

## **Corporate Governance and Audit Committee**

**Friday, 16th September, 2016**

**PRESENT:** Councillor P Grahame in the Chair  
Councillors P Harrand, N Dawson, A Sobel,  
J Illingworth, K Groves, G Hussain and  
B Flynn

### **21 Appeals Against Refusal of Inspection of Documents**

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

### **22 Exempt Information - Possible Exclusion of the Press and Public**

The agenda contained no exempt information.

### **23 Late Items**

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

### **24 Declaration of Disclosable Pecuniary and Other Interests'**

No declarations were made.

### **25 Apologies**

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

### **26 Minutes - 24th June 2016**

**RESOLVED** – That the minutes of the meeting held 24<sup>th</sup> June 2016 be approved.

### **27 Matters Arising**

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

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

Draft minutes to be approved at the meeting  
to be held on Friday, 27th January, 2017

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

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

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

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

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

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

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

## **28 Sundry Debtors - Outstanding Housing Benefit Overpayments**

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

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

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

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

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

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

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

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

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

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

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

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

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

Discussions considered the following matters:

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

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

#### **RESOLVED -**

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

(Councillor Flynn left the meeting at this point)

### **30 Local Transparency Code**

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

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

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

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

**RESOLVED –**

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

**31 Review of Current Business Rates Issues**

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

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

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

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

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

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

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

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

**RESOLVED**

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

### **32 Risks and Opportunities Associated with the EU Referendum Result**

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

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

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

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

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

### **33 Internal Audit Update Report 1 June to 31 August 2016**

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

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

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

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

During discussions the following comments were noted:

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

The Committee welcomed the change of format to the report and

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

### **34 Work Programme**

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

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

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

**RESOLVED –**

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