

# Corporate Governance and Audit Committee

## Annual Report 2009 – 2010



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## Foreword from the Chair

I am pleased to present the third annual report of the Corporate Governance and Audit Committee. It demonstrates the sustained impact of the Committee upon the work of the Council, and the foundation which has now been laid for a structure of rigorous independent oversight of the Council's governance and audit processes.

Good governance is indeed the framework which ensures that the work of elected members and officers is fully compliant with legal requirements and established good practice, that its processes and outcomes are transparent to internal and external inspection, and that the Council is properly accountable to its many stakeholders. The responsibility of the Committee is to exercise the 'eternal vigilance' and scrupulous independence without which good governance cannot be guaranteed. While this report records substantial progress towards that ideal, there can be no room for complacency, nor any diminution of the independence of the Committee in relation to political and organisational interests.

The Committee has again been well served by the Council's external auditors (KPMG) and by the Council's internal audit service. Effective internal audit demands (first) a strong control environment and (second) a high level of compliance with established controls. I am satisfied that our control environment is excellent, and that compliance is good and improving. Over the past year the Committee has recognised these strengths, and noted that internal audit has sometimes been ahead of external inspectors in noting gaps and weaknesses. Most recently it has initiated action to build upon that effectiveness by ensuring that serious shortcomings are drawn more rapidly to the attention of senior officers.

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The scope of the Committee's work has widened in response to emerging concerns. Recently, for example, it has accepted responsibility for the monitoring of the treasury management function, in accordance with recommendations of the Audit Commission arising from the Icelandic banking debacle (a crisis which, thanks to the wisdom of the officers concerned, did not affect Leeds). The Committee has also, on its own initiative, drawn attention to the need for greater transparency in relation to senior management remuneration: in this matter it responded to growing (national) public concern, and acted in advance of central government policy initiatives.

Finally, I express my thanks to: the members of the Committee and the officers who have supported and contributed to our work; to KPMG and the Local Government Ombudsman, who have both supported and challenged us; and to Mr Mike Wilkinson, the independent Chair of the Council's Standards Committee, who has provided an invaluable link between our two committees, and whose work has recently won well-deserved national recognition .

It has been a privilege to have chaired this Committee over the past three years, and I extend my good wishes to those who will carry forward this vital work - in a climate of public opinion where its visibility seems bound to increase.



**Cllr John Bale**

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# Introduction

## Background

Corporate Governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a council relates to the communities that it serves. Good corporate governance requires local authorities to carry out their functions with integrity and in a way that is accountable, transparent, effective and inclusive. The role of the Corporate Governance and Audit Committee is to assess and challenge a range of assurances provided within the Council and those provided externally both by the appointed external auditor and by various inspectorates.

The Council's Code of Corporate Governance provides more information regarding corporate governance at Leeds.

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## The Annual Report

Effective audit committees help raise the profile of internal control, risk management and financial reporting issues. They enhance public trust and confidence in the governance of the Council. As such, the Corporate Governance and Audit Committee has resolved to produce their annual report for presentation to full Council for two reasons:

- to demonstrate the impact of its work over the last year; and
- to raise awareness of corporate governance across the Council

## Membership <sup>1</sup>

The members of the Committee for 2009-2010 are set out below:

Councillor John Bale (Chair)

Councillor David Blackburn

Councillor Colin Campbell

Councillor Geoffrey Driver

Councillor Thomas Leadley

Councillor Pauleen Grahame

Councillor Alison Lowe

Councillor Graham Kirkland

Councillor Graham Latty

Councillor Neil Taggart

Mike Wilkinson, the Independent Chair of the Standards Committee is a non-voting co-opted member of the Committee.

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<sup>1</sup> Councillor Fox was appointed to the Committee for the 12<sup>th</sup> May 2010 meeting.

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## Terms of Reference

In summary the Committee is responsible for reviewing the adequacy of the Council's arrangements relating to:

- external and internal audit;
- risk management;
- the internal control environment (corporate governance arrangements);
- compliance with statutory and other guidance;
- approving the Accounts;
- approving the Annual Governance Statement; and
- making representations to external agencies on behalf of the Council about any matter relating to conduct.

The Terms of Reference were last amended by Full Council in February 2009, when the Committee was given the additional function of making representations to external agencies on behalf of the Council about any matter relating to conduct. During 2009/10 the Committee has focussed more on Treasury Management, and in light of the recent financial crisis, it was agreed that the Committee should review the Treasury Management Function. Further to this, training was received by Members on how best to review Treasury Management in February 2010. The Terms of Reference under which the Committee operated in 2009/10 are attached at appendix one.

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## The Work of the Committee 2009 – 2010

The following section provides a summary of the work that the Committee has undertaken over the last year, including the impact that work has had on the effectiveness of the Council's overall corporate governance arrangements. It is divided according to the different elements of the Committee's terms of reference.

### External Audit

External audit is an essential part of the process of ensuring public money is spent accountably. The Council's external auditors are KPMG. Their work is guided by an annual audit plan which details the work the external auditors aim to complete over the coming year; the plan for 2009/10 was agreed by the Committee on 30<sup>th</sup> June 2009. The plan is developed having assessed areas of risk to the Council that have been identified in the corporate risk register and following input from Members and senior officers. During 2009/10 the auditors completed a number of audits which were received by the Committee and published on the Council's website. These are summarised below.

#### ► KPMG Scrutiny Review

The Committee received a report summarising the key findings from KPMG's audit of the Council's Overview and Scrutiny Arrangements. In February 2010 the Committee received an update report which advised that good progress had been made against all recommendations.

#### ► Interim Audit Report on the Statement of Accounts

This report summarised KPMG's planning and interim audit work at the Council in relation to the 2008/09 financial statements. By receiving and challenging the conclusions of the auditors, the Committee gained independent assurance on progress in producing the 2008/09 financial statements and the quality of controls relating to key financial systems.

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## ► Health Inequalities Report

In considering KPMG'S report on a review of health inequalities, the Committee highlighted the need for all Area Committees to be involved in addressing health inequalities and for a more detailed analysis of causes of the current position to be undertaken.

## ► The Annual External Audit Plan

The Committee were consulted on the content of the Annual External Audit Plan for 2010-11. The plan will be submitted for the Committee's approval at the beginning of the next municipal year.

### **Impact**

By receiving all External Audit reports the Committee is provided with an independent overview of key risk areas; in turn this helps to inform the Annual Governance Statement.

## **External Inspection Reports**

External Inspection is central to the current drive for improved public services. Inspectorates have been created in order to ensure that Local Government achieve value for money in delivering services, they are also independent and provide detailed performance information to stakeholders especially the public. Numerous External Inspection Reports were presented to the Committee during 2009/10, the most important of which are detailed below.

### **OFSTED and Care Quality Commission Inspection of Safeguarding and Looked after Children's Services in Leeds**

In March 2010, the Committee received a report updating it on the results of the Children's Services Inspection. Members particularly commented on the management and culture in Children's Services changing in light of new



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requirements for looked after children. Further, that the arrangements for control and good management of Children's Services needs to be effective in the future. A further report was requested for the Committee to gain assurance that arrangements for monitoring are in place and are operating as intended.

**Impact**

The Committee has provided public challenge to the improvements required to be made in Children's Services and has sought assurance that appropriate arrangements are in place to address all the improvement issues raised by OFSTED and the Care Quality

**Annual Performance Assessment of Adult Services 2008/09**

In February 2010, the Committee received a report updating the Committee on the governance related comments made in the 2008/09 Annual Performance Assessment. Members commented on the positive nature of the report and the improvement made from poor to adequate. The Committee addressed the importance of the Council comparing itself against results of previous years to give a fair indication of progress made.

**Outcome of the Comprehensive Area Assessment**

In December 2009, the Committee received the outcome of the Comprehensive Area Assessment. The report informed Members of the results of the Organisational and Area Assessment report for Leeds and how the assessment is undertaken. Members raised points around whether the Council had anticipated any of the areas for improvement prior to the inspection.

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## Internal Audit

Internal audit is an independent function established by the Council to objectively examine, evaluate and report on the adequacy of the corporate governance arrangements. Reports issued by internal audit provide a key source of assurance to the Committee that the governance arrangements in place are functioning correctly. The Committee is also responsible for monitoring the performance of internal audit.

The results of the review of the effectiveness of Internal Audit were presented to the Committee in July 2009. It was reported that the system of internal audit is fit for purpose and highlighted some areas for improvement in 2009/10.

In July 2009 the Committee received the annual internal audit report looking back at work completed and issues identified in the previous municipal year. The Committee raised two issues that were of particular concern: the increase in whistle blowing complaints by 61% between 2007/08 and 2008/09; and the work undertaken in relation to the Strategic Landlord Management and Assurance Framework.

In January 2010, the Committee received the half-year update report which summarised the key findings of Internal Audit during the period April – September 2009. In receiving the report the Committee stressed the importance of significant threats to the control environment being prioritised and escalated to the highest levels of the Council. Subsequently the Corporate Leadership Team approved a revised internal audit protocol.

### **Impact**

The Committee has been a catalyst for amending the internal audit protocol for circulating reports to senior management. The protocol has now been reviewed to ensure major organisation risks are escalated to the Council Corporate Leadership Team.

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## Corporate Governance / Internal Control

In addition to the specific role the Committee has in relation to audit and risk management, it has a broad responsibility for reviewing the adequacy of the Council's wider corporate governance arrangements. It receives a number of reports which provide assurance as to the extent to which the Council's arrangements are operating effectively, which are summarised below.

### ► Local Government Ombudsman

At their September 2009 meeting, the Committee received the Local Government Ombudsman's letter for 2008/09 and the Assistant Ombudsman, Neil Hobbs, attended the meeting. Members identified key areas for improvement raised in the letter, in particular, the importance of raising awareness of the Council Complaints procedure and the role that the Local Government Ombudsman plays in resolving complaints, particularly those relating to anti social behaviour. Members also commented that the monitoring data used in the analysis of complaints must reflect current Council structures so that if difficulties exist, the relevant service area can be more easily identified.

#### **Impact**

The Ombudsman's letter provided a key assurance to the Committee that there are robust and effective mechanisms in place for dealing with complaints. There is now also improved access to the Ombudsman.

In February 2010 the Committee received a report providing information on the various access routes the Council has for customers to obtain information about the Council's Corporate Complaints process and the Local Government Ombudsman. Members highlighted the good links and co-operation between the Council and other agencies with regards to complaints received.

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Further, in March 2009, the Committee received a report informing it of the arrangements in place for the Council to respond to complaints of anti social behaviour. The Committee stressed the importance of having simple pathways through which members of the public can raise concerns of anti social behaviour.

### ► Partnership Governance Arrangements

The annual review of the Governance Framework for Significant Partnerships was submitted to the Committee in January 2010. Members approved changes to the Framework to make it clearer and to ensure that it is in line with Audit Commission guidance on the Use of Resources Key Lines of Enquiry and recommendations received from the Council's External Auditors. The Framework was approved by the Assistant Chief Executive (Corporate Governance) in 26<sup>th</sup> January 2010, and the Council has now updated its register of significant partnerships accordingly.

Furthermore the Committee raised concerns about ensuring all partnerships are complying with the Framework. To address this, a report was received by the Committee in February 2010 providing an update on the results of a recent monitoring exercise. The report identified the extent to which the Council's Significant Partnerships are complying with the minimum governance requirements set out in the Council's Governance Framework for Significant Partnerships. Members particularly commented that where partnerships involving the Council state that they do not intend to meet the minimum governance requirements, this should prompt the Council to review whether or not the partnership is appropriate.

#### **Impact**

The framework recommends best practice governance structures and processes which, where implemented will provide assurance to the Council (and other stakeholders) that governance arrangements are fit for purpose. The Annual review process will help target partnerships where further improvements are requirements.

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## ► Information Security

The Information Security Annual Report for 2008/09 highlighted the steps being taken to improve the Council's information security in order to provide assurance for the annual governance statement and ensure there is more accountability for technical failures and for the contravention of procedures. Members commented on the importance that the Council continues to work on ensuring that risks associated with losing a laptop computer or memory stick are mitigated against. The Committee requested a further report to detail attempted breaches and the controls in place to stop these having an impact on the operation of the Council.

### **Impact**

The Committee has received assurance that arrangements have been put in place that have improved the security of information at the Council and reduced the risk of information being lost.

## **Locality Arrangements**

The Committee received reports proposing formal arrangements for the area and locality aspects of the Children's Trust Arrangements. The Committee were informed of the latest Governance position for Children's Trust Arrangements. These were reported to the Executive Board in April 2010.

### **Impact**

The Committee has provided public challenge to the existing governance arrangements for the new Children's Trust and sought assurance that the arrangements being put in place are tailored around the child.

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## **Key and Major Decisions Taken by Officers under Delegated or Sub-Delegated Authority**

The Committee were updated on the monitoring and administration of Key and Major delegated decisions during the period 1 April 2009 to 30 November 2009. The report highlighted the improving picture with regard to the administration of Key and Major decisions notified to Democratic Services.

### **Impact**

By requesting that the Council's decision making process be reviewed, the Committee has ensured that there is increased transparency for stakeholders and greater perception of fairness.

## **Risk Management**

Risk management is defined as the effective management of threats and opportunities in order to enhance the delivery of Council services. Good risk management practices enable the Council to make better decisions, and enhance its ability to achieve its objectives. The Committee receives both an annual report and regular update reports from the Chief Officer (Audit and Risk) regarding key risk management developments across the Council and its strategic partners.

### **► Annual Report**

At its meeting in May 2010, the Committee received the annual report on risk management arrangements for 2009/10. The Committee noted the work that had been undertaken by the risk management unit over the previous year. Members considered the benefits of publicising the corporate risk register and also emphasised the importance of the Corporate Risk Management Unit providing help to known high risk areas within the Council.

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## ► 6 Monthly Update Report

In November 2009, the Committee received an update report on the Council's risk management arrangements since May 2009 Committee.

Members highlighted the importance of being as transparent as possible and recommended that the corporate risk register should be reported to the Committee and be available to the public.

The Committee recommended that the Executive Board support the proposal for the regular publication of the Council's Corporate Risk Register in a summary form along with the Corporate Risk Map.

## ► Tenant Empowerment Framework

In November 2009, the Committee was informed of the background to the tenant empowerment programme and potential issues arising from the implementation of tenant empowerment options in Leeds. The Committee supported the tenant empowerment principle but commented on the lack of communication between tenants and ALMOs and the importance of ensuring that information is disseminated to tenants at large.

## ► Bid Rigging in the Construction Industry

In November 2009, following wide spread publicity in the National media, the Committee received a report informing it of the findings of the Office of Fair Trading's (OFT) investigation into 'bid rigging' in the construction sector. Members were informed that some contractors named in the OFT's investigation has completed work for the Council. The Committee requested a briefing note be sent to all Members providing legal clarification on ethical conduct and to request the Assistant Chief Executive (Corporate Governance) to consider whether or not contractors named in the OFT investigation be excluded from any further opportunities to tender with the Council.

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**Impact**

By considering this issue the Committee has raised the profile of how corrupt contractors can be excluded from bidding for Council work.

**► Leeds City Region Governance Arrangements**

The Committee considered reports on the topic including an overview of the existing Leeds City Region governance arrangements, progress made by the City Region Partnership in securing agreement on the forerunner proposals. Members particularly discussed the democratic accountability of the Leeds City Region, the legal status of the Region and the minimum governance arrangements that should be in place. Members resolved that further reports should be submitted to keep the Committee up to date on the progress of governance arrangements.

**Impact**

As a result of the Committee's input, the Leeds partnership governance framework has been applied to the evolving Leeds City Region arrangements. This has reinforced the importance of openness and transparency and placed an emphasis of partners complying with the Nolan principles of standards in public life.

**► Senior Officer Remuneration Policy**

The Committee received a report outlining the national and local frameworks for determining and implementing senior officer remuneration packages.

**Impact**

The Committee's work has been a catalyst for ensuring that there is clarity and consistency in where decisions on senior officer remuneration are taken and that there is transparency in documenting such decisions.



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► **Review of Treasury Management Practices following Various Reports on the Icelandic Banking Crisis**

The Committee received a report updating Members on the recommendations of three reports on the Icelandic banking crisis. It was agreed that the Treasury Management function should sit with the Committee and that training take place to ensure that the role undertaken by the Committee is effective. The Committee also requested that its terms of reference be reviewed to ensure that the new role was covered adequately.

**Impact**

The Committee has a greater understanding of Treasury Management and is now equipped to carry out effective reviews of the function. This will ensure that the Function operates as intended and reduces the risk of bad investment choices being made.

In February 2010 the Committee received training on how to review the Treasury Management Function. This training will be repeated to ensure all Members are trained following elections in May 2010.

► **Other Reports**

<b>Report</b>	<b>Committee Resolution</b>
ALMO Inspection Action Plans	That the action being taken by the ALMOs and Strategic Landlord to address the recommendations in the 2008 Audit Commission Inspection reports be noted.
Members Allowances and Expenses – arrangements for determining	That the report be noted, that the Democratic Services Officer provide information on the notification fee and provision of annual pension contribution statement to Members and future reports on Members' allowances and expenses be presented to the Committee should there be any changes to or identified failings in the control arrangements currently in place.
The Changing Financial Landscape	To note the contents of the report and agree that the financial planning arrangements in place are fit for purpose. Further that the report be sent to every Member of the Council meeting in February 2010 to discuss the Council's budget.
Annual Performance Assessment of Adult Services	That the report and attached final performance review report from the Care Quality Commission for Adult Social Care Services in 2008/09 and the areas being progressed be noted.
Code of Corporate Governance	That the revised Code of Corporate Governance should be approved subject to any amendments of a minor nature proposed by the Standards Committee
Outcome of the Comprehensive Area Assessment	That the contents of the report be noted.
International Financial Reporting Standards	That progress made in adopting the IFRS to date be noted and also to note the framework established for planning and

<b>Report</b>	<b>Committee Resolution</b>
(IFRS)	monitoring progress on the implantation of IFRS.
BITMO Governance Arrangements	That the report be noted and that further reports be submitted to the Committee regarding any governance implications arising from the ALMO re-inspections, the BITMO tenant's ballot and the issue of Residents Associations being approached to set up Tenant Management Organisations.
Phantom tenancies	note the report and request that a report be submitted to the Committee to outline the types of irregularities to identify where tenancy fraud may be occurring.
Regulation of Investigatory Powers Act 2000 Policy (RIPA)	The Committee resolved to request that a further report be submitted with a revised RIPA policy prior to the policy being considered by the Executive Board.

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## Statement of Accounts

One of the Committee's most important statutory roles is to approve the Council's Statement of Accounts.

The Statement of Accounts show how the Council has used public money and demonstrate that the Council has been responsible. The accounts for 2008-09 were received by the Committee at their meeting on 30<sup>th</sup> June 2009. After being informed of a number of minor changes that had been made since the Committee received the accounts, they were approved.

Once the Committee had approved the accounts they were made available to the public to enable electors to inspect them, ask any questions or challenge them. They were also then passed to the Council's external auditors for examination.

In September 2009, the auditors reported that no material errors had been identified, commented on the smooth running of the audit but advised there were still a number of public interest queries still outstanding. The audit of the 2008/09 accounts was formally acknowledged as completed on 15 February 2010.

## Corporate Governance Statement

Each year the Council produces a Corporate Governance Statement which is a public statement regarding the adequacy of the Council's corporate governance arrangements. It sets out the arrangements that have been in place for the previous year and also details what actions the Council will take over the forthcoming year to further strengthen its governance.

As the Statement forms part of the accounts it is always received at the same meeting – therefore, the 2009 Statement was approved at the Committee's meeting in June 2009.

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The Committee also received a number of annual update reports to support the information contained in the Statement. These included:

- the Standards Committee annual report;
- an annual report on Member development;
- the annual report on risk management; and
- the annual internal audit report.

The Committee also received a report at their meetings in December 2009 and April 2010 regarding progress against the Corporate Governance Statement Action Plan – which is based on the areas for improvement identified in the Corporate Governance Statement. Receiving this update provided an opportunity for the Committee to challenge officers on the completion of actions. The Committee commented that the language used in the Action Plan should be improved to make it more understandable.

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## Work Programme for 2010 – 2011

At their May meeting the Committee agreed a draft work programme for 2010-11.

The work programme is developed with reference to:

- any regular items that the Committee receives, for example the Statement of Accounts, and update reports on risk management, internal audit and project governance;
- any requests for reports that the Committee has made over the previous year, for example Annual Reports on Community Engagement and Information Security;
- any emerging areas of local or national interest, for example the Committee will receive reports in 2010-11 on Senior Officer Remuneration Policy, and the governance arrangements of Leeds City Region;
- areas for improvement identified in the Annual Governance Statement; and
- issues identified on a risk assessment basis.

### Further Information

The following information can be accessed on the Council's website – [www.leeds.gov.uk](http://www.leeds.gov.uk):

- past agendas and minutes for the Corporate Governance and Audit Committee including the ongoing work programme;
- the Council's Code of Corporate Governance, Corporate Governance Statement and Statement of Accounts;
- external audit reports; and
- Governance Matters – the bi-monthly newsletter produced by Governance Services.

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If you have any specific questions you can also contact the Corporate Governance team by e-mail, [cxd.corporategovernance@leeds.gov.uk](mailto:cxd.corporategovernance@leeds.gov.uk) or by phone on 0113 39 51632.

## Corporate Governance and Audit Committee

The Corporate Governance and Audit Committee is authorised to discharge the following functions<sup>1</sup>:

1. to consider the Council's arrangements relating to accounts<sup>2</sup> including:
  - (a) the approval of the statement of accounts and any material amendment of the accounts recommended by the auditors;
  - (b) the approval of the Annual Governance Statement<sup>3</sup>; and
  - (c) with the exception of any matter, which may result in the accounts being qualified, responding to the Council's auditors in respect of any matter where it is not considered appropriate to make the amendments recommended by the auditors.
2. to consider the Council's arrangements relating to external audit requirements including:
  - (a) agreement and review of the nature and scope of the annual audit plan,
  - (b) the receipt of external audit reports so as to:
    - (i) inform the operation of Council's current or future audit arrangements; and
    - (ii) provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.
3. to review the adequacy of policies and practices to ensure compliance with statutory and other guidance
4. to review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management)
5. to consider the Council's arrangements relating to internal audit requirements including:
  - (a) considering the Annual Internal Audit Report

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<sup>1</sup> Functions" for these purposes shall be construed in a broad and inclusive fashion and shall include the doing of anything which is calculated to facilitate or is conducive or incidental to the discharge of any of the specified functions.

<sup>2</sup> Item 45 Paragraph I Schedule 1 of Local Authorities (Functions and Responsibilities) (England) Regulations as amended.

<sup>3</sup> The Annual Governance Statement is Leeds City Council's Statement on Internal Control which is approved under Regulation 4(3) of the Accounts and Audit Regulations 2003, as amended.



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- (b) monitoring the performance of internal audit
6. to make, on behalf of the Council, and having had regard to any recommendations of Standards Committee, representations to external agencies<sup>4</sup> about any matter relating to general principles of conduct, model codes of conduct and the codes of conduct or protocols approved from time to time by or on behalf of the Council.

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<sup>4</sup> Such external agencies may include, but are not restricted to, the District or Approved Auditor, the Commission for Local Government, the Standards Board for England, an Ethical Standards Officer, the Adjudication Panel for England or an adjudication case panel