. Actions to date

- 4.1. A PSN Remediation Board has been established with the Head of Information Management and Governance as Senior Responsible Officer (SRO), reporting to CLT and the Senior Information Risk Officer (SIRO) Monthly. The board meets bi-weekly to work through the compliance requirements and close down remediation tasks realised by the ITHC audit. Monthly meetings with the PSN Authority (PSNA) provide them with regular reports about the progress being made by the council. This relationship is strong and supportive.
- 4.2. A virtual vulnerability management team has been formed, which brings together the various resources tasked with bringing the patching and configuration of the estate to an acceptable level in order to close or remediate the findings from the 2017 ITHC. The team is responsible for the maintenance of the estate on a periodic basis.
- 4.3. Relationships with business areas have been strengthened and agreement on appropriate and timely downtime gained. The strength of the PSN board and support of Chief Officers has been fundamental in achieving this.
- 4.4. The application development, training and support team have begun to contact software suppliers to ensure they meet the requirements set by the PSN Authority on Cloud Security Principles. Further work to understand and update contract terms is planned in the medium term.
- 4.5. The IT procurement process documentation has been refined and being used to incorporate the cloud security principles which will prevent the purchase of sub-standard ICT solutions in future should all services comply and use the appropriate documentation.
- 4.6. Seven projects have been funded by Essential Services Programme (ESP) budget in order to improve the security position of the Council in the medium term, aiming for completion by April 2018. Those projects are:
 - Vulnerability Management
 - User Password Policy and Practise
 - Technical authentication
 - Protective Monitoring
 - Mobile Devices Management
 - Network Segregation
 - Active Directory cleansing and maintenance
 - Once complete, the programme of works is expected to significantly improve the Council's compliance position.

5. Response to WannaCry

- 5.1. The Leeds City response to the outbreak of the ransomware Trojan, WannaCry on Friday May 12th was a combined effort between the Council and Health services. The Cyber Incident Response Team was formed and met throughout the weekend. ICT service providers for the NHS, updated the team on any incidents within the City region. Out of band activities ensured the infrastructure was protected and updated to prevent infection. Once the Health service activities were managed and controlled, Leeds City Council, despite no incident employed resources to ensure the same within the council boundary.
- 5.2. Immediate activities included blocking all mail from the NHS domain, however, it was later discovered that the mode of delivery was not email.
- 5.3. It was also initially understood and broadcast that the prevalence of old, XP devices encouraged the spread so quickly. That is now understood to be inaccurate; the main reason for swift infection was the method of delivery and poor patching and security practises.
- 5.4. As a result of the WannaCry outbreak, the practise of stopping standard patching during a 'Change freeze' is now accepted to be poor practise and has halted. Only system upgrades will now stop, during change freeze periods.

6. Risk from NHS and Information Sharing

- 6.1. The NHS is made up of a number of separate entities with different budgets and priorities. The one constant is the Data Security standards in the IGToolkit for health: the standards to which the NHS are held to. Those standards for information security are improving. It is expected in the next two to three years, for NHS standards to consolidate with the requirements for local authority. The risks to Leeds City Council are expected to decrease following the roadmap for security and compliance as we move towards a shared city platform.

7. Security of Mobile Devices

- 7.1. The security of mobile devices has been highlighted as one of the areas requiring improvement to meet the PSN standard, as such a new method of authentication is being employed as part of the ESP programme of works.

8. Briefing for all members and staff on Cyber

- 8.1. The request for a briefing on Cyber is noted and will be actioned.

9. Consultation and Engagement

- 9.1. 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.

10. Equality and Diversity / Cohesion and Integration

- 10.1. 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.

11. Council policies and City Priorities

- 11.1. 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.
- 11.2. 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.

12. Legal Implications, Access to Information and Call In

- 12.1. Delegated authority sits with the Director of Resources and 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 Director of Resources and Housing Sub-Delegation Scheme.
- 12.2. There are no restrictions on access to information contained in this report.

13. Risk Management

- 13.1. 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.
- 13.2. 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.
- 13.3. 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.

14. Conclusions

- 14.1. The work of the previous year, reported to this Committee in April 2017, has been continued.

- 14.2. The establishment of improved Information Governance in ICT and improved practice and procedures outlined in this report provides a level of assurance to Committee that the range of information risk is being 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.

15. Recommendation

- 15.1. Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured that considerable effort is being undertaken to rectify the current situation with regards to the Council's approach to information governance and specifically in this case PSN compliance.
- 15.2. The Corporate Governance and Audit Committee is also asked to consider a report back to Committee in January 2018, to further update with regards to PSN and Cyber Compliance
- 15.3. Background documents: None



Report author: Mary Hasnip
Tel: x89384

Report of **the Chief Finance Officer**

Report to **Corporate Governance and Audit Committee**

Date: **22nd September 2017**

Subject: **Approval of the Audited Statement of Accounts and KPMG Audit Report**

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

Summary of main issues

1. KPMG have completed their audit of the final accounts, and the report of their findings is attached. The main points are that :
 - Subject to clarification that the outcome of an elector objection would not have a material impact on the authority’s financial statements, KPMG anticipate being able to issue an unqualified opinion on the 2016/17 Statement of Accounts;
 - There are no unadjusted audit differences affecting the financial statements;
 - The review of the Annual Governance Statement has concluded that it is not misleading or inconsistent with information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance;
 - The review of value for money arrangements has concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

2. The accounts have been certified by the Chief Finance Officer as a true and fair view of the Council’s financial position as at 31st March 2017. A copy of the final version of the accounts for approval is included with this report.

3. During the public inspection period, one objection was received from a local elector. As a result, KPMG have indicated that although they are hopeful of being

able to issue an opinion on the accounts by the deadline of 30th September, there is likely to be a delay in formally closing their audit for the year.

Recommendations

4. Members are asked to receive the report of the Council's external auditors on the 2016/17 accounts and to note that there are no unadjusted audit differences to the accounts.
5. Members are asked to approve the final audited 2016/17 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
6. On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
7. Members are asked to note KPMG's VFM conclusion that the council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
8. Members are asked to note that there is one objection to the accounts which is still under consideration by KPMG, which is expected to result in a delay in the completion of the overall audit.

1 Purpose of this report

- 1.1 At its previous meeting in June, the Committee considered the unaudited 2016/17 Statement of Accounts prior to their being made available for public inspection. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.

2 Background information

- 2.1 In accordance with the Accounts and Audit Regulations 2015, the Council's Responsible Financial Officer, the Chief Finance Officer, has certified that the Statement of Accounts presents a true and fair view of the financial position of the Council. On completion of the Audit, the regulations also require that the accounts are approved by resolution of a Committee and published, together with the auditor's opinion and report.

3 Main issues

3.1 Key External Audit Findings

3.1.1 Audit Opinion

Subject to confirmation that the outstanding elector objection does not have the potential to have a material impact on the financial statements, KPMG have indicated that they are satisfied the 2016/17 accounts give a true and fair view of the Council's financial position. Provided that the potential impact of the objection has been sufficiently clarified by then, they anticipate being able to issue an unqualified audit opinion by 30th September.

A verbal update will be provided to the committee on the latest position in relation to the LOBO objection and any implications it has for the 2016/17 financial statements.

3.1.2 Audit Differences

On conclusion of the audit, KPMG identified no unadjusted audit differences which required amendment to the accounts.

3.1.3 Audit Risks

KPMG's External Audit Plan, as reported to this Committee on 7th April 2017, identified two areas of significant risk in compiling the financial statements for 2016/17. These were the valuation of property, plant and equipment and the valuation of net pension liabilities. KPMG have now audited these areas and have not identified any material errors. However they have made one recommendation in relation to the valuation of property, plant and equipment, as noted below.

3.1.4 Audit recommendations

KPMG have made one recommendation, in relation to the assumptions involved in the valuation of property, plant and equipment. KPMG have identified that although there is an ongoing process of discussion between the finance team and valuers, this is not formally documented. KPMG have recommended that the

council introduces a more formal documented review covering the assumptions involved in asset valuations, to demonstrate that there has been an appropriate level of challenge for the assumptions used.

3.1.5 Use of Resources

KPMG are required to report to those charged with governance, any governance issues identified when discharging their statutory audit responsibilities. They have therefore included in their report an update on the Council's arrangements to secure value for money in its use of resources.

KPMG have concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

3.1.6 Review of the Annual Governance Statement

KPMG have confirmed that, in their opinion, the Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government : A Framework'.

3.2 Post Balance Sheet Events and other significant amendments

3.2.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If such events have occurred then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit certificate.

3.2.2 As at the 13th September the council has identified one post balance sheet event which is sufficiently material to require an adjustment to be made to the final accounts. The provision for appeals on business rates has been increased by £4.48m to £27.7m. The increase is as a result of a number of high-value appeals being settled at a greater reduction than the average which was assumed in the provision estimated at the balance sheet date. £2.19m of this increase will fall upon the council in future years.

3.2.3 As a result of the increase in the business rates appeals provision, the council's levy payable to the Leeds City Region pool has reduced by £0.4m. The accrual for this payment has therefore been reduced, and the amount has instead been added to reserves.

3.2.4 There is one further amendment which affects the level of the general fund reserve. The council has identified that the provision included in the draft accounts for the council's liability to the government under the CRC (Carbon Reduction Commitment) scheme was understated. A review within the Energy Unit has identified that a change in the scheme in 2014/15 which brought electricity on street lighting and other unmetered supplies within the scope of the scheme was overlooked, and thus the council will be required to purchase additional allowances for the years from 2014/15 onwards. The impact on the accounts will

be to increase the provision for CRC liabilities by £1.1m and to reduce the general fund reserve by the same amount.

- 3.2.5 In addition, officers have reviewed the revaluations of fixed assets over the summer and identified corrections which reduced the value of the council's General Fund assets by a net £19.7m. This was largely due to £20m held within assets under construction which should have been included in the cost of completed capital schemes which were revalued at the year end.
- 3.2.6 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £368m, in comparison to the £391m shown in the draft accounts.
- 3.2.7 As outlined in paragraph 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

3.3 Public Inspection Queries, Questions to the Auditors and Objections

- 3.3.1 Under the statutory timescales for public inspection of the accounts, one formal objection to the accounts was made by a local elector. This was on the subject of the council's use of LOBO (lender option borrower option) loans.
- 3.3.2 Under statute, local electors have the right to question the auditors and request either an amendment to the accounts or the issuing of a public inspection report. The objection received by KPMG asks them to issue a public interest report and to apply to the courts for a declaration that the council's decisions to borrow via LOBOs was irrational and unlawful. Similar objections have been received by many local authorities throughout the country for 2015/16 and 2016/17. So far as the council is aware, none of the concluded objections made at other local authorities has so far resulted in any LOBO loans being declared unlawful.
- 3.3.3 The council has provided full documentation to KPMG to support the appropriateness of its decisions to borrow using LOBOs, and KPMG are reviewing this. KPMG have indicated that due to the volume of documentation to be reviewed, the review of this objection is likely to lead to a delay in issuing a final audit certificate.
- 3.3.4 During the public inspection period, the council also received a request for additional information on the subject of LOBOs. A response has been made to this request.

3.4 Management Representation letter

- 3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give KPMG such assurances. In respect of the 2016/17 accounts the letter is attached as **Appendix A** to this report. After consultation with appropriate officers, the Chief Finance Officer has signed to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

3.4.2 The Committee is asked to consider whether members are aware of any issues they want to bring to the auditors attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

3.5 Appointment of external auditors from 2018/19

3.5.1 The council has been notified by Public Sector Audit Appointments Ltd that they propose to appoint Grant Thornton as the council's auditors for the five year period starting with the 2018/19 accounts. As the consultation period for the council to respond to this proposal expires at 5pm on 22nd September, a briefing note about the consultation was circulated to members of the committee in advance of this meeting. The briefing note asked members to contact the Chief Finance Officer to discuss any issues they wished to raise about the proposed appointment of Grant Thornton. An update will be given at the meeting on any issues which have been raised.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

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

4.4 Resources and value for money

4.4.1 KPMG's report includes their opinion as to whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be published before the 30th September. Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.

4.5.2 An elector objection has been received to the council's use of LOBOs, which claims that the council's decisions to borrow via LOBOs were irrational and therefore unlawful. The power for the council to borrow is given under the Local Government Act 2003, and the council is not aware of any case law to date relating to challenges to decisions taken under these powers. The council is

satisfied that it has fulfilled the requirements arising from the Act and subsidiary regulations in exercising its powers to borrow via LOBOs.

4.5.3 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 KPMG have not identified any significant risks in their recommendations.

5 Conclusions

5.1 The external audit report provides the following assurances to members :

- A proposed unqualified opinion on the 2016/17 Statement of Accounts, subject to clarification regarding the outstanding elector objection.
- A value for money conclusion that the council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- Confirmation that in the auditor's opinion the Council's Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements, and that it complies with CIPFA/SOLACE guidance.

5.2 There are no high priority recommendations raised by KPMG.

5.3 There is one objection to the accounts from an elector, which KPMG are reviewing.

6 Recommendations

6.1 Members are asked to receive the report of the Council's external auditors on the 2016/17 accounts and to note that there are no unadjusted audit differences to the accounts.

6.2 Members are asked to approve the final audited 2016/17 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.

6.3 On the basis of assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.

6.4 Members are asked to note KPMG's VFM conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

6.5 Members are asked to note that there is one objection to the accounts which is still under consideration by KPMG, which is expected to result in a delay in the completion of the overall audit.

7 Background documents¹

7.1 None.

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

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22nd September 2017

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Leeds City Council ("the Authority"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's and the Group's expenditure and income for the year then ended;
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent*

Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

11. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Corporate Governance and Audit Committee on 22nd September 2017.

Yours faithfully,

Chief Finance Officer

Chair, Corporate Governance and Audit Committee

Appendix to the Authority Representation Letter of Leeds City Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- an HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity;
and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



External audit report 2016/17

Leeds City Council

September 2017



Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Leeds City Council.

This report focusses on our on-site work which was completed in July and August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 5.

We did not identify any material misstatements. However, we have reported a number of adjustments identified by management. The three significant audit adjustments, of which one was material, are documented in Appendix 3. See page 24 for details.

Based on our work, we have raised one recommendation. Details on our recommendations can be found in Appendix 1.

We are close to the completion stage of the audit, however the following is still outstanding:

- An assessment the appropriateness of adopting the HRA adjustment factor for housing stock valuations in line with regional variables
- LOBO objection review

Once we have done sufficient work to be confident that the outcome of the LOBO objection will not have a material impact on the Authority's accounts and subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We anticipate issuing our completion certificate and Annual Audit letter once our work on the outstanding LOBO objection is complete.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion.

See further details on page 15.

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

Acknowledgements

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

We ask the Audit Committee to note this report.

Contents

The key contacts in relation to our audit are:

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28	Six: Audit fees

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or 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 0207 672 5755 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

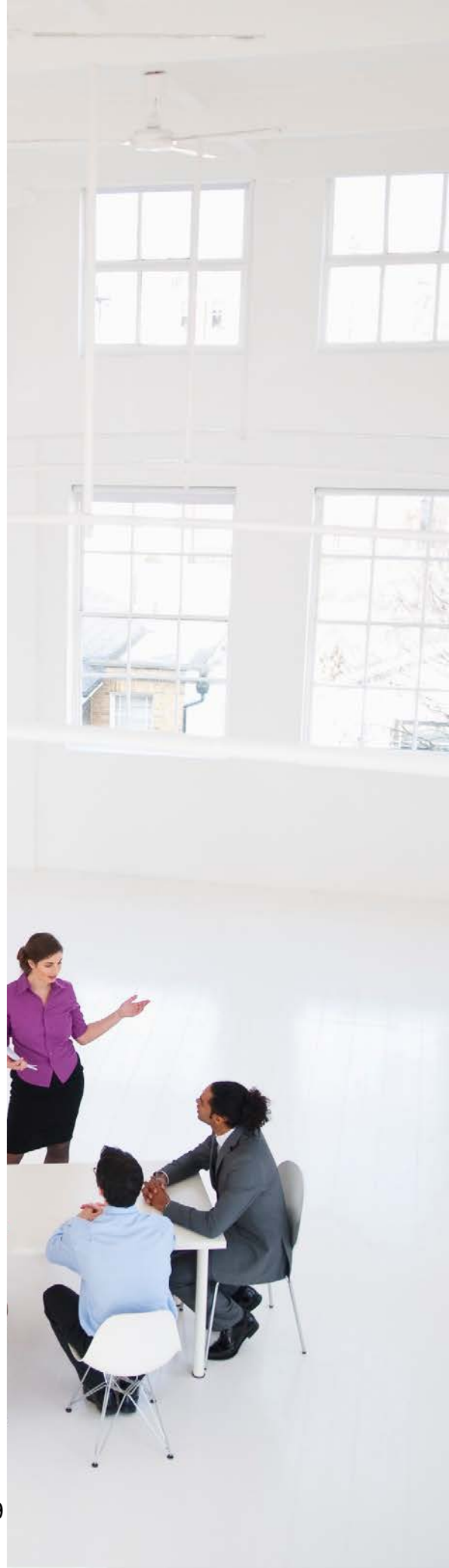
Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

Due to an outstanding local elector objection in respect of the 2016/17 financial statements, we do not anticipate being able to issue a certificate to close the audit.

For the year ending 31 March 2017, the Authority has reported a surplus on the provision of services of £327m. There has been an overall decrease in the General Fund.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority’s significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p>1. Significant changes in the pension liability due to LGPS Triennial Valuation</p>	<p>Why is this a risk?</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Our work to address this risk</p> <p>We have reviewed the process used to submit payroll data to the Pension Fund and tested the year-end submission process and have found no significant issues that we wish to report. We have also agreed the total figures submitted to the actuary to the ledger with no issues arising.</p> <p>We have obtained assurances from the Pension Fund auditors over the valuation of the overall scheme asset and liability valuations. The fund auditor has observed that the value of total fund asset investments is understated by £43.2m <u>KPMG are awaiting confirmation from Mazars on this position</u>. This value is however split across all fund members and we have been able to confirm that the impact on Leeds reported pension position is not material.</p> <p>To gain assurance over the assumptions used in the scheme, we have engaged KPMG’s pensions team. They have reviewed the assumptions used by the actuary in reaching their valuation and have confirmed that these are in line with their expectations.</p> <p>The assumptions are reviewed for appropriateness by the Pension Fund administering authority and by the accounts teams at the participating Authorities who are members of the scheme.</p>

Significant audit opinion risks

Work performed

2. Valuation of PPE

Why is this a risk?

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 2017, the net book value (NBV) of PPE was £4,685 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 we addressed using the approach outlined below.

Our work to address this risk

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

- assessed the competence, capability, objectivity and independence of the internal valuers.
- critically assessed the calculation of market value indices movements used, including a re-performance of this calculation to confirm that any material movement in the value of land and building assets was indicated appropriately reflected market conditions. The market value indices used were in line with the regional indices provided by Gerald Eve.
- critically assessed the appropriateness of the Authority's decision to adopt of the HRA adjustment factor, provided by DCLG, which saw a significant change from the value used as at 31 March 2016. The adjustment factor is applied to the Beacon Value to calculate the Existing use value for social housing (EUV-SH). **We are satisfied the adjustment factor applied is in line with sector norms. At the time of writing we are awaiting the evidence to support this conclusion.**
- critically assessed the Authority's formal consideration of indications of impairment within its estate, including the process undertaken and the adequacy of the documentation used in the process. This was adequate for the purposes of the audit.
- considered 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. These were appropriate.
- In addition, we have consulted KPMG's internal valuation specialists to determine the appropriateness of the valuation methodology applied to waste PFI assets.

Our work has not identified any material errors, we have however raised one medium priority recommendation in respect of the authorities internal review of valuations used for the purposes of preparing the annual accounts. Further details can be found at appendix 1.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

Other areas of audit focus

We identified an area of audit focus. This is not considered a significant risks as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	<p data-bbox="446 609 582 636">Background</p> <p data-bbox="446 654 1339 737">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.</p> <p data-bbox="446 756 1339 839">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.</p> <p data-bbox="446 857 1339 913">The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:</p> <ul data-bbox="446 932 1339 1176" style="list-style-type: none"><li data-bbox="446 932 1339 1042">— 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<li data-bbox="446 1060 1339 1176">— 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 <p data-bbox="446 1195 1339 1305">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.</p> <p data-bbox="446 1324 1339 1406">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.</p> <p data-bbox="446 1425 672 1452">What we have done</p> <p data-bbox="446 1471 655 1498">As part of our audit:</p> <ul data-bbox="446 1516 1339 1701" style="list-style-type: none"><li data-bbox="446 1516 1339 1599">— We have assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and<li data-bbox="446 1618 1339 1701">— We checked the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. <p data-bbox="446 1719 1339 1771">We can confirm that the EFA statement has been disclosed in line with the Code and the restatement of the MIRS and CIES is complete and accurate.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	3	3	We consider the provision accounting treatment and disclosures to be proportionate. The position on provisions in the draft accounts has changed, as will be discussed in the audit adjustments section of the report. However, we consider this approach to be prudent and reflective of the requirements of the accounting standards and the Code.
PPE: HRA assets	3	3	<p>The Authority continues its use of the beacon methodology in line with the DCLG’s <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised the internal valuation expert to provide valuation estimates.</p> <p>We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The increase in valuation is in line with expectations, however, we challenged the Authority during the audit on their justification for adoption of the adjustment factor stipulated by DCLG. They subsequently provided supported evidence demonstrating consistency with the surrounding region.</p>
PPE: Valuation of PPE	3	3	<p>The overall value of PPE has increased by £560.3m. This increase mostly relates to revaluation in year of £458m (of which £443m relates to HRA assets), together with capital additions of £313.2m offset by depreciation of £93.3m.</p> <p>The majority of assets are revalued by the internal valuers. From our review of your approach to re-valuation and impairment of assets, and the reliability of the valuers’ work, we concluded that a complete list was provided to the valuers and the assumptions used by the valuers were appropriate.</p>

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 22 September 2017. However, will be unable to issued the completion certificate until the LOBO objection work is finalised.

Audit adjustments

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £18 million in line with the Audit Plan. Audit differences below £600k are not considered significant.

The audit team did not identify any material misstatements. However, some adjustments have been made from the draft version of accounts that were identified by the client during the course of the audit.

The net impact on the General Fund and HRA as a result of the three adjustments is to decrease the balance as at 31 March 2017 by £1.084 million. This is mainly the result of the amendments documented in Appendix 3.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code').

We understand that the Authority will be addressing these and updating the accounts as appropriate. We will confirm the required amendments have been made in the final accounts.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;
- and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period to address issues as they emerge. The Authority have made a positive start and met the required deadline of 30th May this year. Through effective debrief and detailed planning we will need to ensure the Authority is again in the best possible position to meet the Faster Close requirements in 2017/18, which includes conclusion of the audit process by 31 July 2018.

Completeness of draft accounts

We received a complete set of draft accounts on 13 June 2017.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in June 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We will endeavour to issue this documentation request earlier in 2017/18.

We did not find quality issues in relation to the working papers. There is an opportunity for improvements to be made in providing further breakdowns of underlying transactions, for example debtor and creditors, which will be reflected in next year's prepared by client protocol.



Section one: financial statements

Response to audit queries

We are pleased to report that Officers have been responsive to our queries. As a result of this, our audit work was completed within the timescales expected with no significant outstanding queries. As stated earlier, we are still waiting on the Authority's assessment on the appropriateness of adopting the HRA regional adjustment factor in line with regional norms.

Further detail and associated recommendations can be found in Appendix 1.

Additional findings in relation to the Authority's control environment for key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our ISA 260 Report 2015/16.

Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Controls of IT systems

We have tested IT controls as part of the annual audit process. As well as placing reliance on manual controls over finance systems, we are required to place reliance on automated controls and system generated reports which inform our overall controls approach.

We will present our findings in a separate report to the Audit Committee. Overall, we concluded that IT controls were operating effectively and sufficient to allow audit to place reliance on them.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

We are currently considering an elector objection in respect of LOBO borrowing and as a result do not anticipate being able to issue an audit closure certificate until our work on this issue has concluded.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leeds City Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Principal Financial Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's financial statements.

Elector objection

During the audit, and in line with several other Local Authorities this year, we have received an objection in respect of the Authority's Lender Option, Borrower Option (LOBO) borrowing activity. The objection relates to lawfulness of this type of borrowing instrument and the Authority's treasury management decision making processes.

We are hopeful of doing sufficient work to ensure that this issue will not delay our ability to issue an opinion on the Authority's financial statements in line with the 30 September audit deadline. However this decision is dependent on us confirming that irrespective of the outcome of the objection (e.g. LOBO borrowing was deemed to be unlawful), it would not have a material impact on the Authority's 2016/17 financial statements.

It is however unlikely that this objection will be resolved by the 30 September audit deadline and as such do not anticipate being able to issue an audit closure certificate until our work on this has concluded.



Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial standing	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

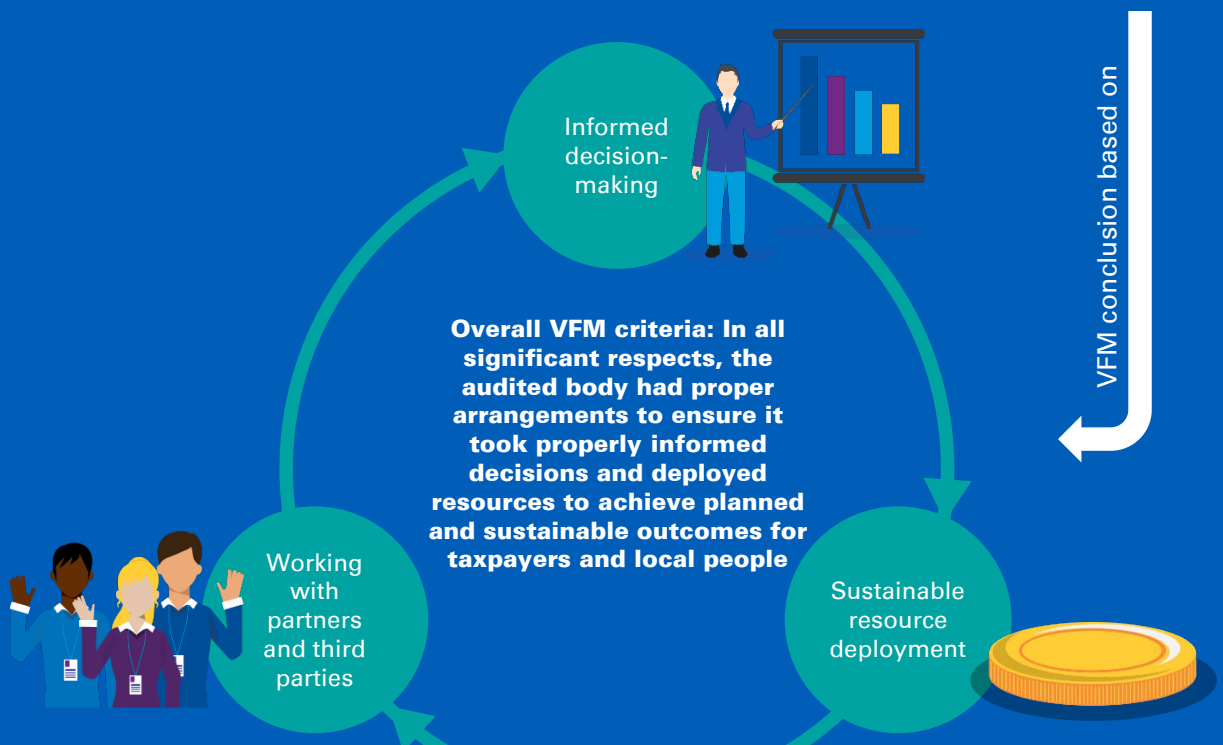
VFM conclusion

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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks **Work performed**

1. Financial Standing **Why is this a risk?**

There are significant financial pressures facing the Authority. General reserves were estimated to be £18.1 million at 31st March 2017, reducing from £21.6m million as at 31 March 2016. At month 9, a £0.9m overspend was 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 delivered reductions in expenditure and increases in income totalling over £400m by 31 March 2017.

Given the significant financial pressures facing the Authority and the need to deliver £81.8m of savings by 31 March 2018, this has been identified a value for money risk. Given the Authority's strong track record, it is confident that the required savings in 2017/18 will be achieved.

Summary of our work

The Authority reported an underspend of £2.0m on the £496.4m budget for service expenditure at 31 March 2017. As the 2016/17 budget was supported by the agreed usage of £3.4m of general reserves, this underspend reduced the required amount of reserves to fund the budget to £1.4m. This favourable outturn reflects the robust budgetary controls in place at the Authority.

However, despite considerable savings since 2010, the budget for 2017/18 requires the Council to deliver a further £64m of savings. At this early stage of the financial year, the financial monitoring report for quarter one indicated the majority of the actions to deliver these savings are on track. However, the report highlights a potential overall overspend of £2.9m and measures will need to be identified and implemented so that a balanced budget position can be delivered.

Through our VFM work, we have considered how the Authority is managing its savings plans to assess whether this has had an unintended adverse impact on service delivery. We have reviewed the high level assumptions and substantively reviewed progress against achievement of a sample of individual savings proposals used by the Authority to prepare its budget. We have found these to be in line with our knowledge and expectations. The Authority recognises the risks in relation to the use of assumptions, some of which have the potential to cause a significant impact to the budget if they are not robust, and it will need to keep these under review over the coming months.

We assessed the level of reserves available at 31 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. The Authority have demonstrated they have managed the level of reserves effectively in recent years despite the budgetary pressures they face. overall we consider the Authority to have adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment.

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is overlaid in a red, serif font, flanked by two vertical red lines.


Appendices


Key issues and recommendations


Our audit work on the Authority’s 2016/17 financial statements have identified one issue. We have listed this in the appendix together with our recommendation which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 

Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary			
Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	0	1	1
Low	0	0	0
Total	0	1	1



1. Critically challenging asset valuation assumptions

During the audit we identified there is no formal documentation in place which evidences management challenge of the assumptions adopted by internal valuers.

For example, in 2016/17, we challenged the indices applied to the non-rolling valuation programme assets and the rationale for using MEA (modern equivalent asset valuation) as a basis for DRC (Depreciation Replacement Cost).

We are satisfied that management have challenged and understood the basis for these changes, however, documented evidence was not provided to support this review.

In addition, we specifically requested the Authority provide evidence to demonstrate the Authority's Housing Stock was consistent in type and nature to the region to establish whether adoption of the regional adjustment factor was appropriate.

Without formal documentation of review, there is no evidence to demonstrate management's challenge of the valuers assumptions and that sufficient review of the process has taken place.

Recommendation

The Authority have demonstrated there is a process in place to challenge assumptions, identify impairments and changes in asset classification. This process is documented in a procedure note.

Whilst, we have reviewed elements of this throughout our audit work, in preparation for next year, the Authority should bring a formal review of assumptions and impairment together into one paper, with supporting evidence, to make for an effective audit trail.

In light of Faster Close, this will ensure Central Finance are fully assured over asset values in the year end accounts, and this can be easily evidenced for the audit team to review.

Management Response

The council will look at ways to ensure that discussions during the valuation process between the corporate finance team and the council's valuers in Asset Management are more fully documented

Owner

Principal Financial Manager (Corporate Financial Management);

Deadline

May 2018

Follow-up of prior year recommendations

In the previous year, we raised two recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented two of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1. Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation. Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Implemented / superseded	Outstanding
High	0	0	0
Medium	2	2	0
Low	0	0	0
Total	2	2	0

1. Related Party Transactions

Medium priority

There is no process to identify transactions between the Authority and commercial organisations that are related to councillors or senior officers as part of the accounts process. Audit testing was carried out in 2015/16 to ensure that there were no such transactions that were material to the Authority or the related party required disclosure

Recommendation

We recommend that the council reviews such transactions as part of the accounts process.

Management original response

The Authority's current approach to the disclosure of related parties for Members and Senior Officers was agreed with a previous KPMG team some years ago, as part of the drive to encourage simpler local authority accounts. Given the change in emphasis from the current KPMG team, the Council will review its approach to the disclosure of related parties for the 2016/17 accounts.

Original deadline

May 2017

KPMG's September 2017 assessment

Fully implemented

2. Valuation of the PFI Residual Waste Treatment Facility

Medium priority

Recommendation

A detailed valuation needs to take place on a Depreciated Replacement Cost basis and supported by an appropriate valuation certificate.

Management original response

Officers will consider the need for a detailed valuation as part of the 2016/17 financial statements preparation.

Original Deadline

May 2017

KPMG's September 2017 assessment

The Authority continues to use actual costs incurred as a proxy for a depreciated replacement cost valuation. Management has demonstrated that interest costs have not been capitalised in respect of this site and have confirmed that the site will form part of the five yearly revaluation programme.

We have consulted with KPMG's valuation specialists and have obtained confirmation that for such a specialist building, the approach taken is not unreasonable. Management should however give early consideration of the methodology to be followed when the formal valuation is required.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified, by the client during the course of the audit of Leeds City Council's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)					
No.	Income and expenditure statement	Reserves	Assets	Liabilities	Basis of audit difference
1	Dr Net cost of services 17,179 Dr (Surplus) / deficit on revaluation of fixed assets 2,823	Dr Revaluation Reserve 2,823 Dr Capital Adjustment Account 17,179	Cr PPE 20,002		A difference arose during the manual transposition of assets under construction balances from the asset register database to FMS.
2	Dr Net cost of services 4,475	Cr Collection Fund Adjustment Account 2,193		Cr Provisions 2,193	The business rates appeals provision has been updated to reflect the latest information from the Valuation Office Agency as at 31 July 2017.
3	Dr Net cost of services 1,084	Dr General Fund Reserve 1,084		Cr Provisions 1,158 Dr CRC Licences 74	Change in recognition for CRC provision for street lighting
	Dr CIES 25,561	Dr Reserves 19,462	Cr Assets 20,002	Cr Liabilities 3,277	

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit. It was reduced by £2m from £20m to reflect the reduction in General Fund Reserves as at 31 March 2017. Materiality for the Authority's accounts was therefore set at £18m million which equates to around two percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the 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 Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

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 £0.6m for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Leeds City Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Traded Services and Commercialisation	£50,000	<p>Self-interest: This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The nature of this work is to review the assumptions and conclusions reached and to provide insight into areas where issues have not been considered. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.</p> <p>Management threat: This work will be advice and support only – all decisions will be made by the Authority.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard.</p> <p>Advocacy: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Trust with a range of approaches but the scope of this work falls well short of any advocacy role.</p> <p>Intimidation: not applicable</p>
Leeds City Council Investment Packaging Study	£25,000	<p>Self-interest: This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The nature of this work is to review the assumptions and conclusions reached and to provide insight into areas where issues have not been considered. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.</p> <p>Management threat: This work will be advice and support only – all decisions will be made by the Authority.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard.</p> <p>Advocacy: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Trust with a range of approaches but the scope of this work falls well short of any advocacy role.</p> <p>Intimidation: not applicable</p>
Total fees	£75,000	
Total fees as a percentage of the external audit fees	32%	

*exclusive of VAT

All non-audit work listed above has been approved by the PSAA. No other non-audit work has taken place in year.

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £231,953 plus VAT in 2016/17, which is the same as the prior year.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £17,721 plus VAT. There are no other planned fees for other grants and claims.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee set in [2014/15]	231,953	231,953
Subtotal	231,953	231,953
Housing benefits (BEN01) certification work		
PSAA scale fee set in [2014/15]	17,721	15,923
Total fee for the Authority set by the PSAA	249,674	247,876

All fees are quoted exclusive of VAT.



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Report author: Mary Hasnip
Tel: x89384

Report of **the Chief Finance Officer**
Report to **Corporate Governance and Audit Committee**
Date: **22nd September 2017**
Subject: **KPMG IT Audit Findings 2016/17**

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

Summary of main issues

1. As part of their work on the Council’s overall control environment each year, KPMG’s IT specialists carry out audit work on the council’s IT controls for financial systems.

2. The overall opinion arising from this work was given in KPMG’s External Audit Report 2016/17, also included in this agenda. The IT audit concluded that overall IT controls were operating effectively, and were sufficient to allow audit to place reliance on them. The attached more detailed report on KPMG’s findings from their IT review makes some recommendations on specific issues.

Recommendations

3. Members are asked to receive KPMG’s IT Audit Report and note the conclusions and recommendations arising from their 2016/17 audit work.

1 Purpose of this report

- 1.1 To inform members of the results of KPMG's audit work in 2016/17 in respect of IT controls.

2 Background information

- 2.1 Each year, KPMG carry out an audit of IT controls as part of their review of the Council's overall control environment. The outcomes of this work inform the extent to which they can rely on the council's IT systems in carrying out their audit of the statement of accounts.

3 Main issues

- 3.1 The attached report gives details of the audit issues identified by KPMG in respect of IT controls for 2016/17.
- 3.2 The report makes two new low priority recommendations and provides an update on five recommendations which were made in 2015/16 (of which two are medium priority and three are low priority recommendations). The recommendations have been discussed and the management responses agreed with senior officers within ICT Services, the Business Support Centre and Financial Services.
- 3.3 Of the five recommendations made in 2015/16, three related to alignment with the council's then password policy. As that policy was already under review, it was determined that these points would be addressed once the new policy was available. The principles of a new password policy were recently agreed by Corporate Leadership Team and work is underway to address how the new requirements for password structure can be implemented for SAP, FMS and the IT platforms on which they are held.
- 3.4 One further recommendation from 2015/16 relating to generic user accounts with privileged access within SAP had not been addressed at the time of the audit, but a technical solution to resolve the issue has since been found and implemented.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. There are no implications for council policies arising from the report.

4.4 Resources and value for money

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

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

4.6.1 All recommendations contained within the IT Audit 2016/17 report have been considered and appropriate actions have been agreed.

5 Conclusions

5.1 KPMG's report makes a number of recommendations in relation to user account administration and alignment to password policy. These have either already been addressed or will be addressed as part of the implementation of the Council's new password policy.

6 Recommendations

6.1 Members are asked to receive KPMG's IT Audit Report, and to note the conclusions and recommendations arising from their 2016/17 audit work.

7 Background documents¹

7.1 None.

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

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Leeds City Council

IT Audit Findings

September 2017

IT Audit Findings

Below are details of the individual points identified during the current years IT audit, in addition a summary of these and the status of prior year points will be included within the ISA260 report. Each point has an associated risk and recommendation for resolution or reduction in risk and impact. Each finding has also been assigned a risk rating, please see Appendix 1 for an explanation of ratings applied.

User Administration (FMS)	
Observation	<p>User administration procedures relating to new access requests and monitoring changes to individuals jobs / roles could be strengthened, specifically:</p> <ul style="list-style-type: none"> - 1 of the 40 users sampled for review was granted access to the application without having an request form completed per the access request procedure; and - Whilst a report of staff members changing roles exists there is no regular, proactive review of those individuals to ensure their access remains appropriate for job role. <p>Management were able to provide retrospective approval for the new access request noted above.</p>
Risk	<p>Low - User Administration is one of the basic building blocks for a well controlled IT environment. Based on our experience, weaknesses that exist in user administration procedures are a common root cause for financial and transactional error, fraud and / or data leakage. Maintaining and consistently applying a robust set of control procedures therefore is crucial to minimising the risk of these occurring. It is noted that the risk is reduced in this instance through bi-annual reviews of FMS user access, as these reviews would identify any access not required for a user's current job role.</p>
Recommendation	<p>Management should consider periodically reviewing user administration process operation to ensure that a consistent level of control is being applied. Consideration should be given for review over key procedures i.e. mover access review. This would enable the identification of opportunities to enhance and develop those processes to reduce the opportunity for exceptions or control operator error to occur and not be identified in a timely manner.</p>
Management Response	<p>Schools systems controllers have been reminded of the need to ensure that the user access request form is received before new FMS users are set up.</p> <p>The main process for reviewing FMS user access rights is the six monthly review of all users' access, which should identify any changes required as a result of changes in role. Whilst it is possible to also identify and review access rights more quickly when users change to a different role, it is felt to be more important to target limited staff resources at ensuring FMS accounts for leavers are identified and closed promptly. The additional checks on staff moving post will be carried out as resources allow.</p>

IT Audit Findings (cont.)

Privileged Access (SQL Database)	
Observation	Administration of the databases underlying both the SAP Payroll and FMS applications is undertaken via the Oracle Enterprise Cloud Manager tool. This tool has been configured to use generic Oracle Database super user accounts which are therefore shared amongst the database administrator team. Whilst use of these accounts is required for some activities (i.e. upgrades and applying patches) more day to day operational activity could be undertaken through accounts assigned to specific, named individuals with a level of delegated privilege.
Risk	<p>Low – Where shared accounts are used the risk is created that activity can occur without ensuring individual user accountability. Where these shared accounts are regularly used and especially where these accounts have super user access assigned the risk is increased of inappropriate or unauthorised use of privileges to modify key financial data and / or system configuration.</p> <p>It is noted that for both applications the likelihood of negative impact is considered to be decreased as all individuals with access to the accounts are limited to the Leeds City Council Database Administrator team with details stored within the Technical Services Portal.</p>
Recommendation	Management should, where possible, create additional user accounts to either ensure individual accountability for the use of high levels of privilege or to allow assignment of lower levels of privilege to individuals as required by their job role. Consideration should be given to performing a periodic review of usage logs for the shared super user accounts to confirm that all activity can be linked to an approved change or incident ticket, and to identify and investigate any potential misuse.
Management Response	Options will be explored for establishing an audit trail to identify which users have logged in using the standard Oracle super user accounts.

IT Audit Findings – Prior Year Update

Below are updates for each of the individual points identified during prior year IT audits that remain open. Each has an associated risk and recommendation for resolution or reduction in risk and impact. Each finding has been assigned a risk rating, please see Appendix 1 for an explanation of ratings applied.

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System Configuration (SAP Payroll)	
Prior Year Observation	<p>The SAP Payroll application is not consistently configured in a manner aligned to the Leeds City Council Password Policy or good practice. Configuration where misalignment has been identified includes enforcement of password complexity and overarching system security options that prevent misuse of a built in superuser account.</p> <p>Limited remedial activity has now occurred in response to the audit observations to align configuration within the SAP application to good practice.</p>
Current Year Observation	<p>Part Resolved – It is noted that the overarching system security options are now aligned with good practice. However it is noted that passwords, specifically in relation to complexity continue to not be aligned to both good practice and Leeds City Council Password Policy. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Risk	<p>Low – Where applications are not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted the SAP application does require passwords to be in place, of a suitable length and changed periodically therefore the risk is reduced. Also that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong, complex passwords.</p>
Recommendation	<p>Management should review and amend the password configuration within the systems to ensure alignment to both the internal policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>
Management Response	<p>The council is in the process of introducing a new password policy, which has different requirements from the previous policy which the 2015/16 finding refers to. Work is underway to assess how the new policy can be best implemented for SAP passwords.</p>

IT Audit Findings - Prior Year Update (cont.)

System Password Parameters (SQL Database / UNIX Servers)	
Prior Year Observation	<p>The passwords used within the infrastructure underlying the SAP payroll and FMS applications are not configured in a manner aligned to the Leeds City Council Password Policy or good practice. The components effected includes:</p> <ul style="list-style-type: none"> • Oracle Databases; • UNIX Servers hosting the Applications / Databases; and • Technical Services Portal (used to store Admin shared passwords for the above). <p>Aspects of password configuration where the expected standards are not enforced include minimum length, complexity, history, rotation and account lockout.</p>
Current Year Observation	<p>Open - No change to system configuration or policy was noted during the 2017 IT Audit. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Risk	<p>Medium – Where passwords are consistently not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained to applications, servers and databases. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong passwords and change them regularly.</p>
Recommendation	<p>Management should review and amend the password configuration within the systems to ensure alignment to both the internal Council policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>
Management Response	<p>The council is in the process of introducing a new password policy which has different requirements from the previous policy, which the 2015/16 finding refers to. Work is underway to assess how the new policy can be best implemented for the infrastructure passwords referred to above.</p>

IT Audit Findings – Prior Year Update (cont.)

Change Management – Approval to Implement Changes (SAP Payroll / FMS)	
Prior Year Observation	<p>Change management procedures relating to approval of changes prior to implementation have not been consistently followed within the SAP Payroll and FMS applications, specifically:</p> <ul style="list-style-type: none"> • Evidence of appropriate approval for changes to be deployed on the SAP Payroll application was not provided for 7 of the 40 changes sampled. It was noted this included 4 instances of appropriate approval not being granted and 3 instances where changes had been developed directly within the live environment. • Evidence of appropriate approval for changes to be deployed into the FMS live application environment could not be provided for 1 of the 8 changes sampled. It was noted this was due to the approval being granted by an individual more junior than required per policy guidelines. <p>For both applications all changes have been granted retrospective approval by an appropriate member of staff.</p>
Current Year Observation	<p>Part Resolved – In relation to SAP Payroll, all 40 changes sampled for inspection were noted to have been appropriately documented, approved and developed within the appropriate application environment.</p> <p>In relation to FMS, 1 of the 6 changes sampled for inspection was noted to not have evidence retained of its testing, segregation between its implementer and developer and of approval being granted prior to its implementation in the live system.</p> <p>Management provided retrospective confirmation this change was appropriate and noted that this was primarily a documentation retention issue.</p>
Risk	<p>Low – Where the change management process is not appropriately evidenced the risk is increased that changes may be deployed into the live environment without completing the full change management procedure and could then have a negative impact on system availability and the related business operations.</p>

IT Audit Findings – Prior Year Update (cont.)

Change Management – Approval to Implement Changes (SAP Payroll / FMS) Cont.	
Recommendation	Changes should not be implemented into the live application environment without completing the full change management procedure and with each stage of the procedure being appropriately evidenced. Management should consider periodically reviewing the change management procedure operation to ensure that controls are consistently being applied across all changes.
Management Response	Procedures for documenting changes to FMS were improved during 2016/17. This should ensure that documentation of testing is always retained even for very minor changes such as this one.

IT Audit Findings - Prior Year Update (cont.)

User Access – Privileged Users (SAP Payroll)	
Prior Year Observation	There are 2 generic, user accounts assigned privileged / administrator access within the SAP Payroll application which management confirmed did not currently require the level of privilege assigned. In 1 instance it was noted that the account had previously been required for internal IT operational use but that this function has been outsourced to a third party within the 6 months prior to the audit without a corresponding update to the accounts assigned access.
Current Year Observation	<p>Open – It was noted that both of these accounts were still active and had retained this level of elevated access. From discussion with management it was understood that amending these accounts requires a lengthy review and testing process to avoid any impact on the system operation and that changes were planned.</p> <p>In addition it was noted that a number of users had transactional level access privileges assigned which were not required for their job roles, specifically:</p> <ul style="list-style-type: none"> - Two users were assigned the ability to make changes to the application at the table level should the system be open. - All active users were noted to have the ability to assign roles to other user accounts, however it was observed that this was no an option accessible via the standard user interface. Additional testing confirmed that this privilege had not been misused by individuals whose job role does not include role assignment / user maintenance. <p>In both instances management confirmed this had occurred due to this access being part of legacy profiles assigned to users. These points were identified this year due to additional in-depth audit testing of user access being undertaken based on the prior year audit finding.</p>
Risk	<p>Medium – Where application privileged access has been granted or retained inappropriately the risk is increased that inappropriate or unauthorised use of privileges may occur, including the modification of financial data or system configuration. It was noted that the restriction on use of the accounts assigned administrator level access to a small number of system administrators within the SAP support teams limited the potential for negative impact to the system operation and data held therein. Similarly based on the additional testing undertaken it was possible to gain assurance that the transactional level privileges had not been abused.</p>

IT Audit Findings - Prior Year Update (cont.)

User Access – Privileged Users (SAP Payroll) Cont.

Recommendation	Periodic reviews should be undertaken over all accounts with privileged access assigned. Privileged access should be removed from all user accounts where it is not required for current tasks or an individuals job role.
Management Response	<p>The two generic IDs are needed to enable batch jobs to be run. A technical solution has now been found to change the account type of these IDs, so that they cannot be logged in to by users.</p> <p>The access rights of the two users who had the ability to make changes at the table level have been amended.</p> <p>The inclusion within the self service user role of the ability to assign roles to other user accounts has been removed. This function did not appear on the menus available to these users, who would thus have been unaware that they had such rights. Even if they had been aware of it, users would have required a very high level of technical knowledge of the SAP system in order to misuse this function, given that it did not appear on their menus.</p>

IT Audit Findings - Prior Year Update (cont.)

System Password Parameters (SAP Payroll / FMS)	
Prior Year Observation	<p>The passwords assigned to privileged accounts within the SAP Payroll and FMS applications and supporting infrastructure are not configured in a manner aligned to the Leeds City Council Password Policy. The components effected includes:</p> <ul style="list-style-type: none"> • Applications; • Oracle Databases; • UNIX Servers hosting the Applications / Databases; and • Technical Services Portal (used to store Admin shared passwords for the above). <p>Internal standards specify increased requirements for the passwords associated with privileged accounts within the applications and infrastructure, however this has not been implemented and therefore is not automatically enforced.</p>
Current Year Observation	<p>Open - No change to system configuration or policy was noted during the 2017 IT Audit. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Risk	<p>Low – Where passwords are consistently not aligned to internal standards, the risk is increased that the information security environment may not be enforced consistently across the IT estate. This could lead to inconsistent application configuration allowing inappropriate or unauthorised access to be gained to applications, servers and databases.</p> <p>It was noted that the underlying policy mandated configuration for non-privileged users is aligned to good practice for both privileged and non-privileged users. This finding therefore refers primarily to inconsistencies between policy and privileged access system configuration.</p>
Recommendation	<p>Management should review and amend either the internal standards or password configuration within the systems to ensure consistent alignment and clearly defined security standards.</p>
Management Response	<p>The council is in the process of introducing a new password policy which has different requirements from the previous policy, which the 2015/16 finding refers to. Work is underway to assess how the new policy can be best implemented for the account passwords referred to above.</p>

IT Audit Findings – Prior Year Update (cont.)

User Access – Users Access Reviews (SAP Payroll)	
Prior Year Observation	The SAP Payroll application user access review is focused on the continued requirement for application user licences and does not consider the level of access assigned to individual users. This review would therefore not identify individuals who had changed duties within their job role and inappropriately retained elevated or privileged SAP Payroll access.
Current Year Observation	Open – Pilot user access reviews have occurred as part of creating a process for reviewing and verifying SAP Payroll user access, however development is still ongoing and the majority of users have not had their assigned access reviewed during the audit period.
Risk	Low – While user access reviews are considered a compensatory control to ensure a well controlled and restricted user population they do undertake an essential function to ensure all access, including privileged or administrator access continues to be required and is appropriately approved.
Recommendation	Management should continue to develop the process to effectively review user access within the SAP Payroll application. Once completed this should be applied as a priority to those teams and departments within the Council which are considered the highest risk based on factors including level of SAP access, risk of breaching segregation of duty and level of staff turnover / movement between roles.
Management Response	Monthly checks are undertaken to ensure that those users who no longer require SAP access are identified. Managers will consider the options to determine a practical approach to reviewing the access rights of ongoing users within SAP.

Appendix 1 - IT Audit Findings - Risk Ratings Key

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

Tel: 0113 378 8660

Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 22nd September 2017

Subject: Annual Governance Statement

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

Summary of main issues

1. The Council has a duty to undertake an annual review of the effectiveness of its system of internal control. Following that review a committee, in our case the Corporate Governance and Audit Committee, must approve an annual governance statement.

2. The review of effectiveness of the Council's Governance arrangements, has been informed by matters considered by;
 - Executive Board
 - Corporate Governance and Audit Committee (particularly assurance reports from officers reporting to the committee)
 - Reports and opinions from;
 - Internal Audit
 - External Audit
 - Inspectorates
 - Peer Reviews
 - Appropriate enquiries of management and staff with relevant knowledge and experience.

3. The attached draft Annual Governance Statement has been prepared in accordance with proper practices specified by the Accounts and Audit Regulations 2015 has been previously considered by this committee in June (and placed on deposit alongside the Accounts), albeit without the benefit of the External Auditor's opinion .

Recommendations

Corporate Governance and Audit Committee is asked to approve that the attached final draft Annual Governance Statement.

1 Purpose of this report

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

2 Background information

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

3 Main issues

- 3.1 This year, as last, the review of effectiveness has been undertaken on an ongoing basis including internal and external audit of our internal control processes, and matters that have been the subject of reports to Corporate Governance and Audit Committee, the Executive Board and other member forums. In addition Directors have reviewed the attached statement and have confirmed that, to the best of their knowledge and belief, all matters of significance have been disclosed.
- 3.2 Members will recall from the June meeting that as a result of requirements contained in Accounts and Audit Regulations 2015 the Authority must release an approved Annual Governance Statement (or a draft) to accompany the Accounts when they are placed on deposit. At that time the External Audit opinion was not yet available from KPMG and so Members resolved that the Annual Governance Statement be further considered and approved once this was available.
- 3.3 KPMG have reviewed the draft Annual Governance Statement and the comments of the External Auditor are contained within the 'Report to those Charged with Governance' on this agenda and have now been incorporated into the Annual Governance Statement at paragraphs 3.82 and 3.83.
- 3.4 Corporate Governance and Audit Committee is asked to agree the attached draft Annual Governance Statement and authorise the Chair to sign the statement on behalf of the committee.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Corporate Leadership Team and Best Council leadership Team have both been consulted on content of the draft Annual Governance Statement, particularly to ensure that there are no omissions or misrepresentations.

¹ CIPFA/SOLACE - Delivering Good Governance in Local Government: Framework (2016 Edition)

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

4.3.1 The Statement has been aligned with the Council's Corporate Governance Code and Framework which was approved by this Committee in April 2017.

4.4 Resources and Value for Money

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

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

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

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

5 Conclusions

5.1 The draft Annual Governance Statement concludes that key systems are generally operating soundly and, where weaknesses have been identified arrangements, arrangements are in place to resolve them.

6 Recommendations

6.1 Corporate Governance and Audit Committee is asked to agree the attached draft Annual Governance Statement and authorise the Chair to sign the statement on behalf of the committee.

7 Background documents

7.1 None

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Draft

Annual Governance

Statement

2017

**Final Draft for Consideration by
Corporate Governance and Audit Committee
22nd September 2017**

1. SCOPE OF RESPONSIBILITY

- 1.1 For Leeds City Council our governance framework comprise the policies, plans, systems and processes and culture and values (our system of 'internal control') that we have in place to ensure that our intended outcomes are defined and delivered. To deliver good governance our outcomes must be achieved whilst also acting in the public interest.
- 1.2 We must conduct a review, at least once a year, of the effectiveness of our system of internal control and report our findings in an annual governance statement. The statement must be prepared in accordance with proper practices and be reported to a committee of Councillors. This document comprises our Annual Governance Statement for 2017.

Context

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

2. THE GOVERNANCE FRAMEWORK

- 2.1 Our governance arrangements are designed to ensure that we take an appropriate and proportionate approach to managing risk whilst ensuring that our outcomes are delivered. The arrangements are not designed to eliminate all risks but rather provide a reasonable degree of assurance of our effectiveness.
- 2.2 The governance framework has been reviewed and revised by our Corporate Governance and Audit Committee (April 2017) to further align our arrangements to the requirements of the revised proper practices 'Delivering Good Governance in Local Government: Framework 2016'.

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

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

3. REVIEW OF EFFECTIVENESS

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

A self-assessment of our effectiveness

Behave lawfully, with integrity and in the public interest and demonstrating this through our conduct and behaviour.

- 3.3 Our council values are a key component of our governance arrangements and provide a framework within which our organisational culture has become embedded. Our values are at the heart of our organisation. In a period of immense change and real challenge we must be both confident and decisive about what we do and how we do it. Our values have been reviewed during the year using focus groups. Feedback was positive and colleagues feel that the values are for everyone and help us work together, as a result some small adjustments have been made. The main changes are:
- Get the best deal on price, quality and social impact
 - I am part of a team with a “can do” attitude
 - Working with people - Engaging all communities
 - Take a “no wrong door” approach if someone needs help.
- 3.4 An annual report is compiled by the Chief Officer HR to give assurance that key policies and procedures are fit for purpose, effectively communicated, working as intended and have been regularly reviewed. This report has been considered by our Corporate Governance and Audit Committee.
- 3.5 The Standards and Conduct Committee has operated in accordance with the terms of reference approved by full Council and reported on its activities by way of an annual report in March 2017. No Leeds City Councillor, nor any Parish or Town Councillor (in the Leeds area), has been found to have failed to comply with the Code of Conduct adopted.

- 3.6 Work undertaken by Internal Audit provided good assurance that arrangements are in place to ensure that council officers are aware of how to deal with gifts and hospitality offered to them in their roles, to record offers received, and to seek approval if accepting these. Internal Audit has also assessed the arrangements for council officers to declare their interests. The review resulted in acceptable assurance on the control environment and good assurance that the arrangements in place are being complied with in practice. Recommendations were made to improve the process for identifying high risk posts, and for cascading information relating to declarations to relevant managers.
- 3.7 The Monitoring Officer has supported members of the authority (and of Parish and Town Councils) in meeting their obligations to notify any disclosable pecuniary interest within 28 days of either their election or of a change in the circumstances relating to such interests. These requirements have been met during the year with quarterly reminders being issued to elected members to review their registers of interests. Guidance has also been provided to support the registration of Gifts and Hospitality.
- 3.8 An importance element of our arrangements relates to the independence brought to the consideration of Members' Allowances (through our Independent Remuneration Panel) and in securing an independent view on issues relating to conduct (through our appointed Independent Person). Both have been reviewed in year by General Purposes Committee and recommendations made to ensure that both continue to be, and be seen to be, independently minded.
- 3.9 Our Whistleblowing Policy sets out the correct channels through which serious issues can be appropriately escalated from within the organisation and the Raising Concerns Policy provides guidance and direction to the wider public. Assurances that the policies are routinely complied with are gained through regular reporting of the policy outcomes delivered through Internal Audit reporting to each meeting of our Corporate Governance . During the year the Anti-Money Laundering policy has also been reviewed and updated.
- 3.10 In-house lawyers provide comprehensive legal advice, training, and support to members, member bodies, and all directorates, as well as managing the provision, where necessary, of external legal advice. The in-house lawyers have strong relationships with their in-house customers which facilitates a high support, high challenge environment, leading to better and more robust outcomes. In sum, the ready access by members and officers to high quality lawyers, specialised in local government work and having a clear understanding of the council's vision and values, plays an important part in helping to ensure that the council adheres to the principle of behaving lawfully.

Focus our resources on outcomes and ensure council tax payers and service users receive excellent value for money.

- 3.11 Our business planning and performance management arrangements have enabled members and senior management to focus our resources on outcomes and ensure value for money. The arrangements are centred on our corporate plan, the 'Best Council Plan' which is updated each year. Following consultation with staff and elected members, the refreshed Best Council Plan 2017/18 was approved by Full Council in February 2017. It sets out 8 outcomes, 7 priority areas of work and a range of supporting key performance indicators (KPIs) to help monitor progress as well as being clear on our values and how we will work as an organisation.
- 3.12 An annual report looking back on progress in delivering the prior year Best Council Plan is produced each summer. Performance against the 2015/16 Plan was considered by the Executive Board in July 2016 and the Board is again considered this in July 2017. The Best Council Plan, annual reports and performance scorecards are all publicly available on the leeds.gov.uk website.
- 3.13 The Best Council Plan sits alongside a range of supporting plans and strategies (for example, the Children and Young People's Plan; Leeds Housing Strategy; Better Lives Strategy; Safer Leeds Plan and Joint Health and Wellbeing Strategy), each with their own performance management arrangements, including Scrutiny Boards and partnership boards. Operational performance management arrangements are in place at service level.
- 3.14 An annual assurance report is provided to the Corporate Governance and Audit Committee on the council's business planning and performance management arrangements. The Committee considered this report in June 2016 and an updated report in June 2017. This incorporated the findings of an Internal Audit review into the arrangements carried out in April 2017.
- 3.15 Our Corporate Governance and Audit Committee considered the Annual Assurance report of the Chief Officer Projects, Programmes and Procurement Unit in relation to procurement policies and practices. The committee received assurance that these arrangements are compliant with legislation, are up to date, fit for purpose and effectively communicated with no procurement challenges being brought against the council in-year.
- 3.16 Members were advised that off and non-contract spend has continued to reduce year and year but remained a focus for the Chief Officer to further drive compliance – particularly in light of issues considered by the Corporate Governance and Audit Committee concerning the specification and management of contracts and the spending money wisely reviews undertaken by Internal Audit where there continued to be instances where the requirements of Contract Procedure Rules had not been followed for expenditure that is not linked to a contract.

Be open and engage with local communities, service users and our other stakeholders.

- 3.17 The delivery of Our Best Council Plan recognises the importance of effective engagement with the public, partners and staff and taking account of this in decisions that we take. A central theme running throughout our Best Council Plan is to tackle inequalities and so we also recognise the importance of taking account of equality considerations in the decisions we take.
- 3.18 As reported in our Annual Governance Statement in 2016, we have received reaccreditation at the 'Excellent' level to the Equality Framework for Local Government. The framework is a national standard for measuring an organisation's commitment and ability to mainstream equality. Our Executive Board also receives regular reports and updates on our Equality improvement priorities – the most recent consideration being July 2017.
- 3.19 The shaping of our services in the present financial climate is challenging, particularly where those services are provided to vulnerable people. Our Executive Board (with input from our Scrutiny Boards) has worked to balance need, service provision and available resources in difficult financial circumstances.
- 3.20 Working with communities themselves and with partners particularly in the third sector, we are building resilience through improving community capacity and leadership, helping communities become more enterprising through citizen led approaches, supporting people to grow more financially resilient and carrying out a range of community safety actions through the Safer Leeds partnership. Much of this is being delivered via the council's cross-cutting 'breakthrough project', *Strong communities benefitting from a strong city*.
- 3.21 We strive to continually improve the relationship between the council and the citizens of Leeds, and in so doing improve trust in public services and ensure the delivery of local integrated and responsive services for local people. Our Community Committees are integral to that vision.
- 3.22 The committees have a crucial role in improving the way we work locally and form a vital part of our commitment to involving our residents more closely with the priorities for their local area and decision-making on funding and services. The committees have played an important part in meeting our ambition to bring place, people and resources together by:
- ensuring that we spend money and work more intelligently and flexibly than before;
 - making it easier for people to do business with us; and
 - improving the way we make decisions locally with residents.
- 3.23 Executive Board has also considered reports relating to community assets, including the transfer of a community asset to a local charity and the use of an existing asset by a community association and whether this continues to meet the needs of the local community.

- 3.24 In addition the Board as received annual reports relating to the local social care account (providing an explanation of the responsibilities placed upon councils and the contribution made towards enhancing local accountability to the public and as a tool to support sector led service improvement) and of the Director of Public Health concerning progress in addressing health inequalities in the city.
- 3.25 The Chief Officer, Customer Access has reported to Corporate Governance and Audit Committee (January 2017) that the council's processes and procedures around customer access and satisfaction are working effectively. This is supported by work undertaken by Internal Audit - however that conclusion has recognised that there are areas where the processes and procedures can be improved to deliver a much more consistent experience for customers who contact the Council.
- 3.26 There has been increased effort in using digital channels to reach audiences with an improved website and a greater use of social media by a growing number of colleagues. Work is on-going to ensure that there are sufficient policy and technological safeguards to protect employees, councillors' and the council's reputation as social media use continues to grow. We have embraced these new opportunities by webcasting our full council and Executive Board meetings and opening up meetings of our committees, boards and panels by enabling third party recording.

Ensure that we have robust and effective audit, scrutiny, information governance, risk and financial management controls.

- 3.27 The Section 151 Officer has continued to ensure that effective budget monitoring and reporting arrangements (involving the Executive Board and Scrutiny) are in place. The council to date has managed to achieve considerable savings in the order of £330m since 2010 and the budget for 2016/17 has required the council to deliver a further £76m of savings.
- 3.28 The 2016/17 budget was supported by the use of £3.45m of general reserves. The outturn position of a £2.6m underspend reduced the use of general reserves, resulting in closing general reserves of £20.7m at March 2017. The Housing Revenue Account revenue reserves stood at £28.1m, an in-year reduction of £10.0m reflecting the planned use of amounts previously set aside to fund PFI and other capital expenditure.
- 3.29 The Council's arrangements around financial accountability and responsibility have also been reviewed in light of the streamlining of senior officer arrangements with a new Section 151 Officer being designated by full Council and a new deputy identified with effect from 1st April 2017. These new arrangements are also supported by a newly created Section 151 protocol.
- 3.30 In January and April 2017 our Corporate Governance and Audit Committee received assurance that the Chief Officer Financial Services has established an effective overall financial control environment framework for treasury management, financial planning and exercises effective financial management and control which, in his opinion, discharge his statutory responsibilities.

The framework of control was reported as fit for purpose, up to date, embedded and being regularly complied with.

- 3.31 Assurance was also received that a number of rigorous reviews and assessments have been undertaken that support the substantial assurances provided, 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 outcomes. 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.
 - Executive Board consideration of the Medium Term Financial Strategy and Treasury Management arrangements,
- 3.32 One continuing risk relates to uncertainties associated with outstanding Business Rate Appeals from the 2010 Ratings list and whether those uncertainties continue under the 2017 Ratings list. Our Corporate Governance and Audit Committee has considered these matters during the year and made recommendations to the Chief Finance Officer.
- 3.33 To accelerate the reforms in Children's Social Care, the Department for Education has invested an additional £9.6m in Leeds over the three years to 2019/20 as part of their Partner's in Practice programme. The funding will be used to create a Centre for Excellence in restorative social work and leadership. Activity will include supporting operational improvement in the sector, leadership development, hosting events, providing additional expertise and capacity for programme management and developing a range of publications.
- 3.34 In addition, the investment will establish early support teams to develop practitioners existing skills, using restorative practices, to improve early interventions with children and families and establish an integrated restorative adolescent service that will work restoratively with families, based around reformed residential homes.
- 3.35 Of vital importance to us, is ensuring that we have arrangements in place to ensure our critical services can recover quickly from serious untoward incidents. Having led a concerted effort to embed arrangements, our Corporate Governance and Audit Committee, has also received assurance that our business continuity plans are in place for all our critical services.

- 3.36 The council's Risk Management Policy sets out our commitment to a risk management framework that enables staff and elected members to identify, understand, manage and report on strategic and operational risks that could impact upon delivery of the Best Council Plan. As part of our decision-making arrangements, all reports for key decisions consider risk management. The council's most significant risks are captured in a corporate risk register.
- 3.37 An annual report is provided to the Executive Board and published on the leeds.gov.uk website explaining the corporate risks and how they are managed. The 2016 report was considered at the July 2016 Executive Board meeting and the 2017 report was presented at the July 2017 meeting. A corporate risk map is updated and published each quarter and group Leaders continue to be briefed on key risks.
- 3.38 An annual assurance report is provided to the Corporate Governance and Audit Committee on the council's risk management arrangements. In March 2017 Internal Audit reviewed the corporate risk management arrangements as measured against CIPFA's risk maturity assessment guidance. The Audit reviewed the key issues that are critical to the successful implementation and management of a risk framework and assessed the authority's performance relating to these key issues on a scale of 1 to 5. Best practice identifies that public services should attain at least a level 3 in order to contribute to the overall control framework. This was either met or exceeded in seven of the eight areas assessed. Partnership risk management arrangements were assessed as a level 2.
- 3.39 Key recommendations were made to provide central guidance on how to manage partnership risks and also to review the risk management responsibilities assigned to our Corporate Governance and Audit Committee. These recommendations will be considered in order to further strengthen the council's risk management arrangements.
- 3.40 A Strategic Safety Advisory Group has met on a quarterly basis. Membership of the group consists of Police, Fire, Ambulance, LCC Highways, Entertainment Licensing, Events Teams, City Centre Management, Environmental Health, Health and Safety and Health. The group reviews lessons learned from events in the previous 3 months and also looks forward to the upcoming period to allow for any issues with the planning process for events to be raised and resolved. The introduction of these arrangements has improved communication with partners and internal stakeholders
- 3.41 The Health and Safety Management System has operated largely as expected. The Annual Risk Report defines the overall rating for 'health and safety' as high because of the possible impact should things go wrong. The stated target is to reduce the probability from possible to unlikely.

Key challenges identified were:

- to review the health surveillance programme; and
- to ensure suitable, sufficient and up to date risk assessments are completed across all service areas.

- 3.42 In summary good progress was reported in the management of health, safety and wellbeing. Performance is improving across most indicators. There is a clear strategic vision for what needs to be achieved and key risk priorities have been identified for the next three years
- 3.43 Significant work on information management and information governance has been undertaken to strengthen management of our information assets, to respond to external requirements and to identify opportunities for efficiency and other value gains in the management of information. A Lead for Cyber Assurance and Compliance has been appointed and is now working with the Information Management and Governance Management Team.
- 3.44 As regards Information Access and Compliance our Corporate Governance and Audit Committee has been assured that processes and procedures are in place regarding upholding citizen rights to request information and we operate within the Information Commissioners Office thresholds for response times. Assurance has also been received that we 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.
- 3.45 Due to more stringent compliance control brought in by the Cabinet Office in 2015 the council are presently unable to meet the Public Services Network (PSN) certification requirements. The Head of Information Management Governance has provided assurance that this does not impact on current service delivery (as the council still had access for example to .GCSX email accounts and Department of Work and Pensions Systems) however the Cabinet Office has placed the council into an 'escalation' process for PSN, a process by which the Cabinet Office provides further support in remediation against the controls.
- 3.46 Through our Open Data approach, we continue to proactively publish datasets over and beyond that required by the Local Government Transparency Code 2015 and make data available in response to FOI requests where possible. This means that we are one of the most open and transparent local authorities in the country and ensures we are compliant with the EU Public Sector Information Re-Use Directive focusing on making data from public authorities available for re-use.
- 3.47 We are required to make all INSPIRE* related data (as is) and metadata available to view and download by December 2020. To date we have published four datasets. We are committed to doing as much as we can to work towards compliance. A review is currently being undertaken of GIS software, which can be used to progress this work. Whilst this approach would not mean that datasets are published to the exacting INSPIRE standards, it does mean that we will be in a position to publish more of our geo-spatial datasets within a reasonable timescale.
- 3.48 With regards to Records Management our Corporate Governance and Audit Committee has received reasonable assurance from the Information Management and Governance Team that processes and procedures are in place and delivering data protection compliance. Processes are in place to ensure that changes to the retention schedule are sufficiently challenged and work is ongoing to simplify the way our retention schedules are documented. Plans are in place to ensure continuous improvement

Ensure we have clear responsibilities and arrangements for transparent and effective accountability.

- 3.49 We have during the year been working with the Local Government Boundary Commission for England as part of their review of our electoral divisions. The Commission had previously agreed with our submission that our council size should remain at 99 councillors and work has now been completed to address review imbalances in the population of some of our electoral wards. This has resulted in some ward boundary changes and some renaming of wards that will be effective from the local elections in 2018.
- 3.50 Our Executive Board has also considered the Integrity of the Elections Process in Leeds and received assurance from the Chief Executive that voters are able to exercise their fundamental right to vote in secret and without interference or undue influence, and that there can be no place in elections in Leeds for behaviour which prevents voters freely exercising those rights. Assurance was also given that Electoral Services officers will continue to look for ways to continually improve and further strengthen our arrangements.
- 3.51 Our Constitution, including the delegation scheme for Council and Executive responsibilities, has been regularly reviewed and updated to reflect various legislative and organisational changes. This has included a substantial overhaul of our senior management structure from 1st April 2017. Sub delegation arrangements are in place and provide a clear description of decision-making responsibilities below director level. The way in which services are being delivered continues to evolve with more services being commissioned and delivered in partnership.
- 3.52 Partnerships and other joint working arrangements with external bodies form an increasing element of our activities, providing challenges in terms of transparency, demonstrating accountability and managing risk. The Corporate Governance and Audit Committee received assurances in respect of financial and control arrangements that are place (including those for partnerships and other joint arrangements where the authority has a financial governance role).
- 3.53 Whilst our Audit committee received assurances that the partnerships identified have appropriate arrangements in place and make due regards to expected standards, further work is required following Internal Audit's recommendations on risk maturity and how to manage partnership risks.
- 3.54 In addition our Executive Board has considered annual reports on our safeguarding arrangements for both children and adults. Both reports have concluded that systems and practices to safeguard adults at risk continue to be firmly established and that for children all the available management and third party analysis indicates that good attention is paid to managing risk appropriately and safely with the frameworks in place. Safeguarding in Taxi and Private Hire Licensing has also been considered by the Executive with good progress being reported in safeguarding policies, improvements that have been implemented, and in progress of recommendations to contribute to public safety.

- 3.55 Our Health and Wellbeing Board has completed its fourth year of work and has provided an open and transparent forum through which joint work on improving health and wellbeing is progressed. The Health and Wellbeing Board has considered and provided an opinion on whether to NHS Leeds Clinical Commissioning Groups takes proper account of the outcomes set out in the Leeds Health and Wellbeing Strategy and has agreed an approach to review the operational plans during 2017-2019. Our full Council meeting has considered the minutes of the Board to enable wider member engagement.
- 3.56 We have fully participated in the work of the West Yorkshire Combined Authority, and in doing so have, with our neighbouring local authorities, reviewed and streamlined other aspects of regional governance. Collaborative working is taking place across the region to support negotiations with HM Treasury for a devolution deal for the region. Given the importance of this, full Council receives a regular update report on the devolved matters; allowing cross party engagement and debate on this evolving area.
- 3.57 We have been working in collaboration with other Local Authorities and Voluntary adoption agencies (VAA's) throughout the Yorkshire and Humber region to create a new model of service delivery for adoption services in line with the government's agenda. We have an agreed approach (based on a Joint Committee and Shared Service approach) to the future delivery of services in West Yorkshire which will improve services for children and adoptive families and deliver a more effective and cost efficient service, utilising government funding to manage the transition and improve the practice in this important area of work.
- 3.58 In addition the proper officer for Scrutiny has confirmed that scrutiny arrangements are operating in accordance with the terms of reference and procedures agreed by full council with inquiries both adding value to the delivery of the council's outcomes and providing challenge to the Executive. This will be reported to members of the authority by way of an annual report to the full Council in July 2017.
- 3.59 The reviews undertaken are a key element of the continuous review of our arrangements and ensuring that they are up-to-date, fit for purpose, Focus resources on outcomes and ensure council tax payers and service users receive excellent value for money.

Take informed and transparent decisions.

- 3.60 Our decision-making arrangements are one of our key governance controls, linking to all the governance principles that are set out in our Code of Corporate Governance. Continued review of the decision making framework seeks to ensure that there is appropriate use of council resources in complying with the framework with no duplication of effort or resource.

- 3.61 The annual report to our Corporate Governance and Audit Committee (June 2017) in relation to our principle decision making processes provided substantial assurance that the arrangements are up-to date, fit for purpose and are functioning well. In particular assurance is given that systems and processes exist and are used to review and maintain the framework, that requirements in relation to publication of decisions are embedded and routinely complied with, that key performance indicators are regularly monitored and that steps are taken to work positively and transparently.
- 3.62 Given the assurances it is considered that the systems and processes in place continue to represent an appropriate use of resources and good value for money and mitigate risk of recurrence of error or poor performance in relation to decision making governance.
- 3.63 The City Solicitor has provided assurance to our Corporate Governance and Audit Committee (June 2017) that the council has complied with the requirements of the Regulation of Investigatory Powers Act 2000 – both as regards directed surveillance and the use of covert surveillance sources and also as regards the acquisition and disclosure of communications data.
- 3.64 The Council sees Scrutiny as a key performance tool in ensuring that the Council meets its best city ambitions. The proportion of work undertaken by Scrutiny Boards that relates to pre-decision Scrutiny and the development of new policy is testament to the trust placed upon Scrutiny Boards by the Executive to help inform what are often high profile and sensitive decisions to be made. Scrutiny Boards have also continued to demonstrate their unique strength in bringing together a wide range of sectors and service users to identify solutions in addressing complex and often challenging cross cutting issues.

Develop our capacity and capability to be effective.

- 3.65 Our Best Council Plan sets out our ambition to become a more efficient and enterprising organisation. We are progressing this by improving our organisational design, developing our people and working with partners to effect change. Key strands of our work are to simplify, standardise and share our internal processes and develop an agile, skilled and diverse workforce with the ability to work flexibly.
- 3.66 We have continued to work with our trade union colleagues to make significant reductions in staffing costs through challenging the use of agency and overtime and having a robust approach to authorising external recruitment. The flexibility protocol and use of the Early Leavers Initiative has allowed us to reduce staffing in areas where savings are needed and redirect resources to the frontline.

- 3.67 Within this context we are also looking at our future work force needs to ensure we retain sufficient capacity and resilience including
- Development of our apprenticeship programmes;
 - Targeting entry and graduate level talent into the workplace through structured apprenticeship programmes at level 2, 3 and 4;
 - creating organisational capacity and succession planning opportunities;
 - capacity building in areas of skill shortage/gaps through the provision of vocational training and targeted work experience
- 3.68 We maintained our engagement score of 7.5 out of 10 and 79% of colleagues rated work as 7 or more out of 10. However the numbers of staff without access to IT completing the survey was lower than last year. Work is taking place within services to ensure that follow-up action within teams engages everyone.
- 3.69 We have recognised that this programme of change can only be delivered with colleagues and so we have invested in a number of initiatives, such as the Manager Challenge and Leadership Development programmes, to help create the flexibility, capacity and skills necessary to continue to meet our statutory responsibilities and provide front line services in a time of significant budget restraint.
- 3.70 We are proud to hold Investors in People status and our staff survey results suggest we are doing well, the response rate was 53% an increase of 8% on last year. Large numbers of staff , over 90% said they understand what is expected of them and their teams and feel like they make a difference to the city.
- 3.71 We also recognise the importance of undertaking 'quality' appraisals with colleagues and for the last three years over 96% of staff received an annual appraisal. Appraisals feed into individual and service development plans to provide a holistic view of what support and development colleagues require to enable them to carry out their roles and be the best that they can.
- 3.72 We have arrangements in place to support a healthy workforce through;
- Health and wellbeing programmes including employee assistance
 - Manager and staff development training programmes including mental health awareness etc.
 - Managing Attendance policy with proactive guidance and support to managers to enable them to support their employees and progress sickness absence
 - Continued reduction in our sickness absence levels increasing workforce availability and capacity

- 3.73 As community leaders, it is vital that our councillors are supported to be as effective as possible. A variety of learning programmes is in place and is continually monitored and evaluated. Where needed, new learning programmes are developed and implemented quickly and effectively.

Internal Audit Opinion

- 3.74 The Corporate Governance and Audit Committee receive updates on audit activity and progress in meeting the audit plan at each of their meetings. The annual report, from the Acting Head of Internal Audit, objectively examined, evaluated and reported on the control environment within the council and provided an opinion about the adequacy of the systems and processes in place.
- 3.75 On the basis of the audit work undertaken during the 2016/17 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. There are no outstanding significant issues arising from the work undertaken by internal audit. The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing and the Public Sector Internal Audit Standards. The Acting Head of Internal Audit has confirmed that there have been no limitations in audit scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

An Independent opinion of effectiveness

- 3.76 Office for Standards in Education, Children's Services and Skills (Ofsted) - Inspection of Adult Learning - this Skills Funding Agency funded provision is subject to inspection under Part 8 of the Education and Inspections Act 2006. Ofsted undertook the inspection of provision on 8th and 9th February 2017. Ofsted published the Inspection Letter on 8 March 2017, recording that the Council Adult Learning provision continues to be Good and that safeguarding is effective.
- 3.77 In accordance with the Children and Families Act (2014), Ofsted and the Care Quality Commission operate an inspection framework to cover children's services and health arrangements for children and young people with Special Educational Needs and Disabilities. Leeds was the fifteenth local authority to be inspected under this new framework, with a one-week inspection taking place in December 2016.
- 3.78 The outcome letter for the inspection was published on 16 February 2016. Inspectors noted a number of key strengths in Leeds, and identified some areas for development which we and health services will address and monitor through the Complex Needs Partnership Board and Scrutiny arrangements. Inspectors and the Minister noted the sense of pride that children with special educational needs and disabilities feel about being citizens of Leeds and that their voice is being heard and that the Council and partners in CCGs take joint ownership of the findings and work together to improve services

- 3.79 The Care Quality Commission (CQC) has been producing reports based on their new inspection process for the past 2 ½ years and have now completed initial inspections of most residential and nursing services in the city however, CQC still need to complete the inspection of a number of domiciliary care providers. Adult Social Care has a good working relationship with CQC inspectors and has regular meetings with them to share information on registered providers. CQC inspection reports are being utilised to gain an overview of the quality of services in the city.
- 3.80 Contract Officers also use the reports to inform our contract monitoring priorities and to inform decisions on suspending placements or services under contract. We are currently in the process of re-commissioning our care home contracts and as part of this process the Commissioning Section will be establishing, in conjunction with CCG partners, a Quality Team to assist providers in raising standards of care in the city.
- 3.81 The Council's Scrutiny Board (Adult Social Services, Public Health, NHS) also receive a monthly report on newly published CQC reports of registered providers and council officers and CQC officers have attended this Scrutiny Board to answer questions from its members.
- 3.82 KPMG, our external auditors have again evaluated the Council's key financial systems as part of their interim audit work in respect of the 2016/17 accounts and have confirmed that nothing has come to their attention which they would be required to communicate to the authority. This work involved;
- Understanding accounting and reporting activities,
 - Evaluating design and implementation of selected controls,
 - Testing the operating effectiveness of selected controls,
 - Assessing the control risk and risk of the accounts being misstated.
- 3.83 As part of their preparation process KPMG must also report whether this Annual Governance Statement does not reflect compliance with Delivering Good Governance in Local Government: a Framework ((CIPFA/SOLACE 2016 edition). No such report has been received and KPMG has concluded that we have made proper arrangements to ensure we took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- 3.84 The number of grant claims which the council's appointed auditors are required to audit has fallen over recent years, and the Housing Benefit Subsidy claim was the only grant claim that they were required to audit in this period. KPMG's audit of the Housing Benefit Subsidy claim identified a number of minor errors, as a result of which KPMG have qualified the claim, as they are required to do by the grant regime despite the minor nature of the errors identified, and requested corrections. This is in line with the outcome in previous years. There are also a number of minor grants each year for which the council is required by the awarding body to arrange for an external audit. All such grant claims during the 2016/17 year have been certified without adjustment.

- 3.85 As part of their work on the Council's overall control environment each year, KPMG's IT specialists carry out audit work on the council's IT controls. The 2016/17 audit concluded that overall IT controls were effective, and made some recommendations on specific issues including the structure of passwords and the authorisation of system amendments within two of our systems.

Future appointments of our External Auditor

- 3.86 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and also established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. The council must appoint its external auditor to audit its accounts for a financial year not later than the 31st December in the preceding financial year. Therefore, the council must have appointed its external auditor by the 31st December 2017. In February 2017 our Full Council agreed to opt into the Local Government Association established sector-led body for the appointment of external auditors.

Independent Assessment of Internal Audit

- 3.87 In line with the requirements of the Public Sector Internal Audit Standards an external assessment of Internal Audit has been conducted by a qualified, independent assessor and assessment team from outside the organisation. The review concluded that the Council's Internal Audit service conforms to the requirements of the PSIAS. An action plan with recommendations arising from the review is being monitored as part of the Internal Audit update report to Corporate Governance and Audit Committee.

Local Government Association Peer Review

- 3.88 In July 2016, a review team, of seven experienced peers - elected members and officers spent four days in Leeds. They met a range of stakeholders and toured the city. The key messages from the corporate peer challenge have been summarised into three headline achievements which provide strong foundations for progress and three areas for further improvement. In October 2016 our Executive Board considered the review team's findings. Strong engagement from council staff was highlighted as was the clarity of council's vision and ambitions which have been well-articulated. High degrees of trust and confidence in the council and its senior leadership were also evidenced with a good level of self-awareness at strategic level which is evident in plans and strategies.
- 3.89 In addition in September 2016 a Local Government Association Peer Challenge Review of the use of resources by Adult Social Care Directorate was undertaken. The peer review concluded that Leeds City Council Adult Social Care is a self-aware organisation driven by data with clear transformational plans in place, supported by a strong corporate and member ethos and structure. The outcomes of this review have been considered by our Executive Board.

4. SIGNIFICANT GOVERNANCE CHALLENGES

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

Our Best City / Best Council Ambitions

- 4.2 Our refreshed Best Council Plan 2017/18 continues with the aim previously set out in the 2016/-17 Plan of tackling poverty and reducing inequalities, and the articulated around the integrated concepts of promoting economic growth and of being a compassionate city. It sets out and is based around 7 'Best City' priority areas of work:

- Good growth
- Transport and infrastructure
- Low carbon
- Resilient communities
- Health and wellbeing
- Better lives for people with care and support needs³
- Child-friendly city

- 4.3 Our 'Best Council' ambition remains to be an efficient and enterprising organisation. Maintaining provision of good quality, efficient services that communities in the city need is essential, while finding new ways of delivering the best for Leeds. Innovative approaches developed with service users, citizens and partners are already changing relationships and shifting responsibilities.

- 4.4 Our approach recognises the challenges that the city and the council are facing: 2017/18 has brought continued reductions in the council's funding and this is set to continue to 2020 and beyond; Leeds has a growing and ageing population with increasingly complex needs; some communities are not benefiting from the economic growth the city has experienced and welfare changes could make the inequality gap bigger. Having a clear, strategic vision centred firmly on tackling poverty and inequalities will help tackle these challenges.

Financial Pressures

- 4.5 The government have announced that by 2020 local government will be able to retain 100% of business rates, estimated to be £26 billion nationally, at which time government will withdraw its core funding of local government completely.
- 4.6 In order to ensure that its impact is fiscally neutral in terms of the national finances, the government propose to transfer a number of new functions to local government. This will be a fundamental change in the way local government is financed and brings with it risks associated with Business Rate Appeals.

- 4.7 More broadly the financial climate for local government continues to present significant risks to the council's priorities and ambitions. A key financial risk faced by the council is managing the demand pressures in the children looked after budget, specifically the number of children and young people in external residential placements or with independent fostering agencies. The budget was overspent in 16/17 and additional resources were provided as part of the approved 17/18 budget.
- 4.8 Another significant financial challenge will be managing schools' budgets. At a time when schools are facing uncertainty from the planned introduction of a National Funding Formula (now planned for the 2018/19 academic year), the Department for Education estimates that maintained schools will need to find savings of £3bn nationally by 2019/20. This equates to an 8% real-terms reduction in per pupil funding between 2014/15 and 2019/20 due to cost pressures such as pay rises, the national living wage, higher employer national insurance contributions, teachers' pension scheme costs and the apprenticeship levy. Schools will need support as funding for schools has been relatively protected compared with most other areas of public expenditure.
- 4.9 We will continue to make every effort possible to protect the front line delivery of services, and whilst we have been able to balance the budget each year since 2010, have continued to deliver a broad range of services despite declining funding from government, and have avoided large scale compulsory redundancies, it is clear that the position is becoming more challenging to manage. It will be increasingly difficult to maintain current levels of service provision without further changes in the way the council operates.

Devolution

- 4.10 We are an integral member of the West Yorkshire Combined Authority and are fully engaged at Leader and Chief Executive level through to project delivery in specific areas such as economic development, housing, skills and transport. Leeds is represented in Northern Powerhouse discussions and as a member of Transport for the North, as well as our Leader recently becoming the Chair of the Core Cities UK group. Whilst Leeds has not been able so far to secure a new devolution deal as other city regions have, the Leader and Chief Executive are in dialogue with central government on the geography and powers of a deal that would bring further powers and resources to the city. A Key Account Management approach is being taken in regards to central government departments, to maximise opportunities for devolved funding and pilot schemes for the city.

LGA Peer Reviews

- 4.11 Nine recommendations were made to the Council by the LGA Corporate Peer Review including being bolder in communicating successes, greater prioritisation, revisiting locality working, investing in more innovative and radical change and reviewing the processes in place to support this.

- 4.12 The focussed LGA Peer review on Adult Social Care also made recommendations and identified that key areas of service transformation need to be progressed further and faster and will require resource and better joined up plans across the health system. The Directorate is incorporating the suggestions of the review team within its existing planning and governance processes.

Information Governance

- 4.13 We will need to be able to demonstrate that we have put in place appropriate technical and organisational measures, to ensure and to demonstrate compliance with all aspects of the General Data Protection Regulation. All of these processes will be monitored and audited to ensure on-going effectiveness. These more exacting requirements mean we will need to review our approach to governance, and how data protection compliance is managed as a corporate issue. The remaining outstanding work required to address the recommendations of the Information Commissioners Audit report will be carried out by a small team of information governance staff with completion due in March 2018.
- 4.14 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.

Procurement

- 4.15 Compliance with Contract Procedure Rules remains an issue in some areas, notably around justification in reports considering waivers. Further work will be undertaken to improve performance in this area.

Staff Survey

- 4.16 The results indicate that we still need to improve listening to and acting upon what colleagues tell us and how it makes a difference to the way things are. Leadership teams will review the results, and identify where progress can be made.

Health and Safety

- 4.17 Whilst the majority of Health and Safety performance indicators have been met two areas require further work:
- completion of Fire Risk Assessment Reviews in all schools; and
 - A review and development of Health and Safety Performance Standards, where these are currently absent.

Customer Access

- 4.18 Significant progress has been made in how citizens access services however further improvements in processes and procedures will be made to deliver a more consistent experience for customers who contact the Council.

5. ASSURANCE CONCLUSION

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

Councillor Judith Blake
Leader of the Council

Councillor Patrick Davey
Chair, Corporate Governance and
Audit Committee

Tom Riordan
Chief Executive

Doug Meeson
Chief Officer Financial Services &
Section 151 Officer

Catherine Witham
City Solicitor & Monitoring Officer



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Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 22nd September 2017

Subject: Work Programme 2017/18

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

1 Purpose of this report

1.1 The Purpose of this report is to notify Members of the Committee’s draft work programme for the 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 note the meeting dates for the committee for the year and consider the draft work programme 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**

19th January 2018		
KPMG – Annual Audit Letter – including opinion	To receive a report from the External Auditor presenting the Annual Audit Letter.	Doug Meeson Chief Officer (Financial Services)
KPMG – Certification of Grant Claims and Returns	To receive a report from the External Auditor certifying grants and returns.	Doug Meeson Chief Officer (Financial Services)
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	Doug Meeson Chief Officer (Financial Services)
Outcome of External Audit Procurement Process and Timetable for 2017/18 Accounts	To receive details of the outcome of the sector led procurement process for the provision of external audit services and note the timeline for the 2017/18 accounts	Doug Meeson Chief Officer (Financial Services)
Cyber Assurance and Compliance - Update	To receive an update report on steps being taken by the council in relation to Public Service Network certification.	Louise Whitworth Head of Information Management Governance

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	Doug Meeson Chief Officer (Financial Services)
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	Doug Meeson Chief Officer (Financial Services)
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