



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in Civic Hall, Leeds, LS1 1UR on
Monday, 27th February, 2012
at 2.00 pm

MEMBERSHIP

Councillors

G Driver (Chair)	C Campbell	W Hyde	J Elliott
P Grahame	G Kirkland	C Fox	
N Taggart			
A Lowe			
T Hanley			
G Hussain			

Co-opted Member

Mr G Tollefson
(Chair of Standards Committee)

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 25 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 25, 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 INTERESTS</p> <p>To declare any personal / prejudicial interests for the purpose of Section 81(3) if the Local Government Act 2000 and paragraphs 8 to 12 of the Members Code of Conduct.</p>	
5			<p>APOLOGIES FOR ABSENCE</p> <p>To receive any apologies for absence from the meeting.</p>	
6			<p>MINUTES OF THE PREVIOUS MEETING</p> <p>To Confirm as a correct record the minutes of the meeting held on 23rd January 2011.</p>	1 - 6
7			<p>CHAIR'S REMARKS</p> <p>To receive any remarks the Chair wishes to make with regards to developments affecting the Committee.</p>	
8			<p>TRANSFORMING PROCUREMENT PROGRAMME POSITION STATEMENT</p> <p>To receive a report of the Chief Procurement Officer and Chief Officer PPPU informing the Corporate Governance and Audit Committee of progress with respect to the Transforming Procurement Programme.</p>	7 - 12

Item No	Ward	Item Not Open		Page No
9			<p data-bbox="675 181 1410 215">PROCUREMENT POLICIES AND PROCEDURES</p> <p data-bbox="675 286 1394 501">To receive a report of the Director of Resources establishing whether the procurement policies and procedures in place at the Council are fit for purpose and help achieve value for money. The report specifically relates to Procurement Unit and the Public Private Partnership Unit.</p>	13 - 22
10			<p data-bbox="675 640 1366 707">DCLG CODE OF RECOMMENDED PRACTICE FOR COUNCIL TRANSPARENCY</p> <p data-bbox="675 752 1406 1151">To receive a report of the Director of Resources informing the Committee of the recently published DCLG Code of Recommended Practice for Council Transparency on the 29th September 2011. The code specifies that authorities should build and maintain an inventory of the public data that they hold, but in addition the code proposes information that should be published as a minimum. This paper sets out what is currently being published by the Council, and what steps are being taken to move to full compliance with the code.</p>	23 - 28
11			<p data-bbox="675 1290 1286 1323">KPMG EXTERNAL AUDIT PLAN 2011/12</p> <p data-bbox="675 1368 1390 1509">To receive a report of the Director of Resources informing the Committee of KPMG's audit plan for the audit of the Council's accounts and Value for Money arrangements.</p>	29 - 56
12			<p data-bbox="675 1581 1310 1648">KPMG CERTIFICATION OF GRANTS AND RETURNS 2010/11</p> <p data-bbox="675 1693 1406 1834">To receive a report of the Director of Resources informing members on the result of the work KPMG have carried out on the certification of grant claims in respect of 2010/11.</p>	57 - 74
13			<p data-bbox="675 1906 1007 1939">WORK PROGRAMME</p> <p data-bbox="675 1984 1406 2085">To receive a report of the Director of Resources notifying and inviting comment from the Committee on the work programme.</p>	75 - 80

Agenda Item 6

Corporate Governance and Audit Committee

Monday, 23rd January, 2012

PRESENT: Councillor G Driver in the Chair
Councillors N Taggart, C Campbell,
G Kirkland, A Lowe, J Elliott, W Hyde,
T Hanley, C Fox, G Hussain and J Hardy
(as substitute for P Grahame)

Co-optee G Tollefson

Apologies Councillors P Grahame

55 Passing of the Chief Procurement Officer

At the commencement of the meeting, Members and officers stood in silent tribute to remember Wayne Baxter, Chief Procurement Officer, who tragically passed away late last year.

56 Appeals Against Refusal of Inspection of Documents

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

57 Exempt Information - Possible Exclusion of the Press and Public

There were no resolutions to exclude the public.

58 Late Items

There were no late items submitted to the agenda for consideration.

59 Declaration of Interests

Councillor G Driver declared a personal interest in item 14. (Minute 69 refers) Internal Audit report December 2011, as a Board Member of Belle Isle Tenant Management Organisation.

60 Apologies for absence

Apologies for absence were received from Councillor P Grahame.

61 Minutes of the Previous Meeting

The minutes of the Corporate Governance and Audit Committee held on 9th November 2011 were approved as a correct record. A minor amendment was agreed with regards to Mr Tollefson's declaration of interest was incorrectly recorded being at minute 52 and the report on Leeds Initiative Governance. The clerk undertook to amend the minutes accordingly.

62 Chair's Remarks

The Chair informed the Committee that he had recently attended a workshop hosted by the Department for Communities and Local Government (DCLG) to discuss arrangements for the future of public audit. Key messages from the workshop were that DCLG want to engage on the practical arrangements in respect of Independent Audit Appointment Panels, rather than the principle of requiring Councils to establish such panels but that both primary and secondary legislation is required to affect the changes. The Chair also informed the Committee that it is likely that the Audit Commission will be in place until 2015.

63 Government Response to the Future of Local Audit Consultation

The Chief Officer (Audit and Risk) presented a report of the Director of Resources. The report informed the Committee of the Government's response to representations made to the consultation on the future of public audit.

Consideration was given to the role of the proposed independent audit appointment panel and how this would effect the purpose and work of the Committee.

Members sought an indication of the savings which might occur from the Council appointing its own auditor: The Chief Officer (Audit and Risk) reminded members that KPMG have previously reported that 20% of the current fee is retained by the Audit Commission so a 20% saving might be indicative. The Chief Officer (Audit & Risk) also pointed out that not all commentators agree that audit fees will reduce in the new regime and organisations like CIPFA still have concerns about the overall level of fees.

The Chair informed the Committee that the Department for Communities and Local Government had still not concluded its deliberations and it was expected further consultations on this and other matters.

RESOLVED – The Committee resolved to:

- (a) note DCLG's response to the consultation;
- (b) note the proposal to actively engage with DCLG to influence the emerging framework and regulations; and
- (c) receive further reports on the framework as the timetable for legislative change is clarified.

64 Consultation on the interim auditor appointment for 2012/13

The Chief Officer (Audit and Risk) presented a report of the Director of Resources. The report informed the Committee that the Audit Commission are consulting with the Council on making an interim appointment for the 2012/13 audit.

Members discussed the report and concluded that it was a sensible measure to continue for the next six months with the firm that is currently handling the Council's accounts.

RESOLVED – The Committee resolved to note and support the Director of Resources intention to raise no objections to the appointment of KPMG on an interim basis.

65 KPMG Report - Annual Audit Letter

The Principal Financial Manager (Financial Management) presented a report of the Director of Resources which provided the key external audit findings in respect of the 2010/11 financial year.

Steve Clark and Heather Garrett were also in attendance representing the external auditors KPMG.

Members queried the section in the Annual Audit Letter on waste management and developments effecting it. Members were informed that a watching brief will be maintained in this area.

The Chair congratulated Council officers on managing the production and completion of the 2010/11 final accounts and for their successful co-operation with the external auditors.

RESOLVED – The Committee resolved to note the conclusions and recommendations arising from the 2010/11 audit process.

66 Capital Programme Approvals

The Chief Officer (Financial Development) presented a report of the Director of Resources. The report informed the Committee of proposed changes to the capital programme approvals framework.

The report also presented the recommendations of a Resources and Council Services Scrutiny Board Working Group in relation to capital decision making.

Members sought reassurance that the proposed changes substantially added value to the council's arrangements and were informed that the proposals;

Draft minutes to be approved at the meeting
to be held on Monday, 27th February, 2012

- Simplified the decision making process;
- Improved clarity as to the accountability for capital decisions; and
- Did not alter the corporate decision making arrangements in respect of definition of key decisions or call in nor removed the ability of Executive Members to require that directors referred matters relating to capital schemes to Executive Boards for approval.

RESOLVED – The Committee resolved to:

- (a) note the proposals contained within the report; and
- (b) receive periodic papers in relation to the implementation of the arrangements.

67 Treasury management Governance framework

The Principal Finance Manager (Capital and Treasury) presented a report of the Director of Resources which outlined the governance framework for the management of the Council's Treasury Management function. The report also reviewed compliance with the revised Chartered Institute of Public Finance and Accountancy code of practice on treasury management and guidance notes and revised prudential code.

RESOLVED - The Committee resolved to:

- (a) note the delegations in respect of treasury management;
- (b) note the assurance that Treasury Management has adopted and is complying with the revised CIPFA Code of Practice and guidance notes and the Prudential Code.

68 Partnership Governance

The Head of Governance Services presented a report of the Director of Resources, the report updated the Committee on the Council's partnership governance arrangements.

RESOLVED – The Committee resolved to note the update provided.

69 Internal Audit Report December 2011

The Head of Internal Audit presented a report of the Director of Resources which provided a summary of internal audit activity for the period September – December 2011 and highlight the incidence of any significant control failings or weaknesses monitored in the report.

Members considered the opinion given by Internal Audit on schools. They also sought fuller assurance in respect of the use of purchasing cards.

Draft minutes to be approved at the meeting
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Consideration was also given to the Nursery Education Grants work undertaken by Internal Audit; the proposals to undertake further follow up work to ensure previous recommendations had been implemented was welcomed.

Members discussed the Belle Isle Tenant Management Organisation and raised concerns that some tenancy applications had been unable to be located. Members similarly questioned whether missing applications might also be a problem in other ALMOs and wished to updated on progress in a subsequent report.

RESOLVED – The Committee resolved to:

- (a) note the work undertaken by Internal Audit during the period covered by the report; and
- (b) request further information be included in a subsequent report on Nursery Education Grants and ALMO tenancy application forms.

70 Performance Management Update

The Performance Manager presented a report of the Chief Officer (Intelligence and Improvement) which provided an update to the Committee on the Council's arrangements for performance management; specifically how these arrangements are contributing to achieving each of the Cross Council Priorities. The report also sought feedback form the Committee on the robustness of these arrangements prior to the framework being finalised.

Members discussed the report giving consideration to the relationship between performance management and risk management in light of risk management generally looking into the future and performance management reviewing past performance.

RESOLVED – The Committee resolved to continue to monitor the implementation of the arrangements detailed within the report through the submission of an annual risk and performance report in the summer after the year end reporting has been completed.

71 Protecting the Public Purse 2011

The Audit Manager (Internal Audit) presented a report of the Director of Resources which presented a self assessment of the Council's position against the recommended best practice in the Audit Commission's 'Protecting the Public Purse 2011' report and proposed actions to address areas where further work could be done to address the risk of fraud and corruption.

Members gave consideration to the report and questioned officers on the local position in terms of fraud committed against the Council and what resources were being out into identifying and preventing fraud.

Members emphasised the important of investigating housing tenancy fraud highlighting the problems they had encountered in this area. Suggestions were also made with regards to closer working between West Yorkshire Police's Economic Crime Unit and the Council's Internal Audit service.

RESOLVED – The Committee resolved to:

- (a) note the assessments made by Internal Audit regarding arrangements to meet the best practice detailed in Protecting the Public Purse 2011;
- (b) note the proactive approach being taken in continually improving controls to prevent fraud against the organisation; and
- (c) receive updates form Internal Audit on the issues raised.

72 Work Programme

The Director of Resources submitted a report notifying Members of the work programme.

The Committee reviewed its forthcoming work programme. The Chief Officer (Audit and Risk) informed the Committee that he intended to review the work programme with the intention of aligning it more towards the Annual Governance Statement.

RESOLVED - The Committee resolved to note the work programme.

Report of the Chief Officer PPPU and Procurement

Report to Corporate Governance and Audit Committee

Date: 27 February 2012

Subject: Transforming Procurement Programme Position 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	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The council is seeking to reduce expenditure and to improve value for money in the goods, works and services that it buys. This expenditure equates to approximately one-third of the council's revenue budget and almost its entire capital budget. Over the past few years, the council has taken a number of steps to improve its procurement outcomes and the processes used.
2. Following the transfer of the procurement function to Resources Directorate, a review workshop was held with senior officers, and a 'Transforming Procurement Programme' was established. Work to deliver the programme is now underway, with the aim of establishing sustainable economy, efficiency and effectiveness in the council's buying activities, taking account also of the council's wider policy objectives. The programme has three principal workstreams – strategy, pilots, and business.
3. The current draft ambition is for the council to "deliver the best commissioning, procurement and contracting in the country, where:
 - We achieve value for money for the public;
 - We support the delivery of quality outcomes for service users;
 - We support the wider ambitions of the council and its partners;
 - Providers want to deliver for Leeds;
 - Procurement professionals want to work for Leeds; and
 - We are recognised nationally as a centre of excellence".

Recommendations

4. That members of the Corporate Governance and Audit Committee note and comment on the contents of this report.

1 Purpose of this report

- 1.1 To inform members of the Corporate Governance and Audit Committee of progress with respect to the Transforming Procurement Programme and invite comments on the contents of this report.

2 Background information

- 2.2 The council is seeking to reduce expenditure and to improve value for money in the goods, works and services that it buys. This expenditure equates to approximately one-third of the council's revenue budget and almost its entire capital budget.
- 2.3 Over the past few years, the council has taken a number of steps to improve its procurement outcomes and the processes used. Whilst there are elements of good practice, there remains inconsistency in our approaches to procurement and to contracting, and a need to improve our systems and information. There is room for improvement in managing demand and in managing contracts, and a need to improve our skills and capacity.
- 2.4 Following the transfer of the procurement function to Resources Directorate, a review workshop was held with senior officers, and a 'Transforming Procurement Programme' was established.
- 2.5 A programme Board has been formed, chaired by Alan Gay and with senior officer representation from across the council, to provide overall direction and ensure that appropriate governance is in place. A team has been formed to deliver the programme and comprises staff from the council's Public Private Partnerships Unit (PPPU) and Procurement Unit, working with colleagues from across the council.
- 2.6 Work to deliver the programme is underway, with the aim of establishing sustainable economy, efficiency and effectiveness in the council's buying activities, taking account also of the council's wider policy objectives. The programme has three principal workstreams – strategy, pilots, and business.
- 2.7 The programme is building upon existing good practice within the council and nationally, and will seek to address issues raised, including the recommendations contained in internal audit reports relating to the council's procurement practices.

3 Main Issues

Strategy

- 3.1 The strategy is building on the principles that the council's buying activities should:
- Work to common principles and rules, but allow appropriate tailoring to take account of different categories of spend, contract values, risk profiles, and market maturity;
 - Build on specialist expertise and good practice within directorates, and provide appropriate central support, ensuring an appropriate mix of skills, knowledge and experience, blending service expertise with procurement, project management, legal and financial expertise;

- Ensure appropriate means to recruit, retain and develop the buying skills and capacity of our people; and improve our systems and information, including our processes and technology;
 - Reflect a whole lifecycle approach to buying, from identification of service need, through procurement, to contract management and then exit;
 - Ensure appropriate governance, ownership, assurance, and check and challenge, incorporating openness and transparency.
- 3.2 The strategy is centred on a category management approach to buying. Category management is a widely adopted method of buying, which groups together related purchasing, to optimise quality and maximise savings. In addition to the benefits of “bulk buying”, it can facilitate better intelligence of buying needs and of what providers have to offer. It can also assist in improving accountability and outcomes.
- 3.3 The programme team is seeking to capture and build upon expertise and examples of best practice which are available within the council and nationally, and from the public, private and third sectors. This information is being distilled into draft processes and documentation for Leeds, including guidance, templates and training materials, which are being trialled through pilots (paragraph 3.6 below).
- 3.4 Procurement governance arrangements will be clearly defined through the strategy, and existing processes and documentation will be refreshed or replaced as appropriate. It is anticipated that Contracts Procedure Rules (CPRs) will be revised to align with the new approach.
- 3.5 A ‘beta version’ of the strategy will be submitted to the Transforming Procurement Programme Board for approval in March 2012. Following approval, the strategy will begin to be implemented whilst further work is undertaken to refine the documents and ensure a clear fit with wider council policies and procedures. A final ‘go-live’ version will be submitted for approval to the council’s Executive Board in March 2013, to be adopted council wide in April 2013.

Pilots

- 3.6 Twin-tracking strategy and process development with live pilot projects aims to speed up the implementation of change, whilst also ensuring lessons learned are fed back in a timely manner. The pilots will assist in refining the category management model for Leeds, ensuring an appropriate ‘fit’ with the council’s wider objectives and methods of working.
- 3.7 A pilot of the approach has commenced within Children’s Services. Work is underway to review service needs and pressures, and to develop and implement solutions, particularly with respect to Looked After Children (the single largest area of spend within the directorate).
- 3.8 A second pilot is being formed to undertake a similar process within Housing Services, focused particularly on management of existing contracts.

Business Management

- 3.9 The Chief Officer Public Private Partnerships Unit is now undertaking the strategic roles of the Chief Procurement Officer. The Procurement Unit has moved to sit alongside the PPPU, and opportunities are being identified to share resources and expertise. Work to develop the Procurement Unit's internal staff and budget management systems is progressing.

Other

- 3.10 Work is ongoing with service directorates and suppliers to reduce the prices of existing contracts, to conduct new procurements, and to address off contract spend. Work is also ongoing to improve the council's procurement information systems.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Consultation is being undertaken to identify examples of best practice and lessons learned, and to better understand stakeholder aspirations and the barriers they face within the procurement and contracting process.
- 4.1.2 This includes engaging with commissioning and procurement staff across the council and others in related roles such as audit, finance and human resources.
- 4.1.3 The team is now embarking on wider consultation with the private and third sectors, to ensure their views are considered within the programme.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no specific implications with respect to the programme.
- 4.2.2 The programme team will work with colleagues from the council's Equality Team, to confirm whether our current buying processes appropriately address these matters or identify and implement areas for improvement.

4.3 Council policies and City Priorities

- 4.3.1 The programme supports the council value of 'spending money wisely' and will reflect council policies and city priorities. For example, work has recently been undertaken to review and improve how our contracting arrangements can support jobs and skills in the economy.

4.4 Resources and value for money

- 4.4.1 It is anticipated that costs of delivering the programme will be internal staffing costs, predominantly staff from Procurement Unit and the PPPU, but also from staff in other directorates that wish to engage as 'early-adopters'.
- 4.4.2 The programme aims to ensure that value for money is considered at all stages in the buying lifecycle. The programme team will work with colleagues in the council's Finance Team, and also the Purchase to Pay Team, on these matters. In addition the programme aims to test and clarify the council's buying skills and capacity and will review available learning and development opportunities.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The programme aims to test and clarify the council's current buying processes to ensure that they consistently meet all appropriate legal requirements in a proportionate and sustainable manner.

4.6 Risk Management

- 4.6.1 The programme operates in compliance with the council's risk management policy. A programme risk register captures risks identified at a programme level and is informed by risk registers owned and maintained by the separate workstreams.
- 4.6.2 The programme team will work with colleagues in the council's Risk Team to confirm whether current buying processes appropriately identify and manage risk or identify and implement areas for improvement.

5 Conclusions

- 5.1 The council is seeking to reduce expenditure and to improve value for money in the goods, works and services that it buys. Work is being undertaken to achieve procurement savings.
- 5.2 A Transforming Procurement Programme has been formed to drive strategic and systematic change to our buying activities to deliver economy, efficiency and effectiveness which is sustainable for the long term.
- 5.3 There is broad support from those engaged in procurement across the council to the proposal to adopt a category management approach to buying.
- 5.4 The programme is seeking to capture and build upon expertise and examples of best practice which are already available within the council, and is taking opportunity of guidance and examples which are available nationally.
- 5.5 Twin-tracking strategy and process development with live pilot projects aims to speed up the implementation of change, whilst also ensuring lessons learned are fed back in a timely manner. The pilots will assist in refining the category management model for Leeds, ensuring an appropriate 'fit' with the council's wider objectives and methods of working.
- 5.6 Developing the council's underlying capacity to deliver best practice commissioning, procurement, contracting and purchasing, is running in parallel, starting with support to enhance efficiency within Procurement Unit itself.

6 Recommendations

- 6.1 That members of the Corporate Governance and Audit Committee note and comment on the contents of this report.

7 Background documents

- 7.1 [LCC Procurement Strategy 2011-15](#)

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Report of Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: Procurement Policies and Procedures

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. Contract Procedure Rules (“CPRs”) are the most significant procurement procedures in place within the Council and a report was presented to the Corporate Governance and Audit Committee regarding their fitness for purpose on the 21st March 2011 which concluded that generally they were fit for purpose, but also highlighted a number of concerns relating to the lack of pro-active monitoring of compliance with CPRs by officers.

2. In addition to the CPRs, there are a number of other documents in place that provide the necessary tools to help officers comply with CPRs. A list of these documents is attached at Appendix A

3. Subsequent to paragraph 1 above a number of audits of the Council’s procurement practices have been carried out and recommendations for improvements have been made. The Procurement Unit will shortly be working closely with internal audit to address the issues highlighted, one of which is to develop and implement a strategy for pro-actively monitoring compliance with CPRs by officers, in order to ensure that value for money is obtained,

4. In addition, following the posts of the Chief Procurement Officer and the Deputy Chief Procurement Officer becoming vacant, the subsequent changes in the departmental structure and closer working between the Procurement Unit and PPPU, both units are looking at the entire procurement process with a view to implementing a category management approach to procurement from April 2013 (a report regarding this review

is elsewhere on the agenda). As part of this process, all of the Council's procurement policies and practices (detailed in Appendix A) will be reviewed to ensure they are consistent with category management arrangements and are fit for purpose.

5. In light of all the above, the current situation with regard to CPRs remains as it was in March 2011. However, it is anticipated that following the review outlined in paragraph 3 above, and through closer working with Internal Audit over the coming months, new CPRs will be published, along with supporting documentation. This will ensure that the Council's procurement policies and procedures are fit for purpose and help deliver value for money.

Recommendations

6. The Corporate Governance and Audit Committee are recommended to note the contents of this report.
7. That a further report is submitted to the Corporate Governance and Audit Committee in 6 months time to update on progress made.

1 Purpose of this report

- 1.1 The purpose of this report is to establish whether the procurement policies and procedures in place at the Council are fit for purpose and help achieve value for money.
- 1.2 The report specifically relates to Procurement Unit and the Public Private Partnership Unit.

2 Background information

- 2.1 Contract Procedure Rules (“CPRs”) are the most significant procurement procedures in place within the Council and a report was presented to the Corporate Governance and Audit Committee regarding their fitness for purpose on the 21st March 2011. This concluded that generally they were fit for purpose, but also highlighted a number of concerns around lack of pro-active monitoring of compliance with CPRs by officers.
- 2.2 In addition to the CPRs, there are a number of other documents in place that provide the necessary tools to help officers comply with CPRs. A list of these documents is attached at Appendix A.

3 Main issues

- 3.1 A number of audit reports have been recently carried out in relation to the Council’s procurement practices and recommendations have been made for improvements. The Procurement Unit will shortly begin working closely with Internal Audit to address the issues highlighted, one of which is to develop and implement a procedure for pro-actively monitoring compliance with CPRs by officers, in order to ensure that value for money is obtained
- 3.2 In the report of the 21st March 2011 reference was made to “no proactive monitoring by the Procurement Unit to ascertain whether CPRs are being complied with” and that the following was proposed –
 - “3.18 In order to address this shortfall, plans are currently being developed to ensure pro-active monitoring takes place. Reference has already been made in the recently published Contract Management Guidance for the need to comply with CPRs, and additionally, the use of the contracts diary and off-contract spend information to establish a process of “spot checks” for compliance with CPRs is to be introduced.
 - 3.19 It is anticipated that a report will be taken to the Legal and Procurement Decisions Group (LAPD) on a quarterly basis detailing instances of Officers’ failure to comply with CPRs. This information will be used to target training towards the particular officers involved. Should persistent offenders be identified, these will be reported to the relevant Chief Officer/Director so that they can take the appropriate disciplinary action.”

- 3.3 Due to the Council also reviewing the way it places orders with suppliers, substantial development of the Council's financial management system, FMS (Leeds), were carried out to assist orderers in making the correct purchase. The system has not fundamentally changed but has been redesigned to give category and contract information to the orderers and to steer them into using the Council's contracts. This has produced significant savings by reducing the amount of "off contract" spend that takes place and has highlighted a number of areas where there is a need for additional contracts.
- 3.4 Due to the priority that had to be given to FMS the planned pro-active monitoring of CPRs etc could not be implemented and, as stated above, this has been highlighted as a concern of internal audit which we are working to address. However, work has been undertaken when tendering high profile matters (e.g. Neighbourhood Networks) to ensure that the CPRs and procurement rules generally are being complied with
- 3.5 In addition, following the posts of both the Chief Procurement Officer and the Deputy Chief Procurement Officer becoming vacant, the subsequent changes in the departmental structure and the Procurement Unit working more closely with PPPU, both units are looking at the entire procurement process with a view to implementing a category management approach to procurement from April 2013 (a report regarding this review is elsewhere on the agenda). As part of this process all of the Council's procurement policies and practices (detailed in Appendix A) will be reviewed to ensure they are consistent with category management arrangements and are fit for purpose.
- 3.6 A 'beta version' of the strategy for implementing category management will be submitted to the Transforming Procurement Programme Board for approval in March 2012. Following approval, the strategy will begin to be implemented in relation to the council's buying activities, whilst work is undertaken to ensure fit with wider council policies and procedures such as the constitution and CPRs, and to further refine the documents. A final 'go-live' version will be submitted for approval to the council's Executive Board in March 2013, to be adopted council wide by April 2013.
- 3.7 As a result of this review, it is not proposed to undertake the normal annual review of CPRs in 2012 as it is anticipated that they will need to be totally re-written to fit in with category management approach.
- 3.8 In light of all the above, the current situation with regard to CPRs remains as it was in March 2011. However, it is anticipated that following the review outlined in paragraph 3.5 above, and through working closely with internal audit over the coming months, new CPRs will be published, along with the supporting documentation, which will provide procurement policies and procedures that are fit for purpose and help deliver value for money.
- 3.9 As this work has recently commenced and is ongoing, and it would be appropriate to provide an update to the Corporate Governance and Audit Committee in six months time so they can be kept abreast of progress made.

- 3.10 The core document used by staff in the PPPU is the PPP/PFI Governance Manual. This sets out the governance processes that the council's PPP/PFI projects must comply with. These reflect the requirements of CPRs and the specific requirements relating to these schemes under the Council's constitution and sub-delegation scheme. The current processes were originally approved in March 2005 by Executive Board and have been reviewed and refreshed periodically since then, including taking account of subsequent changes to the constitution, particularly those in spring 2010 relating specifically to PPP/PFI.
- 3.11 Individual project's compliance is assured through project boards, comprising senior officers from the relevant service directorate and from corporate Legal, Finance, City Development and PPPU. Check and challenge is also provided through internal line management within the PPPU and the relevant service directorate and through the council's Strategic Investment Board.
- 3.12 HM Treasury and the relevant sponsoring government department scrutinise and test a series of business cases and other documents prepared by the Council as part of the approvals process for these projects. For example, a housing project is scrutinised by HM Treasury, the Department for Communities and Local Government, the Homes and Communities Agency and Infrastructure UK. There are a number of formal review points – expression of interest, outline business case, pre-preferred bidder business case, and pre-contract signature business case. Each of these review points tests strategic fit and value for money, seeks confirmation of approvals secured and consultation undertaken, and reviews proposed project outputs, payment provisions and contract drafting. The value for money checks within this process include benchmarking proposed prices against national data.
- 3.13 To date all of the council's projects have successfully progressed through each of these approval points.
- 3.14 In addition the projects are often subject to external checks from independent OGC accredited gateway reviews organised through Local Partnerships (a joint venture between HM Treasury and the Local Government Association). A team of peer reviewers from outside of the council who have relevant expertise review project documents and interview key stakeholders. They benchmark the project against best practice and national guidance and produce a report summarising their findings and making recommendations for action. The last three of these reviews (Little London January 2011, Holt Park September 2011 and West Yorkshire Police January 2012) were all assessed as 'Green' with headline comments respectively of "overall this is a very well run project", "the team have done an excellent job" and "this is an exceptionally well managed project".
- 3.15 The processes are considered to be fit for purpose as demonstrated above through successful project delivery, successful sign-off to projects at various stages from HM Treasury and sponsoring government departments, and from successful independent gateway reviews.

- 3.16 Project lessons learned are reported to project boards and any issues relating to the governance and control environment are considered within the Unit's management team, and documents and guidance are refreshed appropriately.
- 3.17 The PPP/PFI Governance Manual will be reviewed and refreshed alongside CPRs through the Transforming Procurement Programme (paragraph 3.6 above refers).

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Senior Executive Manager of PPPU has been consulted on the content of this report.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no known equality and diversity or cohesion and integration issues

4.3 Council policies and City Priorities

- 4.3.1 CPRs form part of the Council's constitution and establish the basic governance arrangements that must be followed when procuring goods, works and services on behalf of the Council. There are no implications for City priorities.

4.4 Resources and value for money

- 4.4.1 A review of the documents listed in Appendix A is already underway and it is anticipated that it will require at least two officers to undertake this task over the next couple of months. Such a review will ensure the Council continues to procure goods, works and services in a cost effective manner.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Failure to comply with its own CPRs, and the policies and documents that complement them, may result in legal challenge and/or judicial review from aggrieved bidders or suppliers.
- 4.5.2 The information contained in this report is for information only and is therefore not subject to call-in

4.6 Risk Management

- 4.6.1 Other than the risks highlighted in 4.5.1 above, a further implication of failure to comply with CPRs etc, is of an Ombudsman investigation arising from a complaint that the City Council has not followed its own procedures, resulting in a loss of opportunity. Obviously, the complainant would have to establish maladministration.
- 4.6.2 Clearly, with any risk of challenge comes the risk of reputational damage should the Council be found to be at fault.

5 Conclusions

- 5.1 In conclusion, in addition to CPRs there are also a number of other policies and procedures in place that provide the necessary tools to help officers comply with CPRs. There are no major concerns with procurement policies and procedures but there is an opportunity to review them to make sure they fit into and are compatible with the developing Transforming Procurement Strategy.
- 5.2 In addition, a number of audit reports have been issued in relation to the Council's procurement practices and a number of recommendations have been made. The Procurement Unit will shortly be working closely with Internal Audit to address the issues highlighted.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee are recommended to note the contents of this report.
- 6.2 That a further report is submitted to the Corporate Governance and Audit Committee in 6 months time to update on progress.

7 Background documents

- 7.1 Report to the Corporate Governance and Audit Committee regarding their fitness for purpose on the 21st March 2011.

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Leeds City Council Procurement Policies and Practices

The following policies and practices represent a compilation of areas which will be considered for review during 2012/13. This list will be added to and developed further during the review. The policy and practice review is a key workstream in the development of the Category Management approach in the authority.

Process

- Contract Procedure Rules & Code of Practice
- Financial Procedure Rules
- Delivering Successful Change
- Service Plans
- Forward Plan
- Appraisals
- Governance Framework for Significant Partnerships
- Equality Impact Assessments
- A range of guidance on aspects of the procurement process such as: 'Professional conduct in procurement'; 'Partnerships guidance' and 'How to specify standards & avoid restricting competition'.
- Procurement checklists
- Efficiencies and best value
- Localism / Community Right to Challenge (in development)
- Tender evaluation model and guidance
- Category management approach (in development)

Policy

- Purchasing Cards
- Training & development:- Procurement skills framework and courses: Procurement Essentials, Procurement Certificate of Competency, Masterclasses
- Procurement Strategy
- Equality & Diversity policy
- Environmental policy
- Community Benefits Charter
- Small Supplier Scheme
- Compact for Leeds
- Socially Responsible Procurement Toolkit and guidance: taking into account environmental, ethical, small businesses and social concerns.
- Employment and Skills Toolkit (in development)
- One Council Approach to Commissioning
- Data security / information governance
- Joint/collaborative working

Systems

- SCMS
- FMS
- Talking Point
- Sharepoint
- Webinars
- Trading Partners e-auction web tool
- Intranet
- Internet
- Experian for financial checks
- YoHr portal
- SOPO website

External drivers and systems

- RIEP regional work (Smarter Procurement Programme)
- Legislation (including TUPE, FOI, Data Protection)

- EU Directives
- Public Contract Regulations 2006
- External assessments e.g. EMAS, IIP

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: DCLG Code of Recommended Practice for Council Transparency

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 Department of Communities and Local Government (DCLG) have issued a new Code of Recommended Practice for Council Transparency.
2. Whilst most of the requirements of the Code have already been met, work is ongoing to ensure the Council's full compliance.

Recommendations

3. Members of the Corporate Governance and Audit Committee are asked to note:
 - § the new Code of Recommended Practice for Council Transparency.
 - § the Council's progress towards implementing the requirements of the code.

1 Purpose of this report

- 1.1 DCLG published the Code of Recommended Practice for Council Transparency on the 29th September 2011. The Code of Practice sets out a number of principles that should underlay the publication of information by local authorities.
- 1.2 The code specifies that authorities should build and maintain an inventory of the public data that they hold, but in addition the code proposes information that should be published as a minimum.

- 1.3 This paper sets out what is currently being published by the Council, and what steps are being taken to move to full compliance with the code.

2 Background information

- 2.1 The code of Recommended Practice for Council Transparency is designed to help reveal the fine detail of authorities' daily business. Ministers believe that data transparency should extend beyond local spending and that full disclosure should be every councils default position. Subject to consultation, ministers are minded to make the Code a legally binding requirement to ensure authorities can be held fully accountable to the local people they serve.

3. Main Issues

- 3.1 Councils will now be expected to have regard to the code in all their data publications. The code is not legally enforceable, but it is apparent that Ministers are minded to make the code legally binding.

- 3.2 The code establishes three key principles behind council transparency being:

Timeliness- The code highlights that timeliness of making public data available is often of vital importance. It states data should be published as soon as possible following production, even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time.

Openness - Public data availability should be promoted and publicised. Presentations should be helpful and accessible to residents and other interested persons. Public data should be published in a format and under a license that allows open reuse, including for commercial purposes.

Local Demand - The code states that local authorities should not determine the value of their public data and the level of public demand, rather they should understand what they hold, what their communities want and then release it in a way that allows the public developers or the media to use.

- 3.3 The code states that local authorities should build and maintain an inventory of the public data they hold. If public data would be released under Freedom of Information, it should be included in the inventory. These inventories should be registered on data.gov.uk.

- 3.4 The code also proposes the minimum datasets that should be released. They are:

- Expenditure over £500 (including costs, supplier and transaction information)
- Senior employee salaries, names (with the option for individuals to refuse consent for their name to be published), budgets, numbers of staff reporting to, and responsibilities of staff paid over £58,200
- An organisation chart including salary bands and currently vacant posts

- The pay multiple, the ratio between highest paid salary and the median average salary of the whole of the Councils workforce
- councillor allowances and expenses
- copies of contracts and tenders to businesses and to the voluntary sector, community and social enterprise sector
- grants to the voluntary, community and social enterprise sectors should be clearly itemised and listed
- policies, performance, external audits and key inspections and key indicators on the authorities fiscal and financial position
- the location of public land and building assets and key attribute information that is normally recorded on an asset register
- data on the democratic running of the local authority including the constitution, election results, committee minutes, decision making processes and records of decisions.

3.5 The table below details what Leeds City Council already publishes with regard to the minimum requirements:

Requirement	Details
Over £500 payments	Monthly on both LCC open data site and data.gov site
Employee salaries, names staff paid over £58,200	Information about the top three tiers of management as to salary band and job title. Number of staff paid over £50k published as part of the accounts.
An organisation chart s	Quarterly on the Council's internet open data site
Pay multiple	Currently being calculated for publication.
Councillor allowances and expenses	Annually on the Councils website.
Copies of contracts and tenders	Information is recorded regarding contracts on an online system that can be accessed by the public.
Grants to the voluntary	Grants for 2011/12 will be published at the year end.
Policies, performance, external audits and key inspections	Published on the Councils website.
The location of public land and building assets	Further development work required.
Data on the democratic running of the local authority	Published on the Councils website.

- 3.6 In anticipation of the Code becoming legally binding and for ease of public reference, all the required data currently published will be linked to the Council's Open Data and the DCLG data.gov.uk sites.
- 3.7 In respect of those areas the Council is not currently publishing any information the following work is planned or is currently being undertaken:
- The pay multiple calculation will be reported in the Pay Policy Statement to be approved by Council in March.
 - Officers in the Resources Directorate to work with City Development to clarify what information should and can be published with regard to assets. As an interim solution the Council's has provided the DCLG data.gov site with information as to the assets owned by the Council. Consideration is being given to including the same data on the Council's own open data site.
 - Procurement are working on assessing the practicalities of publishing all the requested information in the Code for contract and tender documents. The interim solution will be to have a link to the Procurement system on the open data site which will provide public with access to contract and tender information.
 - Once the above data has been created the information will be published on the Council's open data and DCLG data.gov sites.
- 3.8 Once the minimum requirements are met a review will be undertaken as to the extent to which the Council adopts a more proactive and co-ordinated approach to transparency and the publication of information, and what arrangements we need to put in place to adopt such an approach.
- 3.9 The development of the Council's internet and intranet site will need to take into account the need to maintain an inventory and a central point to publish data to ensure Council has data transparency.

4. Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The code states local authorities should not pre-determine the value of their public data and the level of public demand but they should understand what they hold, what their communities want and then release it in a way that allows the public, developers or the media to use it. At this early stage of compliance with the new code, no consultation has been undertaken but the option remains in the future to consult on any additional information communities want.

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

- 4.3.1 Being open, honest and trusted is one of the key values of the Authority. Leeds City Council would demonstrate its commitment to this value if it has good data transparency.
- 4.3.2 All of the information which the Council would publish under the code would be otherwise available in response to freedom of information requests.

4.4 Resources and Value for Money

- 4.4.1 There are resource implications in publishing information, and adopting a more proactive approach to publication will have some impact, although there will be a clear expectation that this will need to be managed within existing resources.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The code or practice is not mandatory given the additional powers of the Secretary of State to make regulations if he considers it necessary to ensure authorities publish information as set out in the code, therefore the Council could choose to ignore it. However, it seems that the code is a precursor to more extensive disclosure requirements proposed in the Protection of Freedoms Bill, which in many ways is likely to lead to a more rigid and less flexible approach to the local publication of information.

4.6 Risk Management

- 4.6.1 There are no direct risk management implications of this report.

5. Conclusions

- 5.1 The new Code of Recommended Practice for Council Transparency has been published and whilst it is not yet mandatory, the Council current publishes most of the Codes requirements. Further work is being undertaken to ensure the Council meets the minimum requirements of Code.
- 5.2 Consideration of the Codes requirements are being considered as part of the new internet and intranet sites.
- 5.3 Once minimum standards are achieved a review of further information suitable for publication will be undertaken.

6. Recommendations

- 6.1 Members are asked to note:
 - 6.1.1 the new Code of Recommended Practice for Council Transparency.
 - 6.1.2 the Council's progress towards implementing the requirements of the code.
- 6.2 Members are asked to consider whether they would wish to receive a further progress report on this issue.

7. Background documents

- 7.1 The Code of Recommended Practice for Local Authorities on Data Transparency
- 7.2 Local Government, Planning and Land Act 1980
- 7.3 Freedom of Information Act 2000
- 7.4 Environmental Information Regulations 2004
- 7.5 Re-use of Public Sector Information Regulations 2005
- 7.6 INSPIRE Regulations 2009

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: KPMG External Audit Plan 2011/12

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

Summary of main issues

1. In order to discharge its statutory duties, KPMG has issued an audit plan which covers both the Council's 2010/11 accounts and the process for assessing the Authority's arrangements to secure value for money in the use of resources. The attached report identifies the key stages of the audit, the planned timetable and the key risks identified.
2. Officers recognise the risks identified and continue to work towards managing these risks.

Recommendations

3. Members of the Corporate Governance and Audit Committee are asked to:
 - Agree the external audit plan.
 - Note the action taken by officers to manage the risks identified

1 Purpose of this report

- 1.1 To inform members of KPMG's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2011/12. This report also provides a summary of the actions undertaken by officers of the Council to mitigate the risks identified.

2. Background information

- 2.1 KPMG's statutory responsibilities and powers are set out in the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice. As the Council's external auditors, KPMG are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

3 Main issues

- 3.1 The attached report from KPMG identifies the four key stages for the audit of the Council's financial statements:

- Planning,
- Evaluation of controls (Interim Audit),
- Substantive testing,
- Finalisation (audit opinion and reporting the main findings).

The findings from the interim audit will be the subject of a separate report to this Committee in June. The main audit work (substantive testing) is timetabled for July and August, with the resulting audit opinion and findings due to be reported back to this Committee in September.

- 3.2 In respect of the Council's Value for Money arrangements, KPMG will structure their approach around two key criteria:

- The Council has proper arrangements in place for securing financial resilience,
- The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

- 3.3 The main risks identified in KPMG's overall audit plan and the action proposed by officers are as follows:

- 3.3.1 Risk – The Council does not have adequate controls in place to ensure a sound financial standing.

Action taken - As outlined in the report to Executive Board on the Revenue Budget and Council Tax for 2012/13, the Director of Resources considers the proposed budget for 2012/13 as robust and that the level of reserves are adequate given a clear understanding of the following:-

- the level of reserves is in line with the risk based reserves strategy.
- budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action, and reporting arrangements to members will be enhanced.
- the budget contains a number of challenging targets and other actions, these are clearly identified, and will be subject to specific monitoring by the Council's Corporate Leadership Team, and as such, are at this time considered reasonable and achievable.
- enhanced budget reporting to members will continue.
- risks are identified, recorded in the budget risk register and will be subject

to control and management.

- as part of the Council's reserves policy directorates are required to have in place a budget action plan which sets out how they will deal with variations during the year up to 2%.
- there is a clear understanding of the duties of the Council's statutory Financial Officer and that the service implications of them being exercised are fully understood by members and senior management alike.

3.3.2 Risk – The accounts do not follow proper accounting practice as the Council has not reviewed the appropriateness of its componentisation policy.
Action taken – A review of the Council's componentisation policy has commenced and further sampling of the Council's assets is being undertaken in March. The findings of this review will be discussed with KPMG prior to implementing componentisation for the 2011/12 accounts.

3.3.3 Risk – Failure to comply with proper accounting practice.
Action taken – All new accounting requirements are assessed and action plans developed for timely implementation in the accounts. Any contentious issues are discussed and agreed with KPMG prior to implementation. This Committee has requested updates on all major accounting changes and it is proposed to report on such issues for the 2011/12 accounts in March.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council Policies and City Priorities

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

4.4 Resources and Value for Money

4.4.1 The report highlights the auditor's approach to assessing whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The report by KPMG outlines how they propose to discharge their responsibilities as defined by the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

4.6 Risk Management

- 4.6.1 The officer's responses to the risks identified in the KPMG audit plan provides members with assurances that appropriate action is been taken to mitigate these risks.

5 Conclusions

- 5.1 KPMG have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council's 2011/12 accounts and for assessing the Council's arrangements for securing value for money. They have also identified what they see as the main risks and this report identifies what arrangements officers have put in place to mitigate these risks.
- 5.2 KPMG will up date this Committee in June on how both parts of the audit is progressing as part of their interim audit. They will then report on their final VFM conclusion and the opinion on the accounts to this Committee in September.

6 Recommendations

- 6.1 Members are asked to:
 - 6.1.1 Agree the external audit plan in respect of the Council's financial statements and the Value for Money assessment.
 - 6.1.2 Note the action taken by officers to manage the risks identified.

7 Background documents

- 7.1 Report to Executive Board on the Revenue Budget and Council Tax for 2012/13



cutting through complexity™

External Audit Plan 2011/12

Leeds City Council

January 2012

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This document describes how we will deliver our audit work for Leeds City Council.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Scope of this report

This document describes how we will deliver our financial statements audit work for Leeds City Council. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

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 have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 10.

The remainder of this document provides information on our:

- Approach to the audit of the financial statements;
- Approach to VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
<p>Savings plans</p>	<p>The Authority needs to deliver £90 million in savings during 2011/12 to achieve its balanced budget. This is in light of further reductions to local authority funding and continued cost pressures. Government funding in 2011/12 has been reduced by £50 million and the Authority forecasts that there will be a real terms reduction in grants available of £179 million by 2014/15.</p> <p>The Authority will need to establish and manage its savings plans so as to secure longer term financial and operational sustainability and ensure that any related liabilities, such as restructuring costs, are accounted for in its 2011/12 financial statements as appropriate.</p>	<p>As part of our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.</p> <p>We will also review the Authority's assessment of potential liabilities and any provisions in its 2011/12 financial statement.</p>
<p>Component accounting</p>	<p>The Authority will need to continue to monitor the reasonableness and appropriateness of its componentisation policy in line with any guidance released by the Audit Commission or CIPFA. This will ensure that the accounts remain fairly stated, particularly in relation to HRA depreciation. This is particularly important given the move to HRA self-financing from 2012/13.</p>	<p>We will discuss and review the Authority's proposed componentisation policy for 2011/12, to include a review of the approach taken to support the policy selected.</p>
<p>Code changes</p>	<p>The Authority will need to review and appropriately address the changes introduced by the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code)</i>. These include a new requirement to obtain valuations for certain 'heritage assets'.</p>	<p>We will discuss and review the Authority's proposed accounting treatments in the affected areas.</p>

Section three Financial statements audit approach

We undertake our work on your financial statements in four key stages during 2012:

- **Planning**
(December to January).
- **Control Evaluation**
(April).
- **Substantive Procedures**
(July to September).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



Financial statements audit approach - planning

During December and January we complete our planning work.

We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in December 2011 and January 2012. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Audit strategy and approach

The Engagement Partner sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Partner.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We have met with the finance team to discuss mutual learning points from the 2010/11 audit. These will be incorporated into our work plan for 2011/12. We will revisit progress against areas identified for development in our liaison meetings with the finance team.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The key risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to continue to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Financial statements approach – control evaluation

During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will present our *Interim Report to the Corporate Governance and Audit Committee* in June.

Our interim visit on site will be completed during April 2012. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We meet with Internal Audit regularly during the year to discuss progress against our respective audit plans. We have plans in place to meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2011/12.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised no recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process. The quality of the accounts and supporting working papers has historically been strong and officers dealt efficiently with audit queries.

We will assess the Authority's progress in preparing for the closedown and accounts preparation for 2011/12.

Critical accounting matters

We will discuss the Authority's approach to address the specific risks we have identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Corporate Governance and Audit Committee meeting in June.

Financial statements audit approach – substantive procedures

During July, August and September we will be on-site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Corporate Governance and Audit Committee in September.

Our final accounts visit on-site has been provisionally scheduled for the period July to September 2012. During this time, we will complete the following work:

Substantive Procedures
■ Plan and perform substantive audit procedures.
■ Conclude on critical accounting matters.
■ Identify audit adjustments.
■ Review the Annual Governance Statement.

Audit adjustments

During our on-site work, we will meet with the finance team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on-site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Corporate Governance and Audit Committee. 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.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Partner based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

Financial statements audit approach - other

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.

We confirm our audit team's independence and objectivity is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electoral challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

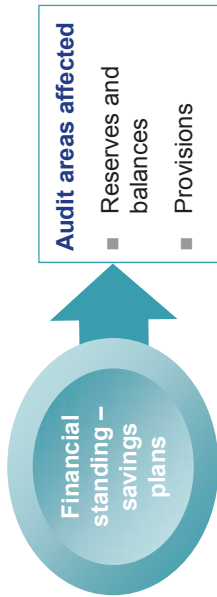
Confirmation statement

We confirm that as of December 2011 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Key financial statements audit risks

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.



Key audit risks

Impact on audit

Risk

At the end of period nine, the Authority was forecasting an overspend of £0.5 million on budget, a significant improvement from the £7.2 million overspend predicted at the end of the second quarter. This is primarily due to over £8 million of unbudgeted funding from the NHS to support the work in Adult and Children's social care services which has helped to offset continuing pressures in these areas. The Authority continues to experience declining income in areas such as car parking, planning fees and section 278 agreements, however this has been offset to some extent by savings of £3.3 million on budgeted finance costs.

The 2011/12 budget includes a savings programme totalling £90 million. The Authority reports that more than £80 million of the budgeted savings are on target to be achieved at period nine. All directorates are continuing to develop and implement action plans and the position is being closely monitored.

The Authority currently estimates that another £47 million in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.

The Authority has plans to further reduce its staff costs by implementing another round of its Early Leavers' Initiative (ELI) in 2011/12. Staff were expected to leave before 31st December 2011 which would enable the Authority to save three months of costs in the current financial year. Over 1,000 staff members put themselves forward for this programme although it is unlikely that all such requests will be accommodated due to the need to balance service delivery with cost savings. It is anticipated that a further round will be implemented in 2012/13.

Our audit work

In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential further funding reductions. It should be sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is continually planning and managing its savings plans and how it has ensured that there will be no impact on the quality of service delivery as a result of the ELI.

Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.

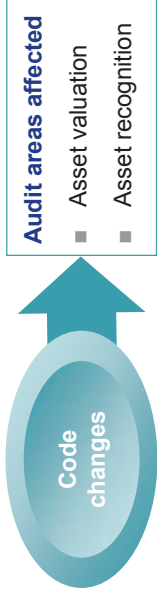
We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
<p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Reserves and balances ■ Provisions 	<p>Our audit work (continued)</p> <p>As part of our final accounts audit we will also review the Authority's assessment of any potential liabilities arising from its savings plans (for example as a result of the Early Leavers' Initiative) against the Code. If applicable, we will review the Authority's provision, including the methodology, assumptions and calculations.</p>
<p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Asset valuation ■ Depreciation 	<p>Risk</p> <p>The Authority will need to continue to monitor the reasonableness and appropriateness of its componentisation policy in line with any guidance released by the Audit Commission or CIPFA. This is particularly important given the move to HRA self-financing from 2012/13 as depreciation becomes a charge to the HRA that will not be reversed. Where the depreciation charge without componentisation differs materially from that which would be charged if component accounting had been implemented, this will have a direct impact on the surplus/deficit reported.</p> <p>In 2010/11 the Authority elected not to apply component accounting to its HRA assets as it would not have had a material impact on the financial statements. We need to gain assurance that this policy continues to be appropriate in 2011/12 and in light of any new guidance.</p> <p>Our audit work</p> <p>As part of our planning and interim work we will again review the Authority's approach to componentisation in 2011/12 and the results of the work performed by the valuers used to support the policy.</p>

Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Asset valuation ■ Asset recognition 	<p>Risk</p> <p>The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p>Our audit work</p> <p>As part of our interim work we will review the Authority's approach to addressing the Code changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

Section five VFM audit approach (continued)

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

VFM audit stage

Linkages with financial statements and other audit work

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Audit approach

Assessment of residual audit risk

It is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.

This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Authority may prepare against the characteristics.

To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.

At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.

Identification of specific VFM audit work

If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and
- carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage

Delivery of local risk based work

Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:

- local savings review guides based on selected previous Audit Commission national studies; and
- update briefings for previous Audit Commission studies.

The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.

Audit approach

Concluding on VFM arrangements

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

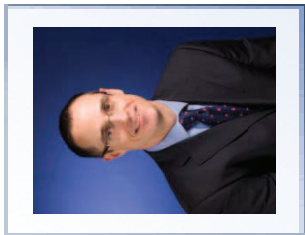
We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.

Audit team, deliverables, timeline and fees

Our audit team have all been part of the Leeds City Council audit team in previous years. Contact details are shown on page 1. The audit team will be assisted by other KPMG specialists as necessary.



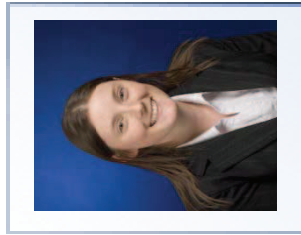
Mike McDonagh
Partner

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Corporate Governance and Audit Committee, and the Chief Executive and the Director of Resources.”



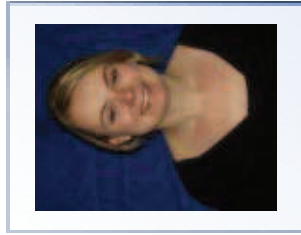
Steve Clark
Director

“I will provide strategic direction to the audit team and work closely with Mike to ensure we add value. I will liaise with the Corporate Governance and Audit Committee, the Chief Executive and the Director of Resources.”



Heather Garrett
Manager

“I will direct and coordinate the audit. I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will liaise with the Principal Finance Manager and Head of Internal Audit.”



Deborah Rumsey
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the finance team and the Principal Audit Manager within Internal Audit. I will also supervise the work of our audit assistants.”

Audit team, deliverables, timeline and fees (continued)

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
Financial Statements Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	February 2012
Control evaluation		
Interim Report	<ul style="list-style-type: none"> Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	June 2012
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements. 	September 2012
Completion		
Auditor's report	<ul style="list-style-type: none"> Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	December 2012

Audit team, deliverables, timeline and fees (continued)

We will be in continuous dialogue with you throughout the audit.

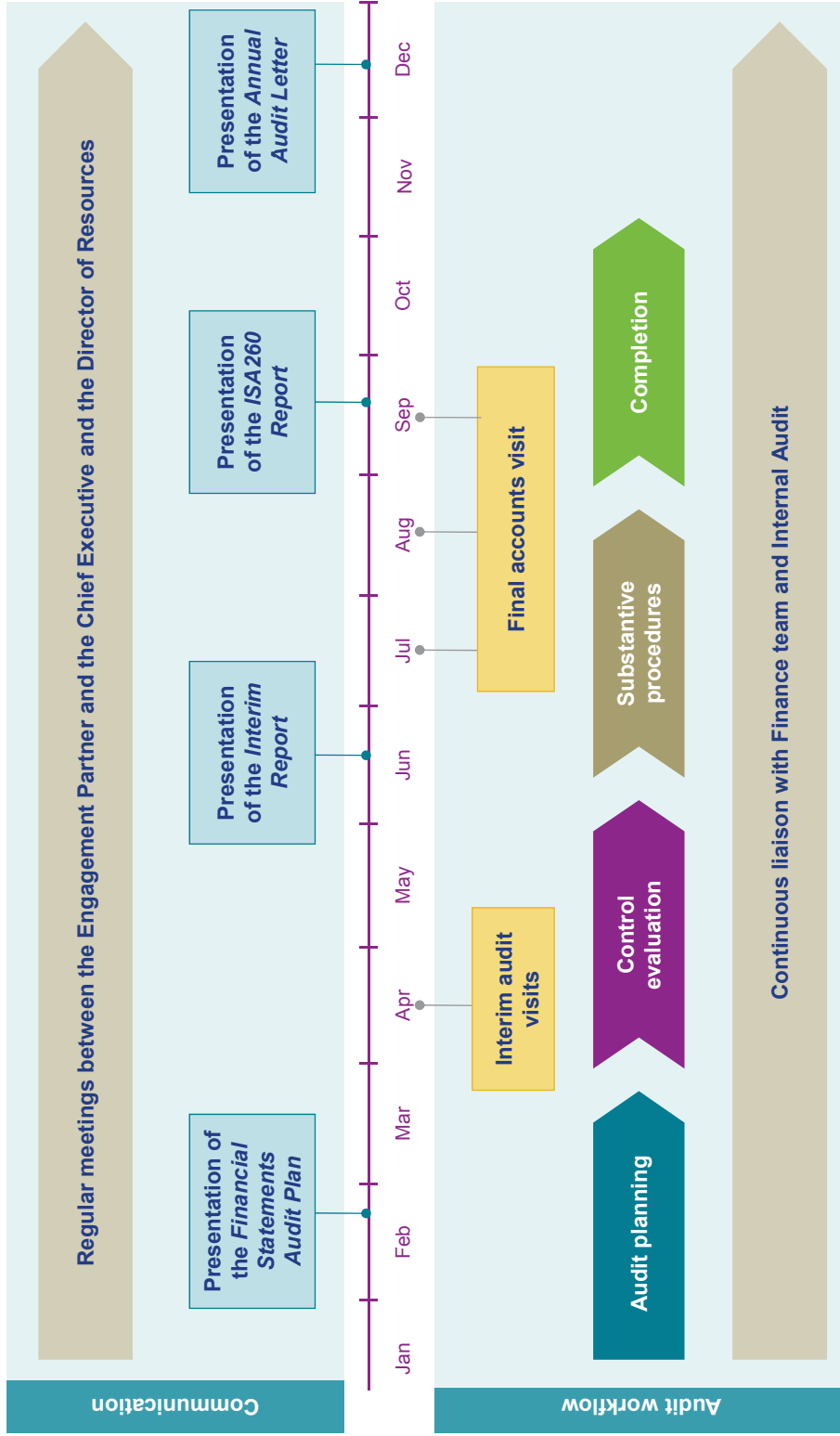
Key formal interactions with the Corporate Governance and Audit Committee are:

- February – Financial Statements Audit Plan;
- June – Interim Report;
- September – ISA 260 Report;
- December – Annual Audit Letter.

We work with the finance team and Internal Audit.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July, August and September.



Key: ● Corporate Governance and Audit Committee meetings.

Audit team, deliverables, timeline and fees (continued)

The net fee for 2011/12 audit of the Authority is £471,960. The fee has changed from that set out in our *Audit Fee Letter 2011/12* issued in April 2011 to take account of the 8% rebate from the Audit Commission.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

The fee for our grants work will be confirmed through our summary report on the certification of grants and returns which will be issued in February 2012.

Audit fee

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£513,000	£570,000
Less: Audit Commission rebate	-£41,040	-£45,117
Total	£471,960	£524,883

The main fee for 2011/12 audit is £471,960, which includes our work on the VFM conclusion and our audit of the Authority's financial statements. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £41,040.

Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12* within your 2011/12 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

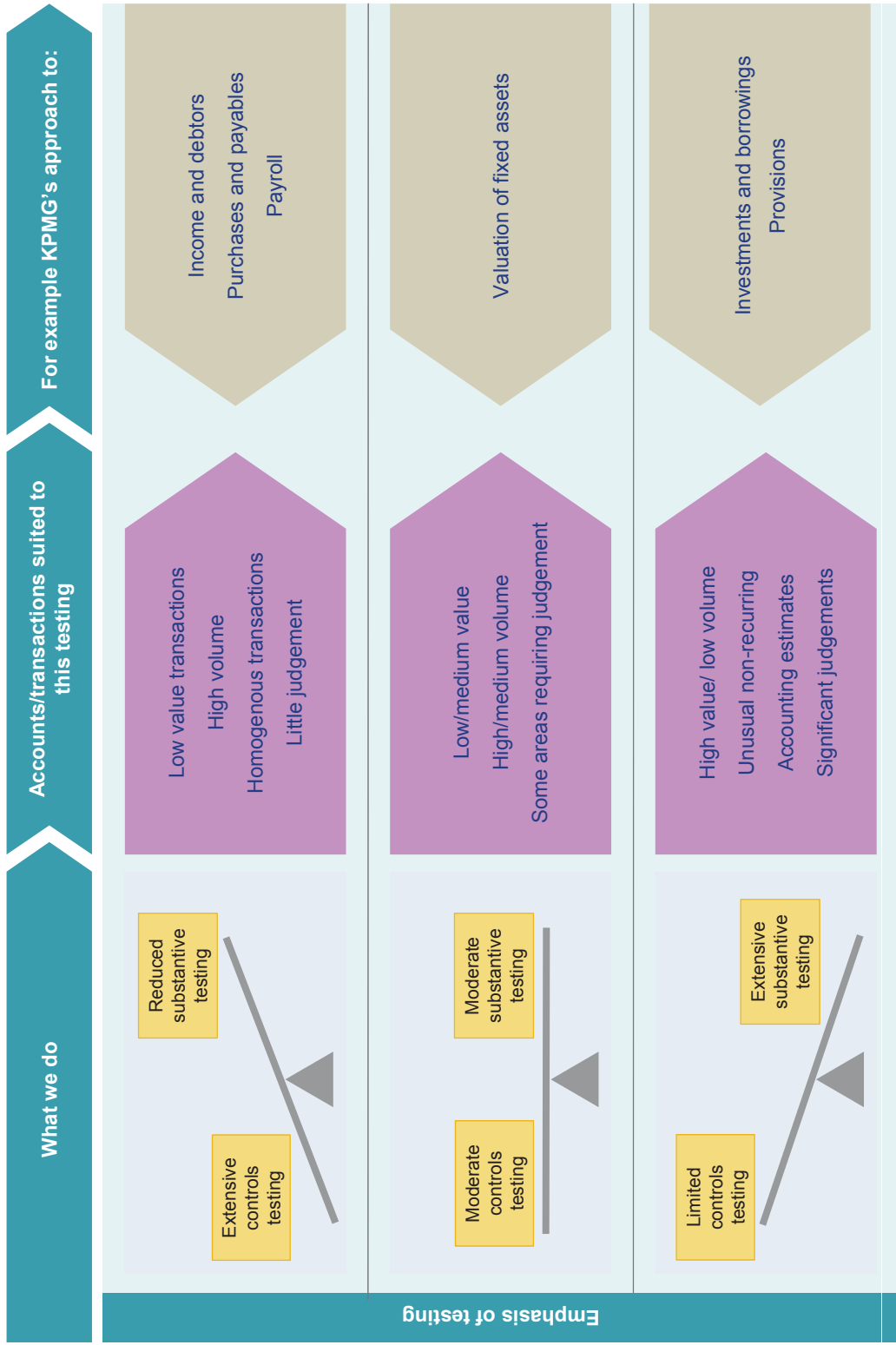
Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Resources.

Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



Appendix 2: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: Quality assurance and technical capacity

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

The diagram summarises our approach and each level is expanded upon.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

We are able to evidence the quality of our audits through the results of the National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.



Recruitment and training of the best staff

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



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Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: KPMG Certification of grants and returns 2010/11

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 stated that the Council has adequate arrangements for preparing its grants and returns. Of the 21 claims and returns audited in respect of 2010/11, two claims were qualified and three required audit adjustments.
2. As in previous years the Housing & Council Tax Benefit Return was qualified due to minor reconciliation issues. The second qualification reflected minor weaknesses in the control environment which led to the omission of two teachers from the pensions return. This has since been amended and the process improved to prevent any reoccurrence of the omissions. These qualifications had no financial impact on the Council.
3. Of the three audit adjustments, two were minor and reflect small control weakness. The third adjustment amounted to £0.5m and was in respect of the Housing Subsidy Claim. This was the first time this type of adjustment has been required on the subsidy return and was due to the wrong Capital Financing Requirement (circ. £1.6bn) being used. Improvements to the control environment will not be required as this was the last year of the subsidy return.
4. All three audit adjustments were made to returns and there was no financial impact on the Council.

Recommendations

5. Members are asked to note the results of the 2010/11 audit of grants and returns.

1 Purpose of this report

- 1.1 To inform members on the result of the work KPMG have carried out on the certification of grant claims in respect of 2010/11.

2. Background information

- 2.2 Each year the Government determines which grant claims require audit certification. The external auditors of each Local Authority are informed of these auditable grants by way of a register supplied by the Audit Commission. Corporate Financial Management provide a central coordination role to ensure all relevant working papers and grant returns are available for the Council's external auditors in order to meet the Government timetables.

3 Main issues

- 3.1 The attached report highlights the audit issues identified in respect of the 2010/11 grants and returns. In addition it reports on any issues relating to 2009/10 returns which had not been completed when the 2009/10 report was presented to this Committee in March.
- 3.2 In March 2010 members were informed that, although the audit was not yet complete, it was likely that the Access to Employment claim would be qualified due to insufficient evidence being given by Leeds Ahead. This report confirms the qualification but members should note that the money has now been received by the Council and paid over to Leeds Ahead.
- 3.3 In respect of 2010/11 the report confirms that the Council has adequate arrangements for preparing the required grant claims and that a large majority of these claims were submitted on time and with a good standard of working papers.
- 3.4 The report does however identify two qualifications in respect of 2010/11 returns:
 - 3.4.1 As was the case last year, the Housing & Council Tax Benefit return was qualified due to minor reconciliation differences and a number of small processing errors. Members should note that KPMG are required to qualify a return if the systems used to support the claim are not fully reconciled. System improvements have now enabled two of the four areas used in the Housing & Council Tax Benefit return to be fully reconciled. The combined variance on the other two system areas was just £126 within a total claim of £311m. These variances had no impact on the claim received by the Council.
 - 3.4.2 The second qualification is in respect of the Capita Teachers' Pension return. This was due to minor processing weakness which resulted in two teachers being incorrectly treated in respect of this return. In both cases the data was corrected and the process has now been amended to prevent any reoccurrence of the errors.
- 3.5 KPMG's report also highlights areas where significant adjustment were required to a claim or return. An audit adjustment is determined as significant if it impacts on the amount of money the Council would otherwise receive. For 2010/11 there were three such adjustments. Two of which were minor and related to general weaknesses in

the processes which are used to compile returns. All officers who compile claims are to be advised as to the audit requirements and quality controls needed in order to minimise such errors occurring in the future.

- 3.6 The third adjustment was in respect of the HRA subsidy return and amounted to an adjustment of £541k within a total net claim of £26.7m. The adjustment related to the inclusion of the wrong Capital Financing Requirement (CFR) figure in the claim calculations. The CFR figure (£1.6bn) can vary for a number of reasons and movements of £50 - £70m are not uncommon. As a consequence of the size and scale of any potential movements in the CFR there is a limit to the ability for quality assurance checks to identify when an incorrect figure has been used. This is the first time the CFR figure has been incorrectly recorded in the claim but as this is the last subsidy claim to be made by the Council, improvements to the process will not be required.

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 This is a factual report based on evidence provided by the external auditors and has no direct implications for equality, diversity, cohesion and integration.

4.3 Council Policies and City Priorities

- 4.3.1 Under the Committee's terms of reference, members are required to receive external audit reports in order to gain the necessary assurance regarding governance. The report from KPMG provides assurance that all grant claims received to date have been certified by the auditors and any audit adjustments actioned.

4.4 Resources and Value for Money

- 4.4.1 Members should note the audit fee of £95k for certification of grants and returns for the financial year 2010/11.

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

- 4.6.1 All recommendations contained within the Certification of Grants and Returns 2010/11 report have been considered and appropriate actions agreed.

5 Conclusions

- 5.1 All grant claims and returns for 2010/11, received to date, have been successfully completed and final approved claims submitted to the relevant granting organisation.
- 5.2 The audit process identified two qualification issues and required three returns to be adjusted.
- 5.3 Weaknesses in the control environment have been evaluated and changes have been introduced where appropriate.
- 5.4 External audit certification remains a valuable part of the control process and helps ensure that correct money is received by the Council.

6 Recommendations

- 6.1 Members are asked to note the results of the 2010/11 audit of grants and returns.

7 Background documents

- 7.1 Register of grant claims
- 7.2 Individual grant returns and associated working papers.
- 7.3 Corporate Governance & Audit Committee March 2010 - KPMG report: Certification of grants and returns 2009/10.



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Appendix 1

Certification of grants and returns 2010/11

Leeds City Council
January 2012

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in connection with this
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■ Summary of certification work outcomes	4
■ Fees	7
■ Recommendations	8
■ Prior year recommendations	12

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh, who is the engagement leader to the Authority who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Authority's 2010/11 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2010/11 we certified: <ul style="list-style-type: none"> – 14 grants with a total value of £42m (3 of which related to 2009/10); and – 7 returns with a total value of £755m. ■ We also recertified from prior years: <ul style="list-style-type: none"> – 3 returns with a total value of £28m. These were recertified as additional eligible expenditure has been identified by the Authority. ■ There are two further 2010/11 grants to be audited in early 2012, which are not reflected in this report. 	<p>-</p>
<p>Certification results</p>	<p>Of the 21 grants and returns certified in 2010/11 we issued unqualified certificates for 18, but qualifications were necessary in three cases; two qualifications related to 2010/11 claims and one related to an outstanding 2009/10 claim.</p> <p>There has therefore been a consistent number of qualifications in 2009/10 and 2010/11, with two instances in each year. The two 2010/11 qualifications were:</p> <ul style="list-style-type: none"> ■ Housing & Council Tax Benefit Return - there were very minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances. The claim was qualified for the same reason in 2009/10. In addition, two Non HRA Rent Rebate cases were found to have been underpaid as a result of the Authority inputting the eligible rent incorrectly, however this did not impact upon subsidy. Two overpayments of Council Tax Benefit were also identified as a result of income being input incorrectly; and ■ Capita Teachers' Pensions by Education Leeds - there were two members of staff who were incorrectly omitted from the scheme. <p>The 2009/10 claim that was qualified during 2010/11 was:</p> <ul style="list-style-type: none"> ■ Access to Employment 2009/10 claim – we were unable to verify the accuracy of the claim for £18,738 Leeds Ahead costs. There was also no adequate supporting documentation in respect of £353 of the 4 Families scheme staff costs. This grant is from the previous year and was still outstanding at the time of reporting on the 2009/10 grants and returns. Members were notified at that time that this claim was likely to be qualified but it has been included in this report as it was certified during 2010/11. 	<p>Pages 4 – 6</p>

<p>Audit adjustments</p>	<p>Adjustments affecting the final amount on the claim or return were necessary to three of the Authority's grants and returns as a result of our certification work this year. This compares to adjustments to two grants and returns in the prior year.</p> <ul style="list-style-type: none"> ■ Sure Start, Early Years & Childcare Grant – discovery of an ineligible prepayment led to a net decrease in eligible expenditure of £19,945. ■ HRA Subsidy – we identified that a minor adjustment to the Capital Financing Requirement used to calculate the subsidy was required. This resulted in a net increase in the subsidy entitlement amounting to £540,858. This equates (approximately) to the Authority's annual audit fee. ■ Pooling of Housing Capital Receipts 2010/11 – the return was amended for additional eligible overhead and capital improvement costs identified by the Authority. There was no adequate supporting documentation for £5,380 buy back of Right to Buy properties therefore this expenditure was removed from the claim. The Authority also made adjustments to the 2007/08, 2008/09 and 2009/10 returns. The Authority had underpaid its pooling liability for 2010/11, therefore further costs were identified and amended for. The result of all these amendments was an overall net reduction of the 2010/11 pooling liability of £4,930.50. 	<p>Pages 4 – 6</p>
<p>The Authority's arrangements</p>	<p>The Authority, generally, has adequate arrangements for preparing its grants and returns and supporting our certification work. Our findings were that:</p> <ul style="list-style-type: none"> ■ the Authority has effective central co-ordination and communication ■ a large majority of claims and returns were submitted on time ■ the majority of working papers were of a good standard however for some of the grants and returns improvements could be made to ensure all figures are adequately supported. This would reduce the likelihood of required adjustments to grants and returns in future years. 	
<p>Fees</p>	<p>Our overall fee for the certification of grants and returns completed to date for 2010/11 is £96,906 compared to £119,765 of fees raised for 2009/10.</p> <ul style="list-style-type: none"> ■ The main reason for this decrease since prior year is due to the decrease in the number of claims audited; ■ Including the three prior year returns which were recertified in 2010/11, the average cost per grant has reduced from £4,436 in 2009/10 to £4,038 in 2010/11. 	<p>Page 7</p>

Overall, we certified 21 grants and returns:

- 9 were unqualified with no amendment;
- 6 were unqualified but required some amendment to the claim form which did not affect the amount claimed
- 3 were unqualified but required some amendment to the final figures; and
- 3 required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Authority's 2010/11 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Authority's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Authority to satisfy itself that the full amounts of grant claimed are appropriate.

Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
1	1		1	
2	1			
3	1			
4		1		1
5		1		1
6		1		1
			6	6
				9
	3	3	7	18

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

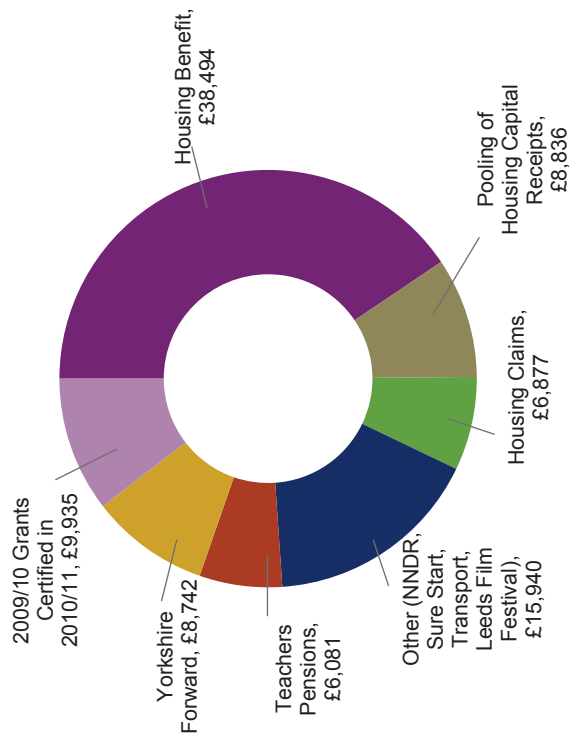
Ref	Summary observations	Amendment
1	<p>Housing & Council Tax Benefits</p> <ul style="list-style-type: none"> ■ The return was qualified due to three issues – there were: <ul style="list-style-type: none"> i) minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances; ii) underpayment of Non HRA Rent Rebate cases due to processing errors (with no impact on subsidy); and iii) claim processing errors on Council Tax Benefits for which the potential impact on subsidy was unknown. ■ The reconciliation difference between benefit granted and benefit paid is an ongoing issue and was qualified for in the previous year. ■ The return also had minor amendments made to the Council Tax subsidy due to a small number of claim processing errors identified through our audit testing. Similar amendments were made to the return in the prior year. 	+£7
2	<p>Capita Teachers' Pension by Education Leeds</p> <ul style="list-style-type: none"> ■ The return was qualified as there was no evidence that two staff members for whom Pension payments had not been made had opted out of the scheme. One member of staff completed the opt out form in retrospect however the other staff member did not want to opt out of the scheme and therefore Education Leeds contacted TPA to arrange full payment for this employee. ■ If the Authority does not address this in future there is a risk that they will have to pay extra Pensions costs (including the employee costs) for employees who have not opted out of the scheme. ■ There was no similar qualification issue in the prior year. 	n/a
3	<p>Access to Employment 2009/10 claim</p> <ul style="list-style-type: none"> ■ The claim was qualified as there was insufficient evidence to support £18,738 of the Leeds Ahead costs and £353 of the 4 Families scheme costs. ■ The Authority still received the grant funding for the Leeds Ahead costs, however it is recommended that sufficient and appropriate evidence is retained of all expenditure incurred by the Authority against which any grant funding is to be claimed. ■ There was no similar qualification issue in the prior year and this is the final year of funding for this claim. 	n/a

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
4	<p>Sure Start, Early Years and Childcare Grant</p> <ul style="list-style-type: none"> This claim was amended as there was insufficient evidence that a prepayment of £19,945 was allowed within the terms of the grant The grant funding body may reclaim some of the funding if this issue is not addressed for future claims. 	- £19,945
5	<p>HRA Subsidy</p> <ul style="list-style-type: none"> Our work identified that this claim required amendment as the most recent figure for the Capital Financing Requirement had not been used in the form for the calculation. The HRA Subsidy was therefore increased by £540,858, resulting in a significant increase in the payment to the Authority. There were no amendments to this claim in the prior year that impacted upon subsidy. As 2011/12 is the last year that the Authority will be in receipt of HRA Subsidy we expect that the final audit of this claim will take place during 2012. 	+£540,858
6	<p>Pooling of Housing Capital Receipts</p> <ul style="list-style-type: none"> The Authority identified additional costs which were eligible as allowable deductions after the return had already been prepared in respect of overheads (£1,526) and capital improvements (£3,825). There was no adequate supporting documentation for £5,380 costs relating to buy back of form Right to Buy properties so these costs had to be removed. However, the Authority identified additional eligible costs of £1,330.05 which were eligible and adequately supported so that the net reduction in eligible costs was £4,049.95. Only 47% of such costs are allowable deductions so this resulted in a - £1,903.48 adjustment to the return. Following adjustments to the three previous year's claims, the Authority's pooling payments for 2010/11 were adjusted to claw back money owed. However, the Authority underpaid in error and was liable to pay interest. We identified further costs relating to the retention of costs relating to the improvement of dwellings (£10,777). This was used to offset the underpayment. The Authority requested that we recertify the 2007/08, 2008/09 and 2009/10 returns as it had identified additional allowable deductions which reduced its liability. However the Authority needs to ensure that such adjustments are calculated accurately in the future to ensure that the current year pooling liability payments are made accurately and on time, so as to avoid late interest charges. 	-£4,930.50

This chart and table summarises our overall fee for the certification of grants and returns completed as at 31 December 2011 for 2010/11

Breakdown of certification fees 2010/11



Breakdown of fee by grant/return		
	2010/11 (£)	2009/10 (£)
Housing Benefit	38,494	40,681
Pooling of Housing Capital Receipts	8,836	4,349
Housing Claims	6,877	17,535
Other (NNDR, SureStart, Transport, Leeds Film Festival)	15,940	17,457
Teachers Pensions	6,081	6,312
Yorkshire Forward	8,742	29,664
Prior year grants certified in year	9,935	3,767
Total fee	94,904	119,766

The main reasons for the fee difference between 2010/11 and 2009/10 are shown below:

- Fewer Yorkshire Forward grants required audit in the year. 10 Yorkshire Forward grants required audit in 2010/11 compared to 14 in 2009/10;
- Three prior year Pooling of Housing Capital Receipts claims were recertified in year;
- Less detailed testing was required over the Housing Claims (due to changes in the claim size and/or cycle);
- Three 2009/10 grant claims were certified in year.

It should be noted, however, that we have been able to show reduced costs to the Authority on housing benefits, teachers pensions, disabled facilities, Holbeck Urban Village and the SureStart grant audits amongst others due to increased efficiency, and we decreased the management time cost in line with the decrease in grant volume.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

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

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
System Errors					
<p>Reconciliation of HRA Rent Rebates and Rent Allowances</p> <p>We found minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances. The total value of which was £126.</p>	<p>If the benefit paid and the benefit granted per the subsidy system cannot be reconciled we must qualify our audit certification which may lead to recovery of monies by the granting body.</p>	<p>The Authority should review this reconciliation within the Capita system and liaise with Capita in order to prevent this error from re-occurring.</p>	<p>3</p>	<p>Regular meetings are held with Capita to try and identify causes of the reconciliation differences. From these meetings there has been a number of additional system reconciliations introduced, along with a regular review of system program outputs.</p>	<p>Officer: D Jackman (Compliance manager, Leeds revenues and benefits service) Date: Ongoing</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Manual Clerical Errors</p> <p>Processing Errors for Benefit Claims</p> <p>We found examples of three processing errors in benefit claims which led to both overpayment and underpayment of benefits. One operator had used an incorrect rents sheet for inserting eligible rents onto the system.</p>	<p>If the benefit paid to the claimants is greater than entitlement the Authority may not be able to recover these monies. We may need to qualify our audit certification whether there is either over or under payment.</p>	<p>2</p> <p>There are a number of controls over benefits claims, including a Quality Assurance Team who perform checks. The Authority should review the adequacy of these checks in identifying processing errors, particularly systematic errors, which may result in the benefit being over or under paid.</p>	<p>2</p>	<p>Immediately following the "sign off" of the claim, officers reviewed the qualifications. A meeting is scheduled, between the Compliance Manager and the Section Head, with responsibility for the Quality Assurance Team, to review the current checking procedures, and identify any areas that could be added or changed so as to provide improved assurance.</p>	<p>Officer: D Jackman (Compliance manager, Leeds revenues and benefits service) Date: Ongoing</p>
<p>Procedural Errors</p> <p>Teachers' Pension Scheme Opt Out Forms</p> <p>We found two members of staff had not been included in the Pension scheme despite the fact that they had not completed opt out forms.</p>	<p>If staff members are not included in the Pension scheme and have not opted out then the Authority may be liable to top up both the employees and employers contributions for these individuals. Also if scheme requirements are not complied with we may have to qualify our audit certification on this basis.</p>	<p>3</p> <p>The Authority should ensure that all staff members not included in the Pension scheme have completed an opt out form.</p>	<p>2</p>	<p>Processes now amended to prevent a recurrence.</p>	<p>Officer: Principal Payroll Team Manager Date: Process amendments implemented</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Access to Employment – Insufficient Evidence to Support Scheme Costs</p> <p>There was insufficient evidence to support £18,738 of Leeds Ahead costs and £353 of 4 Families scheme costs.</p>	<p>If there is insufficient evidence to support expenditure included in grant claims we will require the expenditure to be removed from the claim, and therefore the costs will not be recovered.</p>	<p>4 Adequate supporting documentation for all grant expenditure should be retained.</p>	<p>1</p>	<p>As previously reported to members this was due to Leeds Ahead failing to provide sufficient supporting evidence. Despite the qualification, the grant was still received and paid over to Leeds Ahead. Internal processes for all grant claims require officers to supply supporting evidence in order to validate claims. Quality reviews of working papers are undertaken before claims are submitted to KPMG.</p>	<p>Officer: All grant compiling officers Date: Ongoing</p>
<p>Sure Start, Early Years and Childcare Grant – Ineligible expenditure</p> <p>We found a prepayment included within the grant expenditure which was not eligible as per the terms of the grant.</p>	<p>If ineligible expenditure is included within grant claims then we will require the Authority to amend these.</p>	<p>5 The eligibility of expenditure should be monitored against the terms and conditions of the grant. If this is deviated from, written permission should be obtained from the funding body.</p>	<p>2</p>	<p>Officers had agreed with the funding body to include the pre-payments within the grant claim. Unfortunately, the "approval" was vaguely worded and the people involved had retired both from the funding body and the Council's own commissioning team.</p> <p><i>Continued overleaf</i></p>	<p>Officer: All grant compiling officers Date: Ongoing</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Pooling of Housing Capital Receipts Some costs included in the return could not be supported. The client made adjustments to returns dating back four years to include allowable deductions which had been overlooked previously.</p>	<p>If unsupported expenditure is included within grant claims then we will require the Authority to amend these. Making several adjustments to prior year claims can be complicated and can result in errors being made.</p>	<p>6 Adequate supporting documentation for all claimed expenditure should be retained. Quality assurance arrangements should be implemented to ensure that grant claim forms are complete and finalised prior to submission for certification. This will assist in the delivery of an efficient certification process.</p>	<p style="text-align: center;">3</p>	<p>Consequently the payments were not allowed as they would be ineligible under the original terms of the grant. Internal processes for all grant claims require officers to ensure all expenditure is eligible under the terms of the grant.</p>	<p>Officer: Senior Financial Manager, Financial Administration, E&N Date: 4th Qtr return</p>

We made a recommendation in our 2009/10 Certification of Grants and Returns report. Where recommendations have not yet been implemented fully we have detailed their current status below.

Prior year recommendation	Priority	Status as at December 2011	Management comments
Central Co-ordination of Grant Claims and Returns			
<p>1 Reconciliation of HRA Rent Rebates</p> <p>We found minor reconciliation differences between benefit granted and benefit paid for housing revenue account (HRA) Rent Rebates. The total value of this difference was £171.</p> <p>This is the same reason for which this claim was qualified last year.</p>	3	See current year recommendations.	See current year recommendations.



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Report of Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: Work Programme

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

Summary of main issues

1. Members are requested to consider whether they wish to add any items to the work programme.
2. The draft work programme is attached at Appendix 1.

Recommendations

3. Members are asked to note the draft work programme and advise officers of any additional items they wish to add.

1 Purpose of this report

- 1.1 The Purpose of this report is to notify Members of the Committee of the draft work programme. 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 whether they wish to add any items to the work programme.

3.2 The draft work programme is attached at Appendix 1

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report consults Members on the content of the work programme of the Committee.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 No significant issues.

4.3 Council Policies and City Priorities

4.3.1 This report helps support the implementation of the Code of Corporate Governance.

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 asked to note the work programme and advise officers of any additional items they wish to add.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
March 28th - 2012		
Information Governance	To receive a report on the Council's Information Security arrangements.	Chief Officer (Intelligence and Improvement) Lee Hemsworth
Effectiveness of the Corporate Governance and Audit Committee	To receive a report providing assurance on the effectiveness of the Corporate Governance and audit Committee.	Chief Officer (Audit and Risk) Tim Pouncey/ Head of Governance Services Andy Hodson
Effectiveness of Financial Management Arrangements	To receive a report on the systems and procedures in place to ensure that the Council delivers sound financial planning and management ensuring maintenance of adequate reserves.	Chief Officer (Financial Management) Doug Meeson
Business Continuity Arrangements	To receive a report providing assurance on the adequacy of policies and practices surrounding Business Continuity arrangements	Chief Officer (Audit and Risk) Tim Pouncey
April 23rd - 2012		
Annual Report on Community Engagement	To receive a report presenting the annual report on Community Engagement.	Assistant Chief Executive (Planning, Policy and Improvement) James Rogers
Decision Making Framework; Annual Assurance Report	To receive a report presenting the outcome of the monitoring process relating to Key and Major decisions.	Head of Governance Services Andy Hodson
ALMO Annual Assurance Report	To receive the Annual Assurance report from Strategic Landlord based on the assurances received from the ALMOs. (This report is part of the committee's annual work programme)	Strategic Landlord Liz Cook

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Annual Report on Planning Framework	To receive the Annual report on the Planning Framework and the assurance that it provides	Chief Planning Officer Phil Crabtree
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.	Chief Officer (Audit and Risk) Tim Pouncey
Financial Procedure Rules	To receive a revised version of the Financial Procedure Rules for comment	Chief Officer (Audit and Risk) Tim Pouncey
Internal audit Plan	To receive and consider a report presenting the Internal Audit Plan	Chief Officer (Audit and Risk) Tim Pouncey
June 2012 (date to be confirmed)		
Annual Report on Risk and Performance Management	To receive a report regarding the Council's risk and performance management arrangements.	Chief Officer (Audit and Risk) Tim Pouncey / Chief Officer (Intelligence and Improvement)
KPMG – Interim Audit report	To receive a report summarising the results from the preliminary stages of KPMG's audit, including testing of financial and other controls	Chief Officer (Financial Management) Doug Meeson
Access to Information	To receive a report updating the Committee on the effectiveness of the Council's RIPA policy	Head of Property Finance & Technology
July 2012 (date to be confirmed)		
Capital Programme Approvals	To receive a report updating the Committee with regards to the implementation of the new capital programme approvals framework (report added to the work programme on 23 rd January 2012)	Chief Officer (Financial Development) Maureen Taylor
Annual Internal Audit Report	To receive the Annual Internal Audit Report	Chief Officer (Audit and Risk) Tim Pouncey
Achievement of Appraisal Objectives	To receive a report updating the Committee on progress made in achieving the objective of all staff receiving an appraisal	Chief Officer (HR) Lorraine Hallam

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Staff Engagement	To receive a report providing assurance that staff are fully involved in delivering change and feel able to make an impact on how services are delivered.	Chief Officer (HR) Loraine Hallam
Equality and Engagement	To receive a report providing assurance that all major decisions evidence that appropriate consideration of equality issues can be taken	Chief Officer (Localities and Partnerships)
Work Force Planning	To receive a report providing assurance that arrangements are in place to enable the reduction in the size of the work force required by the budget	Chief Officer (HR) Loraine Hallam
September 2012 (date to be confirmed)		
KPMG – Report to those charged with governance	To receive a report summarising the results of the 2011/12 audit including key issues and recommendations raised as a result of our observations	Chief Officer (Financial Management) Doug Meeson
Annual Governance Statement	To receive the Annual Governance Statement	Head of Governance Services Andy Hodson
November 2012 (date to be confirmed)		
KPMG – Annual Audit Letter	To receive a report providing a summary of the results of the audit for 2011/12	Chief Officer (Financial Management) Doug Meeson
Bi – Monthly Internal Audit Report	To receive a report updating the Committee on the latest Internal Audit developments	Chief Officer (Audit and Risk) Tim Pouncey
Un-scheduled items for 2011/12		
Future Development in Accounting Standards	To receive a report detailing the effect of Future developments in Accounting Standards that will effect the Council	Chief Officer (Financial Management) Doug Meeson
Review of the Code of Corporate Governance	To receive a report reviewing the code of corporate governance	Head of Governance Services Andy Hodson

CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Leeds City Region – Local Enterprise Partnership Governance	To receive a report updating the Committee on the Governance arrangements surrounding the Leeds City Region	Chief Officer (Localities and Partnerships)
Spending Money Wisely	To receive a report providing assurance that effective arrangements are in place to ensure the Council spends money wisely	Chief Officer (Audit and Risk) Tim Pouncey
Local Public Audit	To receive a report updating the Committee on the latest developments from the department for Communities and Local Government with regards to Local Public Audit	Chief Officer (Audit and Risk) Tim Pouncey