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## CORPORATE GOVERNANCE AND AUDIT COMMITTEE

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Meeting to be held in Civic Hall, Leeds on  
Monday, 30th July, 2018 at 10.00 am

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### MEMBERSHIP

#### Councillors

J Illingworth	J Bentley	P Harrand
P Grahame		M Harrison
K Ritchie (Chair)		J Taylor
A Scopes		
P Truswell		
B Garner		

# A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p><b>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</b></p> <p>To consider any appeals in accordance with Procedure Rule 15.2 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 15.2, written notice of an appeal must be received by the Head of Governance Services at least 24 hours before the meeting)</p>	
2			<p><b>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</b></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><b>RESOLVED –</b> 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><b>LATE ITEMS</b></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><b>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS'</b></p> <p>To disclose or draw attention to any disclosable pecuniary interests for the purposes of Section 31 of the Localism Act 2011 and paragraphs 13-16 of the Members' Code of Conduct.</p>	
5			<p><b>MINUTES OF THE PREVIOUS MEETING</b></p> <p>To receive and approved the Minutes of the previous meeting held on 26<sup>th</sup> June 2018.</p> <p>(Copy attached)</p>	1 - 14
6			<p><b>MATTERS ARISING FROM THE MINUTES</b></p> <p>To consider any matters arising from the Minutes.</p>	
7			<p><b>INFORMATION MANAGEMENT AND GOVERNANCE - UPDATE ON PUBLIC SERVICES NETWORK (PSN) SUBMISSION</b></p> <p>To consider a report by the Director of Resources and Housing which provides an update on the current position on Cyber Assurance and Compliance, specifically compliance to the PSN Assurance standard.</p> <p>(Report attached)</p>	15 - 20

Item No	Ward	Item Not Open		Page No
8			<p data-bbox="676 181 1206 215"><b>KPMG IT AUDIT FINDINGS 2017/18</b></p> <p data-bbox="676 255 1374 360">To consider a report by the Chief Finance Officer which sets out details of the results of KPMG's audit work in 2017/18 in respect of IT controls.</p> <p data-bbox="676 472 927 506">(Report attached)</p>	21 - 44
9			<p data-bbox="676 577 1394 645"><b>APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS AND KPMG AUDIT REPORT</b></p> <p data-bbox="676 689 1394 869">To consider a report by the Chief Finance Officer which seeks approval of the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.</p> <p data-bbox="676 981 927 1014">(Report attached)</p>	45 - 56
10			<p data-bbox="676 1084 1315 1151"><b>INTERNAL AUDIT ANNUAL REPORT AND OPINION 2017-18</b></p> <p data-bbox="676 1196 1390 1339">To consider a report by the Chief Officer Financial Services which brings to the attention of the Committee the annual internal audit opinion and basis of the Internal Audit assurance for 2017/18.</p> <p data-bbox="676 1413 927 1447">(Report attached)</p>	57 - 80
11			<p data-bbox="676 1518 1257 1552"><b>ANNUAL GOVERNANCE STATEMENT</b></p> <p data-bbox="676 1592 1342 1697">To consider a report by the City Solicitor which presents and seeks approval of the Annual Governance Statement (AGS).</p> <p data-bbox="676 1809 927 1843">(Report attached)</p>	81 - 112

Item No	Ward	Item Not Open		Page No
12			<p><b>WORK PROGRAMME 2018/19</b></p> <p>To receive a report by the City Solicitor which notifies Members of the Committee's draft Work Programme for 2018/19.</p> <p>(Report attached)</p>	113 - 118
13			<p><b>DATE AND TIME OF NEXT MEETING</b></p> <p>To note that the next meeting will take place on Friday, 23<sup>rd</sup> November 2018 at 10.00am in the Civic Hall, Leeds.</p>	

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# Agenda Item 5

## Corporate Governance and Audit Committee

Tuesday, 26th June, 2018

**PRESENT:** Councillor K Ritchie in the Chair  
Councillors J Bentley, P Harrand,  
J Illingworth, P Grahame, M Harrison,  
A Scopes, J Taylor, P Truswell and  
B Garner

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

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

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

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

### **3 Late Items**

There were no late item of business.

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

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

### **5 Apologies for Absence**

There were no apologies for absence.

### **6 Minutes of the Previous Meeting**

**RESOLVED** – That the minutes of the previous meeting held on 16<sup>th</sup> March 2018 were accepted as a true and correct record.

### **7 Matters Arising from the Minutes**

- (i) KPMG Annual Audit Letter 2016/17 (Minute No. 54 (i) referred) - The Head of Governance Services and Scrutiny Support reported that a further update would be provided by officers on the outstanding LOBO Objection under Item No. 13 on today's agenda.

The Head of Governance Services and Scrutiny Support confirmed that this committee's recommendation confirming

mandatory DBS checks for Members was considered by Member Management Committee with that committee resolving to:

- Agree with this committee's proposal that DBS checks are carried out for all Members.
  - Agree that these checks continued to be carried out on first election, and then again at every subsequent election thereafter.
  - Agree that the level of check carried out for all Members continued to be an enhanced check (without the barred lists).
  - That officers notify Group Whips of any failure to complete DBS checks asking them to deal with this through their disciplinary arrangements with an ultimate sanction including removal of the group whip.
- (ii) Annual Information Governance Report (Minute No. 55 referred) – The Head of Governance Services and Scrutiny Support confirmed that under Resolution (iv) the former Chair of this Committee had written to the Chair of Member Management Committee concerning the need for Members training on GDPR and Cyber Resilience asking that the Committee to make such training Mandatory for all members.

Members were informed that this matter was on the committee's work programme and would be considered at the next meeting on the 29<sup>th</sup> June.

In addition it was confirmed that the authority re-submitted application to the PSN Authority on the 4<sup>th</sup> June. Since that time officers have had a conversation with the Assessor concerning one specific point on the submission which required further clarification. Members were informed this conversation took place on the 15<sup>th</sup> June. Since that time no formal response regarding our submission had been received.

Further information was requested by the Committee on the status of the Council's application, with agreement that this be by way of a report to the meeting in July.

- (iii) Procurement Assurance Report (Minute No. 56 referred) – The Head of Governance Services and Scrutiny Support confirmed that further information was circulated to all Members to provide comparative information of other local authorities and their approach to Social Value in Contracts – i.e. the proportion of spend made by local authorities with local suppliers. This was circulated by email on the 2<sup>nd</sup> May. A request was made for this information to be circulated to all new Members of the Committee.

## **8 Annual Decision Making Assurance Report**



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

The report provided assurances to the Committee that the systems and processes that form part of the council's decision making framework were fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.

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

Members queried the decision monitoring within the Children's and Families Directorate noting that in the months of January and February there was a large number of decisions published as a result of a backlog in publishing significant operating decisions relating to both the placement of children and approvals relating to the employment of children.

Members were informed that the decisions took place in a timely manner and that the delay in publication did not negatively impact on the placement or wellbeing of children.

The Head of Governance Services & Scrutiny Support said that an explanation would be sought from the Director of Children and Families as to why there were delays in the first instance, and further assurances be sought; that none of the delays impacted on children, and that arrangements were in place to prevent any reoccurrence

A further issue was raised on the publication of key decisions with Members questioning if a more expansive narrative could be included on the list of forthcoming key decisions.

A query was raised as to whether it was possible quantify if there was an increase in the number of key decision between £200k - £300k.

Members were informed that the requested information was not readily available and were reassured and supportive of the works being undertaken to explore options for greater consistency on financial thresholds used in finance, procurement and key decisions.

Members requested that the Committee be consulted on proposals as they emerge.

Referring to issues around RIPA (Regulation of Investigatory Powers). Members were informed that no applications for use of these powers had been made.

Although reassured that any applications would be legally compliant, Members were concerned that possibly not all available legal powers were

being exploited and utilised by Environmental Action, to deal with issues such as fly tipping, in a consistent manner across the City.

In view of the concerns raised by Members around service performance and that prioritisation may fall more readily within a Scrutiny Board remit; it was the view of Committee that Scrutiny Board (Environment and Communities) be requested to consider these matters further.

Referring to Planning matters, Members welcomed the appointment of a dedicated officer who had overall responsibility for maintaining the Community Infrastructure Levy (CIL) process and requested if the officer would be available to attend Community Committee meetings and Ward Members Briefings.

The Head of Development Management confirmed that the CIL officer would be available to attend such meetings.

A query was raised about the statistics for Plans Panel Decision Making with one Members suggesting that the figures for 2017/18 appeared to be incomplete.

The Head of Development Management offered to investigate the matter further and the information would be circulated to all Members of the Committee.

The Chair thanked officers for their attendance and contributions.

#### **RESOLVED –**

- (i) To note the assurance provided in the submitted report by the Head of Governance and Scrutiny Support, the Chief Planning Officer, the Head of Service (Legal) and the Head of Elections, Licensing and Registration that the decision making framework in place within Leeds City Council was fit for purpose, up to date, were routinely complied with and had been effectively communicated and monitored.
- (ii) That the Head of Governance Services & Scrutiny Support be requested to write to the Director of Children and Families seeking an explanation as to why there were delays in publishing significant decisions relating to both the placement of children and approvals relating to the employment of children, in the first instance, that none of the delays impacted on children, and that assurance that arrangements were in place to prevent any reoccurrence
- (iii) That the Corporate Leadership Team be informed of the Committee's observations with respect to the need for additional narrative to be included on the 28 day notice for key decisions

- (iv) That a further report on threshold work across procurement and finance to bring some consistency to the decision making framework would be prepared and brought back to this Committee for comment.
- (v) That the Chair on behalf of the Committee be requested to write to the Chair of Scrutiny Board (Environment and Communities) to ascertain if all available legal powers were being exploited and utilised by Environmental Action, to deal with issues such as fly tipping, in a consistent manner across the City.
- (vi) That revised statistic around Plans Panel Decision Making be circulated to Members once it becomes available.

## **9 Estate Governance**

The Directors of City Development and Resources & Housing submitted a report which sought to provide assurance and visibility on governance arrangements to manage, maintain and make best use of council buildings.

The scope of the report also included buildings with Listed status, but excluded council houses and schools for which there were separate governance arrangements in place.

The Chief Officer Asset Management & Regeneration presented the report and responded to Members questions and queries.

Members questioned the length of time taken to identify shortfall of funding to deal with maintenance backlog and extent of resulting disrepair of some important assets.

Members were informed of some of the successful Community Asset transfers and further reassurance was provided around the continuing openness of the Council to Community Asset Transfer.

Members queried the lengthy period of time for Community Asset Transfer to take place and resulting escalation of costs for groups interested in taking on the buildings concerned. The Mechanics Institute in Horsforth was provided as an example.

Reference was made to the Workflow table (Page 65 referred) which indicated that Community Asset Transfers could often take months/years to progress, in some cases assets suffering severe deterioration and the transfer being abandoned or resulting in a reduced capital receipt for the building.

The Chief Officer supported by a dedicated officer, confirmed a number of community asset transfer schemes were being progressed and groups were being supported to establish a sustainable business plan.

It was reported that the length of time to complete the transfer had a significant impact on the cost to groups for transfers.

Members accepted there was a balance to be struck between the sustainability of community use and the realisation of capital receipts to support the wider financial strategy, and requested that consideration be given, as part of the range of approaches adopted, to the provision of short term leases, with appropriate safeguards to the authority, for groups to enable occupation during the period in which the sustainable business case could be worked up with officers.

One Member asked if properties were purchased for investment purposes where there was no operational need.

In responding the Chief Officer confirmed that properties were purchased to provide a resilient income stream in time of shortfall in resources – income of £10.4m per annum to cross fund council services.

It was confirmed that the Scrutiny Board (Resources and Strategy) had already undertaken some scrutiny of these activities.

The Chair sought assurance as to the Council's Investment Strategy and whether the primary focus on warehousing and office blocks was sufficiently resilient to adverse changes in the economy. Confirmation was also sought on whether there was engagement with the relevant portfolio holder on the approach adopted.

It was the view of Members that further consideration be given to the breadth of the portfolio with potential to also include housing, such as student accommodation and other residential Housing to augment social housing.

The Chief Officer confirmed that Leeds investment strategy remained, unlike some other local authorities within the Leeds Boundary and that residential investment, including student accommodation was an option for the authority in the future provided those opportunities link to regeneration outcomes. It was also confirmed that the Executive Member responsible was kept updated on the Investment Strategy.

Committee asked for consideration to be given to an 'ethical landlord strategy' to reinforce the Council's ethical values when letting commercial properties within the council's portfolio.

The Chair thanked officers for their attendance and presentation.

## **RESOLVED –**

- (i) To note the contents of the report and specifically the work that had taken place over the last nine months to review estate management, including governance

- (ii) To provide details of the average length of time for a Community Asset Transfer to be completed; with a breakdown of time from initial inquiry to occupation (including the length of time to work with groups to achieve an agreed supported business case)
- (iii) That the outcome of the Review of vacant properties on the void register be circulated to all Members of the Committee
- (iv) To provide to the Committee a list of properties that the Council owns outside of Leeds (or confirmation that there are none)
- (v) That the Chief Officer Asset Management & Regeneration be requested to engage with those Members who had highlighted specific issues in their wards.

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

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

The report sought to provide assurance that:

- The requirements of employee conduct were established and regularly reviewed
- The requirements relating to employee conduct were communicated and feedback was collected on whether expected behaviours were being demonstrated
- Employee conduct was monitored and reported.

Members discussed the issue of gifts and hospitality noting that there was a sizable reduction in the number of declarations compared to previous years, with the exception of the City Development Directorate who's declarations remained constant.

The HR Service Manager reported that follow up action would be undertaken with other directorates to highlight the reductions, provide a reminder of the requirements and ensure that there remained appropriate recording.

The Committee queried whether or not any comparison had been undertaken of our recorded data with other local authorities in terms of details of registered gifts and hospitality.

In responding the HR Service Manager said that work had not been done in Leeds but would be a feature for future assurance reports to this Committee.

Members also queried whether there were any trends in companies providing/offering gifts to employees – either the offers made to individuals or the source from which offers arose.

It was confirmed that such a review was undertaken at directorate level and that future annual reports to this Committee would include commentary on the assurances received from these assessments.

Referring to the Registers of Interest, Members noted that the number of non-responders had fallen from 92 to 53, and that these were not from a specific directorates and queried what action was taken to escalate matters.

The HR Service Manager confirmed that weekly updates and individual chase ups were taking place and that ultimately all would be completed.

The Committee were concerned that some senior officers were not providing their annual return in a timely way and was potentially indicative of individuals and directorates not taking this requirement seriously.

The Committee reiterated their view that requests for annual returns of Registers of Interests from officers in high risk posts should be responded to immediately and without the need for chase up.

It was suggested that the Chair write to the Chief Executive to make him aware of the Committee's concern on this matter.

Members queried whether the designation of being in a politically restricted posts included restrictions in political activities outside of the Leeds MBC boundary. The HR Service Manager confirmed that this was the case.

Members questioned the increase in the number of disciplinary investigations, whether there were any concerns in the trends in data and whether TU representation was provided.

Members were informed that TU representation was encouraged at the earliest stages of the disciplinary process and that there were no specific pattern behind the increases.

## **RESOLVED –**

- (i) To note the positive assurance provided in section 5 of the submitted report that the requirements of employee conduct were established and regularly reviewed, the requirements relating to employee conduct were communicated and feedback was collected on whether expected behaviours were being demonstrated and employee conduct was monitored and reported.
- (ii) To circulate to all Members of the Committee a breakdown by directorate of the disciplinary data by year and for this to also include the number of appeal hearings held, the level of seniority of staff involved and the length of service of those who have been dismissed

- (iii) That future annual assurance reports include data (as referred to in (ii) above) and comparisons with other Local Authorities along with assurances around the checks undertaken in respect of the sources and recipients of offers of gifts and hospitality.
- (iv) That the Chair, on behalf of the Committee be requested to write to the Chief Executive seeking his support to ensure the timely completion of the annual review of Registers of interest for staff in high risk/sensitive posts.

## **11 Annual Assurance Report on Corporate Risk and Performance Management Arrangements**

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

The report sought to provide assurances to the Committee of the effectiveness of the Council's corporate risk and performance management arrangements: that they were up to date, fit for purpose; effectively communicated and routinely complied with.

Members discussed the Best Council Plan & Performance Management 2017/18 and requested to be provided with the – the one page document referred to at paragraph 3.1 bullet point 7 of the submitted report that would illustrate the alignment of the 2018/19 net revenue budget with the Best Council Plan outcomes.

The Committee requested that future annual assurance reports to this Committee should include as an appendix the Best Council Plan Scorecard.

In respect of both requests the Head of Intelligence & Policy confirmed the requested information would be provided.

Members also queried whether the risk management resource that had been committed to Donisthorpe Hall had been an effective use of the team's resources and had contributed to qualified improvements for example evidenced through a CQC inspection.

In responding the Head of Intelligence & Policy expressed the view that it was a good use of officer time, had been well received by Donisthorpe Hall, but that all requests for similar support need to be mindful of resource implications.

The Committee sought reassurance around the use of comparators to inform the council's judgement of value for money such as Core Cities and Statistical neighbours.

Members were informed that Leeds unique geography was factored into the use of these comparators.

The Committee questioned the progress made to date to provide additional guidance on Partnership risks

Members were advised that work was in progress and would be completed prior to the Autumn

**RESOLVED –**

- (i) That the report on the council's corporate risk and performance arrangements be received and to note the assurances in support of the Annual Governance Statement
- (ii) That Members be provided with information which would illustrate the alignment of the 2018/19 net revenue budget with the Best Council Plan 2018/19 to 2020/21
- (iii) That future annual assurance reports to this Committee should include as an appendix the Best Council Plan Scorecard.

**12 Internal Audit Update Report March to May 2018**

The Chief Finance Officer submitted a report which provided a summary of the Internal Audit activity for the period March to May 2018 and highlighted incidence of any significant control failings or weaknesses.

The report also provided information from the Head of Service (Legal) about the recent use of the council's surveillance powers under Regulation of Investigatory Powers Act (RIPA).

The Committee questioned the high number of areas receiving low assurance opinions from Management referrals and the extent to which this was a reflection of management not having the necessary skills or assurance to put things right themselves.

The Head of Internal Audit suggested that the management referrals had identified issues necessitating action and it was the independence and methodology of Internal Audit that assists management in structuring an action plan to deal with those issues.

Members also queried how many people providing services to the Council had established personal service companies through which, their services are provided to the Council.

Members were informed that the IR35 legislation relating to Personal Services Companies placed a responsibility on the council to ensure that, where an individual would have been classed as an employee if they were providing services directly, then they are paid by payroll with appropriate tax and



national insurance deductions. The Head of Finance (Financial Management) assured members that developments within the creditor payment system will help to ensure that the relevant employment status checks have been carried out to ensure that the appropriate level of tax and national insurance is deducted. The Head of Audit advised that the follow up audit would review the effectiveness of this process.

The Head of Internal Audit suggested that the issue highlighted by Internal Audit was that the employment status check required by IRF 35 may not routinely be undertaken in a consistent and robust way, however the Head of Finance (Financial Management) confirmed that it was not the council's policy to engage individuals as personal service companies. Where it was apparent that an individual was operating as a personal service company payments to that individual would be made via the payroll system.

Confirmation was sought as to whether there were any indications from the Accounts (where Employers National Insurance Contributions had not been paid) of Senior staff being engaged as a Personal Service Company.

Members were advised that this was not the reasoning for this, rather the individuals identified had reached the maximum for making contributions and so no further contributions were being made.

The Head of Internal Audit reported on a recent review of external advertising income. The review found that income was being received and monitored, and that there were recognised lines of accountability for the staff managing the external contracts. The audit resulted in a limited assurance opinion overall as the control arrangements were not configured in a manner that ensured that all income due to the council was being identified and collected.

Members sought reassurance in respect of external advertising income, specifically, whether the Council receives Value for Money from the advertising function whether income due was fully collected and whether the Council maximised the opportunities to secure sponsorship.

The Head of Internal Audit confirmed that collection of money due to the authority was within the scope of the audit work undertaken and would be further followed up later in the year. It was suggested that other aspects fell outside of the scope of the Audit undertaken to date but that an emphasis was being placed on these areas as part of the budget setting strategy for the forthcoming financial year and more generally in the Medium Term Financial Strategy due to be considered by the Executive Board in July.

Members requested that the Head of Internal Audit brings the Committee's views on maximising income to relevant Directors attention.

The Committee expressed the wish to look further at this issue when Internal Audit concluded their follow up work and bring their update to the Committee.

In conclusion the Head of Internal Audit said there were no issues identified by Internal Audit in the March to May 2018 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

#### **RESOLVED –**

- (i) To receive the Internal Audit Update Report covering the period from March to May 2018 and note the work undertaken by Internal Audit during the period covered by the report.
- (ii) To note that there had been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period.
- (iii) Members requested that the Head of Internal Audit brings the Committee's views on maximising external advertising income to relevant Directors attention.
- (iv) That following Internal Audit's further review of external advertising income an update report be prepared and brought back to a future meeting of this Committee

### **13 Publication of Draft Statement of Accounts 2017/18**

The Chief Finance Officer submitted a report which presented the draft 2017/18 Statement of Accounts and the draft Annual Governance Statement, both of which were published on 1<sup>st</sup> June for the statutory public inspection period. The Statement of Accounts was included with the agenda as a separate document for the Committee and would be published on the Council's internet site. The draft Annual Governance Statement was submitted as an appendix to the report.

The report also provided an update on the outstanding elector objection arising from the 2016/17 statement of accounts public inspection period. Members sought assurance with respect to the Council's exposure to Lender Options Borrower Option (LOBO) loans

Members were informed that all of the Council's LOBO loans had fixed interest rates. The lender does have the opportunity to review loans at set points and propose a higher interest rate. The Council could then either accept the new rate or repay the loan without incurring any breakage costs. In the event of a lender option being exercised, the Council would look at the most beneficial outcome, repaying the loan if cheaper alternative funding was available.

The Principal Financial Manager confirmed that such Council loans were managed through the Treasury Management Strategy within which there were parameters which managed the extent and risk of the Council's exposure.

In response to a query from a Member, the Principal Financial Manager confirmed that if the Council wished to repay a LOBO loan when a lender option had not been exercised then it would incur breakage costs, as it would on Public Works Loan Board (PWLB) or other borrowing.

The Committee challenged the pace at which the LOBO objection from the local elector had been progressed by KPMG and the priority that had been given by KPMG to resolving the matter as quickly as it might have. The committee were concerned that the 2016/17 audit remained to be signed off by KPMG at a time when the 2017/18 accounts were coming forward.

Robert Fenton representing KPMG confirmed that they were working to ensure that as far as they could they should be able to finalise the 2016/17 accounts by the end of July and, in response to a Member query regarding whether the matter had been escalated within KPMG, it was confirmed that the LOBO objections had been prioritised within the company.

The Committee sought further information relating to the full scheme costs of PFI programmes set out in the Accounts and the arrangements for the transfer of PFI assets to Academies.

The Principal Financial Manager confirmed that full scheme costs for PFI schemes as set out in the Accounts along with the PFI Grants applicable to them would be circulated to the Committee.

The Committee queried the presentation of financial data relating to contributions to the Better Care Fund and whether how this had been presented was accurate in relation to Leeds West CCG and Leeds North CCG.

The Principal Finance Manager advised that there appeared to be a possible drafting error on the draft accounts which would be reviewed and rectified if appropriate when the final accounts were presented to the Committee.

The Committee also requested a briefing session on the accounts in advance of the July meeting.

Officers provided an assurance that the necessary arrangements would be made to accommodate the requested briefing session.

Members queried the group narrative in the accounts and whether Civic Enterprise Leeds (CEL) required to be referenced.

Officers reported that it was their understanding that CEL was operating as part of the Council rather than needing to utilise the structure of the company (of the same name) that had been established.

Members asked whether the reserves and debt position were sufficient to meet the risks facing the Council and whether a review had been undertaken of other opportunities to limit our taxation liabilities.

The Chair emphasised how important robust and fit for purpose governance was to the effective delivery of the Council's objectives.

The Head of Governance and Scrutiny Support confirmed that the issues arising from the meeting would be reflected in the revised Annual Governance Statement to be presented to the committee in July 2018.

**RESOLVED –**

- (i) To note the 2017/18 unaudited Statement of Accounts as certified by the Responsible Financial Officer, which were now available for public inspection
- (ii) To note the draft Annual Governance Statement which had been published alongside the draft Statement of Accounts for public inspection
- (iii) That full scheme costs for PFI schemes as set out in the Accounts along with the PFI Grants applicable to them would be circulated to the Committee.
- (iv) That arrangements be made for a Briefing Session on the accounts in advance of the meeting on 30<sup>th</sup> July 2018.

**14 Work Programme 2018/19**

The Head of Governance and Scrutiny Support presented a report of the City Solicitor which set out the ongoing Work Programme for 2018/19.

Members requested that following items be included on the Work Programme:

- The Transition of External Audit functions from KPMG to Grant Thornton and to include consideration of the Council's expectations of the External Audit function and the coverage, particularly in light of the findings of the parliamentary inquiry into Carillion. (November)
- The status of the Council's application to the PSN Authority (July)

Members agreed to keep under review the work programme.

**RESOLVED –** That with the inclusion of the above, approval be given to the draft work programme 2018/19 as set out in the Appendix of the submitted report.

**15 Date and Time of Next Meeting**

**RESOLVED –** To note that the next meeting will take place on Monday 30<sup>th</sup> July 2018 at 10.00am in the Civic Hall, Leeds.



Report author: Louise Whitworth

Tel: 07891 276168

**Report of Director of Resources and Housing**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> July 2018**

**Subject: Information Management and Governance – Update on Public Services Network (PSN) Submission**

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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? 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 Public Services Network (PSN) was set up as an assured route for information sharing by central government, to facilitate shared services and also serve as the assured route for the Government Connects Secure Extranet (GCSx) mail. It acts as a compliance regime that serves as both a commitment to a basic level of information security for connecting government departments and local authorities and also a level of trust between Leeds City Council and other public services.
  
2. Due to more stringent compliance controls brought in by the Cabinet Office in 2014 the Council are presently unable to meet the PSN certification requirements. The Cabinet Office contacted the Council through the Chief Executive in January 2017, to ensure that the Council brings itself into compliance as soon as possible. The Council's access to the PSN has not been restricted but this would have been a possible consequence if prompt action was not taken.

**1. Recommendations**

- 1.1. Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured of the Council's approach to Information Governance and specifically in this case PSN compliance.

## **2. Purpose of this report**

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

## **3. Background Information**

- 3.1. An independent IT Health Check (ITHC) is an annual audit required to inform PSN compliance. This identifies a number of vulnerabilities with different levels of severity that need to be addressed. In 2017, when the bar was raised, the Council had over 67,000 vulnerabilities. Since then this has been reduced by the work of the Digital and Information Team across the Council to 595.
- 3.2. A re-application for PSN Certification was made to the Cabinet Office on the 30th September 2017. In November 2017, a mid-year IT Health Check was instigated in order to ratify the Council's position. The results of the ITHC showed significant improvement. Whilst at that time the Council's re-application for certification was rejected, the Cabinet Office recognised of the considerable effort and large amount of work the team had completed.
- 3.3. Resources were re-prioritised throughout 2018 on compliance work ensuring appropriately resourced Security and Compliance focus.
- 3.4. A further re-application for PSN Certification was made to the Cabinet Office at the end of May 2018 using the November 2017, mid-year IT Health Check. The residual 'Security Gaps' were detailed and signed off by Tom Riordan, Chief Executive.

## **4. Main Issues**

- 4.1. PSN certification is relied upon as an assurance mechanism to support information sharing. This can be used as a substitute for other compliance regimes where many of the requirements are the same as PSN. E.g. It has been necessary for the Council to go through the NHS Digital IG Toolkit process to connect to the Health networks which resulted in approximately a cumulative 10 working days of extra work.
- 4.2. The PSN Assurance Team (Cabinet Office) mandates that each vulnerability found in the ITHC is extrapolated to the estate as a whole and resolved. Those identified as critical or high must be resolved before the Local Authority can be determined compliant.
- 4.3. Since the re-application to the Cabinet Office in May 2018, the PSN Assurance Team had raised concerns regarding the timescales for the resolution of one specific issue; namely the removal of Access 2003 databases. Moving off

access is not straight forward and would have an impact on services in terms of disruption and service change. The Council have submitted a migration plan to the Cabinet Office for this “sticky issue” and implemented mitigations to protect the estate from Access 2003. A further update on activities has been requested with the Cabinet Office at the end of July to monitor progress against a Remedial Action Plan. Should those activities meet expectations, LCC may achieve certification.

- 4.4. With the increased Cyber Threat the controls mandated by PSN are deemed as good practise and also appropriate to meet GDPR and Data Protection requirements. The appropriate Digital and Information Team resources have been prioritised on this work. The impact of this may have effected other projects.

## **5. Actions to Date**

- 5.1. The PSN Remediation Board, with the Head of Information Management and Governance as Senior Responsible Officer (SRO), reporting to CLT and the Senior Information Risk Officer (SIRO) monthly, has made significant progress. The board meets bi-weekly to work through the compliance requirements and close down remediation tasks realised by the ITHC audit. Monthly meetings with the PSN Authority (PSNA) provide them with regular reports about the progress being made by the council. This relationship is strong and supportive.
- 5.2. Network Attached Devices – The estate is now being actively monitored for vulnerabilities and patched appropriately. Compliancy is now above 90% for Windows hosts (which comprises the bulk of the estate) and which is an acceptable level for the Regulators. 146 unsupported or un-patchable Windows servers have been removed from the estate.
- 5.3. Telephony – All Polycom devices have been updated and a process has been established to ensure they are kept up to date in the future.
- 5.4. Solaris / Siebel - All out of support Solaris servers and all occurrences of out of support Siebel have either been removed from the estate or ungraded appropriately.
- 5.5. Applications – 32 Cloud suppliers have been identified. They have all been contacted regarding their compliance with the 14 PSN Cloud Security Principles. Where suppliers have been found to be non-compliant, work to remediate has commenced. Cloud Principles have been added into technical specifications for all new contracts and renewals. In development is a ‘Cloud Readiness Assessment’ for external suppliers to ensure that they meet the Principles prior to tender. Mobile Device Management – New security controls on mobile devices. Implementation is mature. Completion expected by the end of September with elected members to follow. An exception group has been formulated for elected members to assist with onsite printing.
- 5.6. Network Segmentation / Authentication – The procurement of a network access control software is complete, implementation is ongoing with policies being

agreed during the month of July 2018. This work is scheduled for completion by November 2018.

5.7. Access databases - The Council relies heavily on a large number of 2003 Access Databases. This software is unsupported and carries a 'critical' score in the ITHC. There are over 300 live databases which need to be migrated to managed systems to ensure services are able to continue without disruption. A plan is in place with proposed timescales for completion by end of December 2019 which has been accepted by the cabinet office.

5.8. A July update has been requested to monitor progress against the documented Remedial action plan. It is possible LCC will gain certification if this work is completed on schedule.

5.9. Recent Engagement with the PSN Assurance Team

Immediately following the May 2018 submission, the PSN Assurance Team raised concerns regarding the timescales for resolution to the 2003 Access issue. Discussions with the Council's Cyber Assurance Team have taken place. Given the comprehensive mitigations Leeds City Council have put in place to prevent malicious activities arising from the vulnerabilities in Access 2003, the PSN have now accepted the timescales proposed.

5.10. The PSN Assurance have requested that we update them on closure of vulnerabilities due in July. All efforts to complete July remediation activities are in place. Following which they will give the Council an indication of whether acceptable levels of compliance have been met.

## **6. Consultation and Engagement**

6.1 Consultation on the development of strategies, policies, procedures and standards are extensively undertaken across a broad range of stakeholders including information management professionals, representatives from all directorates via the Heads of Digital Change and Information Management Board members.

6.2 A Cyber Training session for members took place in May 2018.

## **7. Equality and Diversity / Cohesion and Integration**

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

7.2. CLT agreed the roll-out of Cyber training including hacking and cracking for all procuring managers to ensure further understanding of the estate and acceptance of risk requiring a competent officer.



7.3. The third version of the mandatory managing information training level 1 has been rolled out to all staff in April 2018 which was updated to include an increased emphasis on Cyber.

## **8. Council policies and City Priorities**

8.1. All information governance related policies are currently being reviewed and a dedicated Policy Review group has been established. As part of this review the group will be consulting with internal stakeholders and external peer checking.

## **9. Legal Implications, Access to Information and Call In**

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

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

## **10. Risk Management**

10.1. Should action against the current PSN Remediation plan not be to the satisfaction of the PSN Authority, the Council will have to withstand a number of risks:

- The Head of the PSN has informed the Department of Works and Pensions of our non-compliance. Continued non-compliance could culminate in the switching off of GCSx mail and access to Revenues and Benefits data.
- The Head of PSN will inform the Information Commissioners Officer, which could culminate in the revisiting of the audit conducted by the ICO in 2013 to ensure compliance against the Data Protection Act.
- The Head of PSN will inform the Deputy National Security advisor to the Prime Minister, who would in turn conduct an assessment based on the national risk profile.
- The Head of PSN could instigate an external audit of all our security systems by the National Cyber Security Centre. The Council could end up under partial commissioner control.
- Ultimately, the Head of PSN could instigate a complete 'switch off' from PSN services

NB. Based on where the Council are with this work the risk of switch off is very low.

10.2. PSN certification is relied upon as an assurance mechanism to support information sharing, where many of the requirements request that the Council present a certificate prior to sharing, or evidence alternative, more time consuming compliance work to be completed. This has had an impact already on sharing with Health as a number of the controls required for the NHS Information Governance Toolkit are evidenced by a PSN certificate.

10.3. Further work is being undertaken in conjunction with the Corporate Risk Manager to embed the recording and reporting of information risk monitoring and management relevant to this project. The Information Asset Register project will generate information required and an automated dashboard will be produced to report risk assessments to the SIRO. This will provide the assurance required by the SIRO from the business and will allow risk mitigations to be prioritised.

## **11. Conclusions**

11.1. The establishment of improved Information Management and Governance in the Council's technical infrastructure and improved practice and procedures outlined in this report (with regards to Cyber) provides a level of assurance to Committee that the range of information risk is being managed both in its scope and through to service delivery. It allows the council to work with partner organisations, third parties and citizens in a clear, transparent, but safe and secure way. It helps to protect the council from enforcement action and mitigate the impact of cyber incidents and other Data Protection breaches.

11.2. The Cabinet Office have acknowledged the significant progress the Council has made and that there are clear plans and commitments in place for that which is outstanding.

## **12. Recommendation**

12.1. Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured that considerable effort is being undertaken to rectify the current situation with regards to the Council's approach to information governance and specifically in the case of PSN compliance where significant progress has been made.



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**Report of**    **the Chief Finance Officer**

**Report to**    **Corporate Governance and Audit Committee**

**Date:**       **30<sup>th</sup> July 2018**

**Subject:**     **KPMG IT Audit Findings 2017/18**

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

### Summary of main issues

1.     As part of their work on the Council’s overall control environment each year, KPMG’s IT specialists carry out audit work on the council’s IT controls for financial systems.
2.     The overall opinion arising from this work is given in KPMG’s External Audit Report 2017/18, also included in this agenda. The IT audit concluded that overall IT controls were operating effectively, and were sufficient to allow audit to place reliance on them. The attached more detailed report on KPMG’s findings from their IT review makes some recommendations on specific issues.

### Recommendations

3.     Members are asked to receive KPMG’s IT Audit Report and note the conclusions and recommendations arising from their 2017/18 audit work.

## **1 Purpose of this report**

- 1.1 To inform members of the results of KPMG's audit work in 2017/18 in respect of IT controls.

## **2 Background information**

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

## **3 Main issues**

- 3.1 The attached report gives details of the audit issues identified by KPMG in respect of IT controls for 2017/18.
- 3.2 The report makes two new low priority recommendations relating to change management and user administration for the SAP payroll system, and provides an update on eight recommendations which were made in 2016/17. The audit found that three of these prior year findings had been resolved. The remaining recommendations have been discussed and the management responses agreed with senior officers within DIS, the Business Support Centre and Financial Services.
- 3.3 Of the five outstanding recommendations carried forward from previous years, four related to alignment with the council's previous password policy. As that policy was already under review, it had been determined that these points would be addressed once the new policy was available. The new corporate password policy was adopted after KPMG's IT audit had taken place, and work is now underway to address how the new requirements for password structure should be implemented for SAP, FMS and the IT platforms on which they are held.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

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

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

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

### **4.3 Council policies and Best Council Plan**

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

#### **4.4 Resources and value for money**

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

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

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

#### **4.6 Risk Management**

4.6.1 All recommendations contained within the IT Audit 2017/18 report have been considered and actions will be taken in response once the appropriate course has been determined.

#### **5 Conclusions**

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

#### **6 Recommendations**

6.1 Members are asked to receive KPMG's IT Audit Report, and to note the conclusions and recommendations arising from their 2017/18 audit work.

#### **7 Background documents<sup>1</sup>**

7.1 None.

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

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# Leeds City Council

## IT Audit Findings

July 2018

# IT Audit Summary

The tables below provide a summary overview of findings from the current year and the updated status of prior year findings.

Current Year:

Low	Medium	High
2	0	0

Prior Year:

Status	Low	Medium	High	Total
Open	1	1	0	2
Part Implemented	2	1	0	3
Closed	3	0	0	3



# IT Audit Findings

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

Change Management (SAP Payroll)	
<b>Observation</b>	<p>A number of users are assigned transactional level access on the SAP Payroll application that would allow them to independently develop and implement changes to the live application functionality or configuration without requiring another users approval.</p> <p>It was noted that during the audit period 8 changes had been developed and implemented on the live application by the same individual. Management were able to provide retrospective, independent confirmation that the changes made were in line with the relevant change request and approval which had been granted.</p>
<b>Risk</b>	<p><b>Low</b> – Changes could be made to the live application without having followed the formally defined change procedure. Where changes do not consistently follow the change management process there is the risk that changes could be implemented that would negatively impact on system functionality and availability. This issue is raised as low risk due to the functionality being available within SAP for review of all changes made which confirmed only a small number of changes had been implemented and approved by the same individual and these all had supporting justification.</p>
<b>Recommendation</b>	<p>The ability to develop and implement changes should be assigned to different individuals, with system access updated to reflect this. Where this is not possible due to limitations on resource availability, proactive monitoring of user activity with periodic reviews should be undertaken to ensure that all changes made to the live application can be linked to an approved change request.</p>

# IT Audit Findings

## Change Management (SAP Payroll)

### Management Response

Processes are in place so that implementation of changes is normally carried out independently from the developer of the change. However, these eight incidents occurred due to a number of factors, including work completed by different teams where changes had to be implemented in a particular order to allow for the configuration to work, and one incident due to an error in how changes were working, where our external support (Mandant Solutions Ltd) had supplied a fix and needed it testing and only the developer was available to move this through the system. This was monitored by the Managers. Steps are already in place to ensure that this should not happen, however, mentoring has been introduced to ensure that where incident like this which cannot be avoided that these are documented clearly.

**Responsible:** Principal System Support Officer

**Due date:** In place

# IT Audit Findings (cont.)

User Administration (SAP Payroll)	
<b>Observation</b>	<p>User administration procedures relating to new access requests and revoking leaver access could be strengthened, specifically:</p> <ul style="list-style-type: none"> <li>- 1 of the 25 users sampled for review was granted access to the application without having a request form completed as per the access request procedure; and</li> <li>- 3 users had retained access to the application after their stated leaving date.</li> </ul> <p>All users were confirmed to only hold self service access therefore did not have access to privileged system functionality. Management were able to provide retrospective approval for the new access request noted above.</p>
<b>Risk</b>	<p><b>Low</b> - User Administration is one of the basic building blocks for a well controlled IT environment. Based on our experience, weaknesses that exist in user administration procedures are a common root cause for financial and transactional error, fraud and / or data leakage. Maintaining and consistently applying a robust set of control procedures therefore is crucial to minimising the risk of these occurring. It is noted all users identified by audit testing did not have privileged access therefore the risk created is low.</p>
<b>Recommendation</b>	<p>Management should consider periodically reviewing user administration process operation to ensure that a consistent level of control is being applied.</p>
<b>Management Response</b>	<p>Changes are being put into place so that all new user access to be granted is submitted via Remedy, which should ensure that no authorisation documentation should be misfiled.</p> <p>In addition we are introducing a monitoring system so that when access is removed from users as part of the monthly maintenance where a comparison is taken between the employee's leaving date and the date they last accessed the systems, these will then be followed up at the time with the managers.</p> <p><b>Responsible:</b> Principal System Support Officer</p> <p><b>Due date:</b> In progress, partially implemented</p>

# IT Audit Findings - Prior Year Update

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

User Administration (FMS)	
Prior Year Observation	<p><u>2017 Finding:</u></p> <p>User administration procedures relating to new access requests and monitoring changes to individuals' jobs / roles could be strengthened, specifically:</p> <ul style="list-style-type: none"> <li>- 1 of the 40 users sampled for review was granted access to the application without having a request form completed per the access request procedure; and</li> <li>- Whilst a report of staff members changing roles exists there is no regular, proactive review of those individuals to ensure their access remains appropriate for job role.</li> </ul> <p>Management were able to provide retrospective approval for the new access request noted above.</p>
Current Year Observation	<p><b>Part Resolved</b> - We noted that all FMS users sampled for review had followed the appropriate access request process. We noted that proactive reviews of those individuals who change role still do not occur to ensure their access remains appropriate.</p>
Risk	<p><b>Low</b> - User Administration is one of the basic building blocks for a well controlled IT environment. Based on our experience, weaknesses that exist in user administration procedures are a common root cause for financial and transactional error, fraud and / or data leakage. Maintaining and consistently applying a robust set of control procedures therefore is crucial to minimising the risk of these occurring. It is noted that the risk is reduced in this instance through bi-annual reviews of FMS user access, as these reviews would identify any access not required for a user's current job role.</p>
Recommendation	<p>Management should consider periodically reviewing user administration process operation to ensure that a consistent level of control is being applied. Consideration should be given for review over key procedures i.e. mover access review. This would enable the identification of opportunities to enhance and develop those processes to reduce the opportunity for exceptions or control operator error to occur and not be identified in a timely manner</p>

# IT Audit Findings - Prior Year Update

## User Administration (FMS)

### Management Response

The main process for reviewing FMS user access rights is the six monthly review of all users' access, which should identify any changes required as a result of changes in role. Whilst it is possible to also identify and review access rights more quickly when users change to a different role, it is felt to be more important to target limited staff resources at ensuring FMS accounts for leavers are identified and closed promptly.

**Responsible:** Principal Finance Manager

**Due date:** Ongoing

# IT Audit Findings - Prior Year Update (cont.)

System Configuration (SAP Payroll)	
Prior Year Observation	<p><u>2016 Finding:</u></p> <p>The SAP Payroll application is not consistently configured in a manner aligned to the Leeds City Council Password Policy or good practice. Configuration where misalignment has been identified includes enforcement of password complexity and overarching system security options that prevent misuse of a built in superuser account.</p> <p>Limited remedial activity has now occurred in response to the audit observations to align configuration within the SAP application to good practice.</p> <p><u>2017 Update:</u></p> <p>It is noted that the overarching system security options are now aligned with good practice. However it is noted that passwords, specifically in relation to complexity continue to not be aligned to both good practice and Leeds City Council Password Policy. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Current Year Observation	<p><b>Part Resolved</b> – It is noted that the overarching system security options continue to be aligned with good practice. However it is noted that passwords, specifically in relation to complexity continue to not be aligned to both good practice and Leeds City Council Password Policy. Whilst a new password policy continues to be developed by the Council this has not been implemented during the audit period.</p>
Risk	<p><b>Low</b> – Where applications are not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted the SAP application does require passwords to be in place, of a suitable length and changed periodically therefore the risk is reduced. Also that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong, complex passwords.</p>
Recommendation	<p>Management should review and amend the password configuration within the systems to ensure alignment to both the internal policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>

# IT Audit Findings - Prior Year Update

## System Configuration (SAP Payroll)

### Management Response

Management will consider how best to apply the new password policy to the SAP system.

**Responsible:** Principal System Support Officer

**Due date:** October 2018

# IT Audit Findings - Prior Year Update (cont.)

System Password Parameters (Database / UNIX Servers)	
Prior Year Observation	<p><u>2016 Finding:</u></p> <p>The passwords used within the infrastructure underlying the SAP payroll and FMS applications are not configured in a manner aligned to the Leeds City Council Password Policy or good practice. The components affected includes:</p> <ul style="list-style-type: none"> <li>• Oracle Databases;</li> <li>• UNIX Servers hosting the Applications / Databases; and</li> <li>• Technical Services Portal (used to store Admin shared passwords for the above).</li> </ul> <p>Aspects of password configuration where the expected standards are not enforced include minimum length, complexity, history, rotation and account lockout.</p> <p><u>2017 Update:</u></p> <p>No change to system configuration or policy was noted during the 2017 IT Audit. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Current Year Observation	<p><b>Open</b> - No change to system configuration or policy was noted during the 2018 IT Audit. Whilst a new password policy continues to be developed by the Council this has not been implemented during the audit period.</p>
Risk	<p><b>Medium</b> – Where passwords are consistently not aligned to good practice or internal standards, the risk is increased that inappropriate or unauthorised access may be gained to applications, servers and databases. Passwords are a key component of the information security environment required to protect systems and the data held therein. It was noted that for all instances of privileged or administrator access confirmation was provided by management that staff were sufficiently knowledgeable and experienced to manually select strong passwords and change them regularly.</p>
Recommendation	<p>Management should review and amend the password configuration within the systems to ensure alignment to both the internal Council policy and also to good practice. Where this is not possible a risk assessment should be undertaken to review, mitigate, monitor and if required accept the resulting risk.</p>



# IT Audit Findings - Prior Year Update

## System Password Parameters (Database / UNIX Servers)

### Management Response

The new password policy is now enforced at the OS level for all UNIX servers and for database accounts.

**Responsible:** ICT Infrastructure Manager

**Due date:** In place

# IT Audit Findings - Prior Year Update (cont.)

User Access – Privileged Users (SAP Payroll)	
<b>Prior Year Observation</b>	<p><u>2016 Finding:</u></p> <p>There are 2 generic, user accounts assigned privileged / administrator access within the SAP Payroll application which management confirmed did not currently require the level of privilege assigned. In 1 instance it was noted that the account had previously been required for internal IT operational use but that this function has been outsourced to a third party within the 6 months prior to the audit without a corresponding update to the accounts assigned access.</p> <p><u>2017 Update:</u></p> <p>It was noted that both of these accounts were still active and had retained this level of elevated access. From discussion with management it was understood that amending these accounts requires a lengthy review and testing process to avoid any impact on the system operation and that changes were planned. In addition it was noted that a number of users had transactional level access privileges assigned which were not required for their job roles, specifically:</p> <ul style="list-style-type: none"> <li>- Two users were assigned the ability to make changes to the application at the table level should the system be open.</li> <li>- All active users were noted to have the ability to assign roles to other user accounts, however it was observed that this was not an option accessible via the standard user interface. Additional testing confirmed that this privilege had not been misused by individuals whose job role does not include role assignment / user maintenance.</li> </ul> <p>In both instances management confirmed this had occurred due to this access being part of legacy profiles assigned to users. These points were identified this year due to additional in-depth audit testing of user access being undertaken based on the prior year audit finding.</p>
<b>Current Year Observation</b>	<p><b>Part Resolved</b> – It was noted that both of the generic accounts had this access removed and / or been made inaccessible to all users. The ability to make changes to the application at table level had also been removed where not required for a job role.</p> <p>However it was noted that all active users continued to have transactional level access privileges assigned which grant them the ability to assign roles to other user accounts. It was understood that this continues to not be an option accessible via the standard user interface and additional testing confirmed that this privilege had not been misused by individuals whose job role does not include role assignment / user maintenance. Management confirmed this had occurred due to this access being part of legacy profiles assigned to users.</p>

# IT Audit Findings – Prior Year Update (cont.)

User Access – Privileged Users (SAP Payroll)	
<b>Risk</b>	<b>Medium</b> – Where application privileged access has been granted or retained inappropriately the risk is increased that inappropriate or unauthorised use of privileges may occur, including the modification of financial data or system configuration. It was noted based on the additional testing undertaken it was possible to gain assurance that the transactional level privileges had not been abused however a level of risk remains.
<b>Recommendation</b>	Periodic reviews should be undertaken over all accounts with privileged access assigned. Privileged access should be removed from all user accounts where it is not required for current tasks or an individuals job role.
<b>Management Response</b>	<p>As last year whilst some users have the rights to assign roles within the pre-designed access rights they do not have access to the transaction to assign roles, processes are in place to ensure that these transactions are never assigned to users who do not have the right as part of their job to assign roles.</p> <p><b>Responsible:</b> Principal System Support Officer</p> <p><b>Due date:</b> In place</p>

# IT Audit Findings - Prior Year Update (cont.)

System Password Parameters (SAP Payroll / FMS)	
Prior Year Observation	<p><u>2016 Finding:</u></p> <p>The passwords assigned to privileged accounts within the SAP Payroll and FMS applications and supporting infrastructure are not configured in a manner aligned to the Leeds City Council Password Policy. The components effected includes:</p> <ul style="list-style-type: none"> <li>• Applications;</li> <li>• Oracle Databases;</li> <li>• UNIX Servers hosting the Applications / Databases; and</li> <li>• Technical Services Portal (used to store Admin shared passwords for the above).</li> </ul> <p>Internal standards specify increased requirements for the passwords associated with privileged accounts within the applications and infrastructure, however this has not been implemented and therefore is not automatically enforced.</p> <p><u>2017 Update:</u></p> <p>No change to system configuration or policy was noted during the 2017 IT Audit. Whilst a new password policy is being developed by the Council this has not been implemented during the audit period.</p>
Current Year Observation	<p><b>Open</b> - No change to system configuration or policy was noted during the 2018 IT Audit. Whilst a new password policy continues to be developed by the Council this has not been implemented during the audit period.</p>
Risk	<p><b>Low</b> – Where passwords are consistently not aligned to internal standards, the risk is increased that the information security environment may not be enforced consistently across the IT estate. This could lead to inconsistent application configuration allowing inappropriate or unauthorised access to be gained to applications, servers and databases.</p> <p>It was noted that the underlying policy mandated configuration for non-privileged users is aligned to good practice for both privileged and non-privileged users. This finding therefore refers primarily to inconsistencies between policy and privileged access system configuration.</p>
Recommendation	<p>Management should review and amend either the internal standards or password configuration within the systems to ensure consistent alignment and clearly defined security standards.</p>

# IT Audit Findings - Prior Year Update

## System Password Parameters (SAP Payroll / FMS)

### Management Response

FMS : A system development has been approved for FMS which will align all users' passwords to the level of complexity required in the new policy for privileged users. This will be implemented as soon as development resources allow.

**Responsible:** Principal Finance Manager

**Due date:** September 2018

SAP: Investigations are underway to see if it is possible to change the password to meet the new policy.

**Responsible:** Principal System Support Officer

**Due date:** October 2018

# IT Audit Findings - Prior Year Update (cont.)

Privileged Access (Database)	
Prior Year Observation	<p><u>2017 Finding:</u></p> <p>Administration of the databases underlying both the SAP Payroll and FMS applications is undertaken via the Oracle Enterprise Cloud Manager tool. This tool has been configured to use generic Oracle Database super user accounts which are therefore shared amongst the database administrator team. Whilst use of these accounts is required for some activities (i.e. upgrades and applying patches) more day to day operational activity could be undertaken through accounts assigned to specific, named individuals with a level of delegated privilege.</p>
Current Year Observation	<p><b>Closed</b> – Individual user accounts have been added within the Oracle Enterprise Cloud Manager tool, generic super user accounts should now only be used in specific circumstances where required.</p>
Risk	<p><b>Low</b> – Where shared accounts are used the risk is created that activity can occur without ensuring individual user accountability. Where these shared accounts are regularly used and especially where these accounts have super user access assigned the risk is increased of inappropriate or unauthorised use of privileges to modify key financial data and / or system configuration.</p> <p>It is noted that for both applications the likelihood of negative impact is considered to be decreased as all individuals with access to the accounts are limited to the Leeds City Council Database Administrator team with details stored within the Technical Services Portal.</p>
Recommendation	<p>Management should, where possible, create additional user accounts to either ensure individual accountability for the use of high levels of privilege or to allow assignment of lower levels of privilege to individuals as required by their job role. Consideration should be given to performing a periodic review of usage logs for the shared super user accounts to confirm that all activity can be linked to an approved change or incident ticket, and to identify and investigate any potential misuse.</p>

# IT Audit Findings – Prior Year Update (cont.)

Change Management – Approval to Implement Changes (SAP Payroll / FMS)	
<b>Prior Year Observation</b>	<p><u>2016 Finding:</u></p> <p>Change management procedures relating to approval of changes prior to implementation have not been consistently followed within the SAP Payroll and FMS applications, specifically:</p> <ul style="list-style-type: none"> <li>• Evidence of appropriate approval for changes to be deployed on the SAP Payroll application was not provided for 7 of the 40 changes sampled. It was noted this included 4 instances of appropriate approval not being granted and 3 instances where changes had been developed directly within the live environment.</li> <li>• Evidence of appropriate approval for changes to be deployed into the FMS live application environment could not be provided for 1 of the 8 changes sampled. It was noted this was due to the approval being granted by an individual more junior than required per policy guidelines.</li> </ul> <p>For both applications all changes have been granted retrospective approval by an appropriate member of staff.</p> <p><u>2017 Update:</u></p> <p>In relation to SAP Payroll, all 40 changes sampled for inspection were noted to have been appropriately documented, approved and developed within the appropriate application environment.</p> <p>In relation to FMS, 1 of the 6 changes sampled for inspection was noted to not have evidence retained of its testing, segregation between its implementer and developer and of approval being granted prior to its implementation in the live system.</p> <p>Management provided retrospective confirmation this change was appropriate and noted that this was primarily a documentation retention issue.</p>
<b>Current Year Observation</b>	<p><b>Closed</b> – All changes sampled on both the FMS and SAP Payroll applications had followed the change management process as specified.</p>
<b>Risk</b>	<p><b>Low</b> – Where the change management process is not appropriately evidenced the risk is increased that changes may be deployed into the live environment without completing the full change management procedure and could then have a negative impact on system availability and the related business operations.</p>

# IT Audit Findings – Prior Year Update (cont.)

User Access – Users Access Reviews (SAP Payroll)	
<b>Prior Year Observation</b>	<p><u>2016 Finding:</u></p> <p>The SAP Payroll application user access review is focused on the continued requirement for application user licences and does not consider the level of access assigned to individual users. This review would therefore not identify individuals who had changed duties within their job role and inappropriately retained elevated or privileged SAP Payroll access.</p> <p><u>2017 Update:</u></p> <p>Pilot user access reviews have occurred as part of creating a process for reviewing and verifying SAP Payroll user access, however development is still ongoing and the majority of users have not had their assigned access reviewed during the audit period.</p>
<b>Current Year Observation</b>	<p><b>Closed</b> – A user access review is currently being undertaken to review and verify all SAP Payroll user access, this is then planned to be repeated periodically in the future.</p>
<b>Risk</b>	<p><b>Low</b> – While user access reviews are considered a compensatory control to ensure a well controlled and restricted user population they do undertake an essential function to ensure all access, including privileged or administrator access continues to be required and is appropriately approved.</p>
<b>Recommendation</b>	<p>Management should continue to develop the process to effectively review user access within the SAP Payroll application. Once completed this should be applied as a priority to those teams and departments within the Council which are considered the highest risk based on factors including level of SAP access, risk of breaching segregation of duty and level of staff turnover / movement between roles.</p>



# Appendix 1 - IT Audit Findings - Risk Ratings Key

## High priority:

A significant weakness in the system or process which is putting you at serious risk of not achieving your strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the strategic risks will occur. Any recommendations in this category would require immediate attention.

## Medium priority:

A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving your strategic aims and objectives. In particular, having the potential for adverse impact on the reputation of the business or for raising the likelihood of strategic risks occurring.

## Low priority:

Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.

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Report author: Mary Hasnip  
Tel: x89384

**Report of**    **the Chief Finance Officer**

**Report to**    **Corporate Governance and Audit Committee**

**Date:**       **30<sup>th</sup> July 2018**

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

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

**Summary of main issues**

1.       KPMG are nearing completion of their audit of the final accounts. However at the time of writing this report a small number of issues remain to be resolved, and thus a final report on their audit findings is not yet available. The audit report will be published once it becomes available.
2.       The accounts will be certified by the Chief Finance Officer as a true and fair view of the Council’s financial position as at 31<sup>st</sup> March 2018. A copy of the revised accounts as at 20<sup>th</sup> July is included with this report, however it should be noted that further amendments may be required.
3.       During the 2017/18 public inspection period, no objections were received from local electors. However the elector objection from 2016/17 relating to LOBO loans has not yet been resolved. As a result, KPMG have indicated that although they are hopeful of being able to issue an opinion on the 2017/18 accounts by the deadline of 31<sup>st</sup> July, there may be a delay in formally closing their audit for the year. The usual deadline for closing the audit is 31<sup>st</sup> August, following the audit of the council’s Whole of Government Accounts return.

**Recommendations**

4.       Members are asked to receive the report of the Council’s external auditors on the 2017/18 accounts and to note its findings.

5. Members are asked to approve the final audited 2017/18 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
6. On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
7. Members are asked to note KPMG's VFM conclusion included within their final audit report.
8. Members are asked to note that there is an outstanding objection to the 2016/17 accounts which is still under consideration by KPMG, and which may result in a delay in the completion of the overall 2017/18 audit.

## **1 Purpose of this report**

- 1.1 At its previous meeting in June, the Committee considered the unaudited 2017/18 Statement of Accounts prior to their being made available for public inspection. Under this Committee's terms of reference, members are now required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.

## **2 Background information**

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

## **3 Main issues**

### **3.1 Key External Audit Findings**

#### **3.1.1 Audit Opinion**

At the time of writing this report, a final audit report from KPMG has not yet been received. Their report will be published once it becomes available.

#### **3.1.4 Review of the Annual Governance Statement**

KPMG have confirmed that, in their opinion, the Annual Governance Statement is not misleading or inconsistent with other information they are aware of from their audit of the financial statements.

### **3.2 Post Balance Sheet Events and other significant amendments**

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

- 3.2.2 As at the 20<sup>th</sup> July the council has identified one post balance sheet event which requires an adjustment to be made to the final accounts. The provision for appeals on business rates has been increased by £1.0m, of which £0.5m will fall on the council in future years. There has been a resulting minor reduction in the council's levy payable to the Leeds City Region pool of £43k, and this amount has instead been added to reserves.

- 3.2.3 Officers have reviewed the revaluations of fixed assets during June and July, and identified corrections which have increased the value of the council's assets by a net £8.3m.

- 3.2.4 The council's accounting policy is to value its fixed assets as at 1<sup>st</sup> April. This is for practical reasons to allow the large number of valuations which must be carried out each year to be undertaken on the basis of reliable data. The local authority accounting Code of Practice requires that where an authority uses a valuation date earlier than 31<sup>st</sup> March it must satisfy itself that its valuations are not materially different from those which would have been made at 31<sup>st</sup> March. A transaction is material under the Code if omitting or misstating it could influence the decisions made by users of the accounts, and thus the materiality required for a local authority varies depending on the item affected. Published indicators for build costs show a rise between 1<sup>st</sup> April 2017 and 31<sup>st</sup> March which if applied to those of the council's assets which are valued on a depreciated replacement cost basis would result in an increase of £53m, increasing the value of Property, plant and equipment on the council's balance sheet from £5.20bn to £5.25bn. There would be a corresponding increase in non spendable capital reserves. KPMG have requested that the council make this amendment due to the different materiality constraints of auditing standards, although there is some doubt as to whether it would be a material item as defined by the Code
- 3.2.5 Following the above changes, the final accounts show an increase in the Council's net worth for the year of £383m, in comparison to the £323m shown in the draft accounts.
- 3.2.6 As outlined in paragraph 3.2.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

### **3.3 Public Inspection Queries, Questions to the Auditors and Objections**

- 3.3.1 Under the statutory timescales for public inspection of the accounts, no formal objections or requests for additional information have been received for the 2017/18 accounts. However the objection received in 2016/17 on the subject of the council's use of LOBO (lender option borrower option) loans remains unresolved.
- 3.3.2 KPMG have indicated that they are hopeful of resolving this issue in the near future, and that it would not prevent them from issuing an opinion on the 2017/18 accounts. However there may be a delay in closing the 2017/18 audit beyond the usual timescale of 31<sup>st</sup> August, which is the deadline for auditors to complete their review of councils' Whole of Government Accounts returns.

### **3.4 Management Representation letter**

- 3.4.1 The auditors are required by the Audit Commission's Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give KPMG such assurances. In respect of the 2017/18 accounts, a draft of this letter is attached as **Appendix A** to this report. However KPMG have indicated that depending on the outcome of unresolved audit issues, they would request an amendment to the wording of this letter if the outcome is that there are non-material audit differences which the council determines not to amend in its

accounts. Once this position has been clarified, the Chief Finance Officer will consult with appropriate officers and will sign to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.

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

### **3.5 Future audit of the Housing Benefit Subsidy grant claim**

- 3.5.1 The committee will be aware that the appointment of Grant Thornton as our auditors from 2018/19 onwards relates only to the main statement of accounts audit. Councils were required by the Department of Work and Pensions to separately procure auditors to audit their housing benefit subsidy grant claims for 2018/19 onwards. The council has carried out a tendering exercise and has appointed Mazars LLP to carry out this audit work.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

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

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

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

### **4.3 Council policies and Best Council Plan**

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

### **4.4 Resources and value for money**

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

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

- 4.5.1 The Accounts and Audit Regulations 2015 require the audited Statement of Accounts to be published on or before the 31<sup>st</sup> July. Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and consider any material amendments recommended by the auditors.
- 4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

## **4.6 Risk Management**

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

## **5 Conclusions**

5.1 The Chief Finance Officer will sign the final audited version of the accounts confirming them as a true and fair view of the Council's financial position as at 31<sup>st</sup> March 2018

5.2 KPMG's external audit report will provide assurances to members covering their opinion on the accounts, their opinion on the council's value for money arrangements, and their conclusions on the Annual Governance Statement.

5.3 There is one outstanding objection to the 2016/17 accounts from an elector, which KPMG are hopeful of resolving in the near future.

## **6 Recommendations**

6.1 Members are asked to receive the report of the Council's external auditors on the 2017/18 accounts and to note its findings.

6.2 Members are asked to approve the final audited 2017/18 Statement of Accounts and the Chair is asked to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.

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

6.4 Members are asked to note KPMG's VFM conclusion included within their final audit report.

6.5 Members are asked to note that there is one objection to the 2016/17 accounts which is still unresolved, and which may result in a delay in the completion of the overall 2017/18 audit.

## **7 Background documents<sup>1</sup>**

7.1 None.

---

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



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**Chief Finance Officer**  
Selectapost 3  
Civic Hall  
Leeds  
LS1 1JF

Contact: Doug Meeson  
Tel: 0113 [REDACTED]  
Email: [REDACTED]@leeds.gov.uk

30<sup>th</sup> July 2018

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Leeds City Council (“the Authority”), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

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

### **Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended;
  - ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

### Information provided

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

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.
8. The Authority has disclosed to you all information in relation to :
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

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

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

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

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:

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

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

The Authority further confirms that:

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

have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Corporate Governance and Audit Committee on 30<sup>th</sup> July 2018.

Yours faithfully,

Chief Finance Officer

Chair, Corporate Governance and Audit Committee

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

### **Financial Statements**

A complete set of financial statements comprises:

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

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

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

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

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

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

### **Material Matters**

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

IAS 1.7 and IAS 8.5 state that:

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

### **Fraud**

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

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

## **Error**

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

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

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

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

## **Management**

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

## **Related Party and Related Party Transaction**

### **Related party:**

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

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

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility

for planning, directing and controlling the activities of the authority, including the oversight of these activities.

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

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

**Related party transaction:**

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



Report author: Sonya McDonald  
Tel: 88693

**Report of the Chief Officer (Financial Services)**

**Report to Corporate Governance and Audit Committee**

**Date: 30th July 2018**

**Subject: Internal Audit Annual Report and Opinion 2017-18**

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

**Summary of main issues**

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements (including matters such as internal control and risk management) and to consider the Annual Internal Audit Report.
2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement.
3. This report provides the Annual Internal Audit Report and Opinion for 2017/18.
4. The overall conclusion is that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. A satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report. The work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

**Recommendations**

5. The Corporate Governance and Audit Committee is asked to receive the Annual Internal Audit Report and Opinion for 2017/18 and note the opinion given. In particular:

- that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
  - a satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report
  - that the work undertaken to support the opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.
6. The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.



## **1 Purpose of this report**

- 1.1 The purpose of this report is to bring to the attention of the Committee the annual Internal Audit opinion and basis of the Internal Audit assurance for 2017/18.

## **2 Background information**

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement.
- 2.2 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements. Internal audit is a key source of independent assurance providing the Committee with evidence that the internal control environment is operating as intended.
- 2.3 The Chief Officer (Financial Services), as the council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of Internal Audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.
- 2.4 On behalf of the Committee and the Section 151 Officer, Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.5 The terms of reference of the Committee require that it considers the council's arrangements relating to internal audit requirements including the Annual Internal Audit Report and monitoring the performance of the Internal Audit section.

## **3 Main issues**

### **3.1 The Annual Reporting Process**

- 3.1.1 The Public Sector Internal Audit Standards (revised 1 April 2017) require the Head of Audit to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and must incorporate:
- the opinion
  - a summary of work that supports the opinion
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme
- 3.1.2 This report is the culmination of the work performed by Internal Audit during the course of the year and provides the Head of Audit opinion based on an objective

assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems. In accordance with the requirements of the PSIAS, the Head of Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

### **3.2 Organisational Independence**

- 3.2.1 The PSIAS require the Head of Audit to confirm to the Corporate Governance and Audit Committee at least annually, the organisational independence of the internal audit activity. The Internal Audit Charter and the council's Financial Regulations re-inforce this requirement.
- 3.2.2 The Internal Audit Charter was reviewed, updated and approved by the Corporate Governance and Audit Committee at the meeting in April 2017. The Charter specifies that the Head of Audit must report to a level within the council that allows Internal Audit to fulfil its responsibilities.
- 3.2.3 The authority's Financial Regulations state that the Head of Audit 'must be able to report without fear or favour, in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee and the scrutiny function.'
- 3.2.4 Appropriate reporting and management arrangements are in place within LCC that preserve the independence and objectivity of the Head of Audit.

Declaration of independence and objectivity

*The reporting and management arrangements in place are appropriate to ensure the organisational independence of the Internal Audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity.*

Head of Audit

### 3.3 Opinion 2017/18

- 3.3.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that *'the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'* This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

#### Head of Audit opinion for 2017/18

*On the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.*

*We have audited several areas that have resulted in 'Limited Assurance' opinions, one area that has resulted in 'No Assurance' and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the council's governance, risk management and control arrangements at the year end. A **satisfactory** overall opinion is provided for 2017/18, based on the audit work detailed within this report. The outcomes of the audit work that supports this opinion have been reported to members of the Corporate Governance and Audit Committee during the year.*

*The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.*

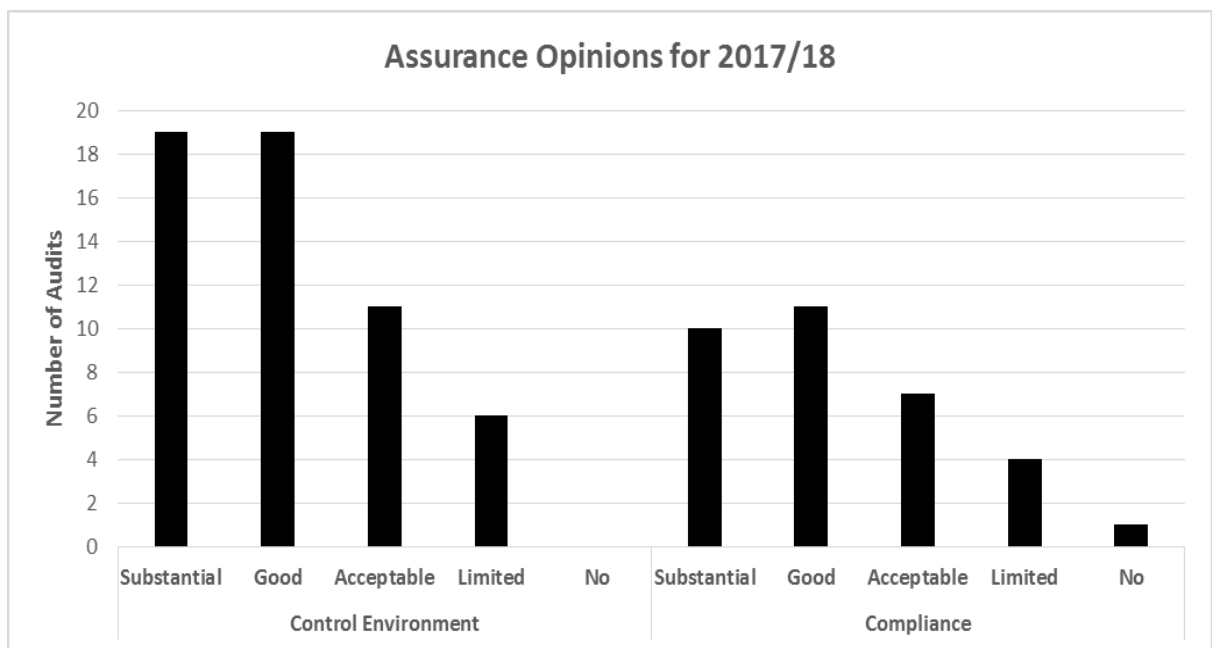
### 3.4 Basis of Assurance

- 3.4.1 The annual opinion on the adequacy and effectiveness of the control environment for 2017/18 is based on the findings and assurance provided by the schedule of reviews undertaken throughout the year. The schedule of reviews for 2017/18 was prepared using a risk based audit planning approach and was approved by the Corporate Governance and Audit Committee in April 2017.
- 3.4.2 Each piece of audit work results in an audit report that provides, where appropriate, an assurance opinion. Depending on the type of audit review undertaken, assurance opinions may be assigned for the control environment, compliance and organisational impact. The control environment opinion is the result of an

assessment of the controls in place to mitigate the risk of the objectives of the system under review not being achieved. A compliance opinion may also be provided for the area under review if assurance on the extent to which the controls are being complied with is required. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level), good, acceptable, limited and no assurance.

3.4.3 Organisational impact is reported as either: major, moderate or minor. Any reports issued with a major organisational impact will be reported to the Corporate Leadership Team along with the relevant directorate’s agreed action plan.

3.4.4 The graph below provides a high level overview of the assurance opinion levels provided for the audits that we have completed during the year.



3.4.5 The PSIAS require us to report where we have placed reliance on other assurance providers. External audit perform testing over the housing benefit claim in line with the certification requirements of PSAA and DWP. For a sample of claimants, this includes recalculation of the actual benefit awarded. To avoid duplication, we did not re-perform this calculation as part of our housing benefit assessment and payment audit this year.

### 3.5 Assurance Areas

#### *Key Financial Systems*

3.5.1 The key financial systems audits are reviews of the council’s core financial functions. We review these functions on an annual basis to provide assurance that the financial systems that are fundamental to the council’s operations remain effective and working well in practice.

3.5.2 Our reviews of the key financial systems support the opinion that the council has effective financial governance, risk management and internal control arrangements

in place. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice.

- 3.5.3 There is an awareness of the particular risks that Local Authorities face as a result of the challenging financial picture, and the importance of operating within a robust system of budgetary control has taken on greater significance than ever. The high profile difficulties faced at other authorities not only present a stark warning of the potential pitfalls, but also an opportunity to review and challenge current practices against a backdrop of lessons learned. Whilst Leeds is exposed to the risk in the same way as any other authority tasked with managing a funding gap, we have confirmed that key areas of the financial control framework are in place to mitigate these risks. There are established governance arrangements in respect of the central coordination and setting of the budget, with cyclical monitoring information received through a central forum. Directorates are required to substantiate monthly projections and forecasts, and are challenged to explain material variances and report on progress against savings plans. The arrangements in place ensure that there is central leadership that sets a tone of responsible budget management across the authority.
- 3.5.4 In last year's Annual Report, we highlighted processes that required strengthening within the CIS Payments function (formerly Community Care Finance). This focussed on the processing of payments for residential and nursing care placements. The follow up review carried out in 2017/18 found that improvements were evident in the control framework and an increased level of assurance can now be provided in this area.
- 3.5.5 As previously, the key financial systems subject to audit were discussed with the external auditors to ensure that the work of internal and external audit are linked as efficiently and effectively as possible. KPMG has reviewed the findings of a sample of our work on key financial systems in 2017/18 and did not raise any concerns over the timeliness and quality. KPMG has confirmed that they use the work of Internal Audit to inform their risk assessment, including audit risks related to key financial systems.

### ***Procurement and Contracts***

- 3.5.6 Procurement audits have been carried out both centrally and within directorates over the course of the year. We have reviewed the effectiveness of controls in place at various stages of the procurement process, including the arrangements in place centrally to ensure tendering is carried out fairly and transparently, and also the procurement and subsequent management of a sample of significant contracts. Alongside this, we have also looked into the root causes of non-compliance with Contract Procedure Rules (CPRs) where expenditure has been identified as occurring outside formal contractual arrangements.
- 3.5.7 We have been able to provide some substantial assurances relating to specific examples of contract management. However, overall, our audit opinions have varied and we have identified a number of areas that will require further consideration.

- 3.5.8 The fundamental requirements of the procurement process are all formally set out within the constitution and policy framework including CPRs. However our audits have identified several areas where controls should be developed further to ensure that the policy requirements are fully embedded within working practices. Our work on the procurement approval process and the tendering system controls recommended a coordinated approach involving training, guidance and system development to build in greater compliance with the policy framework and ensure that decisions are consistently subject to the correct level of authority and transparency. This is particularly important to guard against the risk of challenge from potential contractors or bidders. Procurement and Commercial Services (PCS) have welcomed our audit recommendations.
- 3.5.9 We found there were some limitations in the links between procurement decisions taken and the council's strategic category management approach. Category management looks to group together related purchasing requirements across departments, with clear value to be obtained by maximising the economies of scale achievable during contract negotiation. In doing so, this should also further reduce the levels of off contract spending. PCS are refreshing the procurement strategy and CPRs and this will provide an opportunity to reaffirm the processes involved in securing best value for money.
- 3.5.10 The responsibility for contract management tends to sit within the service area that has been identified as the primary contract user. With various officers across the authority adopting responsibility for different levels of contract management alongside the requirements of their day to day roles, it is understandable that our audit opinions varied across the sample of contracts looked at. We found some good examples of contract management in each of the contracts reviewed, however there were disparities in the extent to which we are able to provide assurance that certain aspects are being carried out consistently, for example price monitoring and challenging. We have agreed specific recommendations with the services involved, while the continued development of central guidance to sit alongside CPRs should help to promote greater consistency going forward.
- 3.5.11 We have identified and responded to issues that may have led to non-compliance with CPRs across directorates. Root causes include the awareness and application of rules and procedures, and actions have been agreed that are being taken forward both within and outside PCS. In the wake of this we are expecting higher levels of compliance with CPRs in future, along with more rigorous sanctions where it is found that the correct process has not been followed.

### ***Directorate Risks***

- 3.5.12 We have undertaken a series of audits to provide assurance on the governance, risk management and internal control arrangements in place on a range of operational directorate risk areas during the year. Our work has had links to risks relating to safeguarding, finance, compliance with legislation and internal procedures and other risks that may affect the achievement of council and directorate priorities.
- 3.5.13 Positive assurances were provided in respect of the non-financial risks reviewed during the year, in particular:

- As lead authority for One Adoption West Yorkshire (OAWY), Leeds City Council is responsible for ensuring that there are robust arrangements in place for finding suitable matches, providing training to and supporting adopting families. Our review resulted in substantial assurance in respect of the governance arrangements in place for the OAWY partnership and processes.
- Substantial assurance was also provided for the management of the 'safeguarding children risk'. The audit confirmed that the risk had been assessed, evaluated and managed in line with corporate risk management requirements.
- In the 'Reablement' audit, we provided assurance that there are appropriate processes and procedures in place to provide support to service users to enable them to regain their independence after an illness, a stay in hospital or a change in circumstances.

3.5.14 The audits of IR35 Legislation and Deprivation of Liberty Safeguards highlighted potential issues in respect of ensuring compliance with legislation:

- The new tax year that began on 6 April 2017 saw changes to the current intermediaries legislation, known as IR35. IR35 is applied to off-payroll working in the public sector. Where the rules apply, people who work in the public sector through an intermediary will pay employment taxes in a similar way to employees. One notable change is that the burden of deciding whether or not IR35 applies shifts from the worker's intermediary to the public authority. The council's taxation team had highlighted this as a risk to the Financial Services Group and our review was undertaken to gain assurance that the council is complying with these new responsibilities. The review found that more needs to be done to improve awareness of the legislation amongst engaging officers.
- The Deprivation of Liberty Safeguards (DoLS) are an amendment to the Mental Capacity Act 2005 (MCA). The DoLS under the MCA allows restraint and restrictions that amount to a deprivation of liberty to be used in hospitals and care homes, but only if they are in a person's best interests. The audit found that the control environment is not configured in a way to meet the timescales required by the DoLS legislation.

3.5.15 The issues highlighted above are not unique to Leeds and the management responses in committing to resolve the issues were positive in both cases.

3.5.16 Housing Leeds manages and maintains council homes and provides a range of services for council tenants. The Housing Leeds Assurance Framework is designed to provide assurance that the risks associated with the effective delivery of these services are properly managed. The scope of our audit work has included coverage with links to risks relating to finance, contractor performance, quality of works completed, lettings, the customer experience, health and safety and information governance. Positive assurances were provided for the majority of these audits. The service had proactively asked Internal Audit to undertake the reviews which had

resulted in a low assurance opinion which indicates that management are aware of and keen to address the areas in need of improvement. The service has been responsive to the recommendations made in these reviews.

- 3.5.17 During the year, we have reviewed a broad range of financial risks across directorates, including systems relating to both payments made and income received. Overall, we found that good processes were in place to ensure that the payment types reviewed during the year are appropriate and correct. There were several areas where service areas need to improve processes to ensure that income due to the council is maximised and collected.
- 3.5.18 We also reviewed the financial governance and control arrangements in place for partnerships. We confirmed that a structure is in place to enable central oversight of the financial risks posed by joint working arrangements. We also identified opportunities to strengthen control through robust risk assessment and formalisation of the monitoring framework.

### ***Information Governance and ICT***

- 3.5.19 The mitigation of Information Governance and ICT risks remain a significant priority for the council. The Information Governance team has reported on the council's progress in addressing key information governance and ICT security risks and issues during the year. This has included the issues in respect of the council's status with the Public Services Network (PSN) and the risks associated with the General Data Protection Regulation (GDPR) coming into force on 25 May 2018. Internal Audit coverage during the year has supported the council's ongoing work by reviewing ICT project governance arrangements, the effectiveness of the controls in place over the security and integrity of general data created and saved, and through undertaking specific reviews on directorate information governance arrangements.
- 3.5.20 Our coverage has found mixed results, with several areas of good practice being identified and other areas where more work needs to be done to ensure that all parts of the authority have appropriate arrangements in place to comply with the requirements of GDPR. The findings from our reviews have been fed into the relevant Information Governance work streams and appropriate action has been taken or is planned to address the issues identified.
- 3.5.21 The council's approved methodology includes a requirement that major projects should be reviewed on completion and any lessons learnt documented where appropriate. Our coverage has found weaknesses in this area, reducing assurance that the business sponsor is able to demonstrate that expected outcomes have been achieved and increasing the risk that other ICT projects will not benefit from lessons learnt. This area will be subject to further audit coverage during 2018/19.
- 3.5.22 During the year, we have undertaken two reviews of specific business applications. The aim of these reviews is to provide assurance on the completeness, accuracy, security and effectiveness of input, processing and output of the application. One of these reviews highlighted the ongoing work undertaken by the Service in relation to improving compliance with the Payment Card Industry Data Security Standard (PCI DSS). This is an information security standard for organisations that handle branded



payment cards from the major card schemes. The PCI DSS work is currently being progressed through a cross council group with representatives from the Digital and Information Service team, Information Governance, Financial Services and Internal Audit.

### ***Follow up Work***

- 3.5.23 Where our audit work has highlighted areas for improvement, recommendations have been made to address the risk and management action plans have been established. A follow up audit is undertaken to provide assurance on the actions implemented for all reviews that have resulted in limited or no assurance opinions.
- 3.5.24 In the Internal Audit Annual Report for 2015/16, we reported limited assurance that value for money was being obtained when external providers of residential care and independent fostering agencies were being commissioned. This is a significant area of expenditure and limited assurance was provided because evidence was not being retained to confirm that the provider offering the best value was selected from the available suitable matches (suitable matches are providers that meet the care needs of the child or young person). We have undertaken two follow up reviews since the original audit and can provide assurance that the service now retains appropriate supporting records. These records provide evidence to confirm that once a suitable match has been identified, the correct process is followed in respect of the financial considerations of external placements.
- 3.5.25 Follow up areas that remain outstanding are in respect of the performance management of the relationship with the professional property and building services joint venture (NPS Leeds City Council) and the lack of evidence to confirm that Contract Procedure Rules are followed when Leeds Building Services allocate work to subcontractors. Both of these issues have been escalated within the relevant service areas and positive management responses have been received to confirm that appropriate action will be taken to address the weaknesses identified within these areas.

### ***Data Analytics***

- 3.5.26 Data analytics work is undertaken across directorates and service areas, providing an ongoing evaluation of the control effectiveness within key systems, and highlighting high risk transactions or events. This year we have completed testing on elements of the payroll process, purchasing card transactions, creditors and income bankings. Whilst no significant issues have been identified, this work provides an important source of ongoing assurance to management, and is helpful when considering the direction of each piece of audit work.
- 3.5.27 During the year, we also performed a data matching exercise to provide assurance that small business rates relief was only given to those that met the relevant criteria. This led to the cancellation of small business rates relief for 12 businesses, resulting in approximately £36k of income due to the authority on an annual basis.

### ***Anti-Fraud and Corruption***

- 3.5.28 Leeds City Council is committed to the highest standards of openness, probity and accountability. To underpin this commitment, the council takes a zero tolerance approach to fraud and corruption and is dedicated to ensuring that the organisation operates within a control environment that seeks to prevent, detect and take action against fraud and corruption.
- 3.5.29 As custodians of the council's anti-fraud and corruption policy framework and owners of the fraud and corruption risk, Internal Audit adopts an overarching responsibility for reviewing the council's approach to preventing and detecting fraud. Working alongside dedicated specialist teams and services across the council, we draw upon best practice and guidance from a number of sources to assist in steering the focus and direction of counter fraud activities.
- 3.5.30 The anti-fraud and corruption work undertaken includes both proactive anti-fraud and corruption activities (fraud strategies) and reactive work (investigations). The team takes a risk-based approach to ensure the risk of fraud is managed effectively with available resources. Proactive fraud exercises, data analytics work and participation in the National Fraud Initiative (NFI) provide assurance that the authority is taking positive action to detect potential fraud and prevent its recurrence.
- 3.5.31 The council's Whistleblowing Policy and Raising Concerns Policy set out the means by which serious concerns can be brought to the attention of Internal Audit. The Whistleblowing Policy is available on the intranet and encourages council employees and members, who have serious concerns about any aspect of the council's work, to come forward and voice those concerns without fear of reprisal. The Raising Concerns Policy is published on the council website and offers guidance to members of the public who may have concerns around aspects of the council's work. The promotion and accessibility of these policies helps the council to be responsive to emerging risks that are identified. These policies have been reviewed and updated during the year and were presented to the Corporate Governance and Audit Committee meeting in March 2018.
- 3.5.32 From 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, we received a total of 67 potential irregularity referrals (54 in 2016/17). Of these, 46 were classified under the remit of the Whistleblowing or Raising Concerns policies (36 in 2016/17). All reported irregularities were risk assessed by Internal Audit and either investigated by ourselves, the relevant directorate or HR colleagues, as appropriate. Where the matter was referred to directorates or HR for investigation, we have made follow up enquiries to ensure all aspects of the referral have been addressed.
- 3.5.33 It is important that council employees and members are aware of and have confidence in our Whistleblowing Policy and that members of the public are able to raise concerns with us so that we can take appropriate remedial action. We regularly review the council's whistleblowing procedures against best practice.
- 3.5.34 Of the cases closed during the year, 5 of the allegations were proven and resulted in relevant disciplinary and corrective action being taken. Recommendations were made to improve controls where relevant. All cases where criminal activity is

suspected are reported to the police in line with our zero tolerance approach to fraud and corruption. The council is also committed to ensuring that monies are recovered in cases of fraud or theft, wherever possible. There have been two cases where this has occurred during the year:

- We have previously reported to this Committee that our proactive anti-fraud work was successful in identifying fraudulent creditor payments at the Leeds Grand Theatre (LGT) in June 2013. The process to recover the monies concluded during the year and the funds were received by the council in January 2018.
- One of the cases included in last year's annual report resulted in court proceedings in December 2017. The School Business Manager admitted to illegally obtaining £53,000 through forgery and was sentenced to 16 months in prison. The funds have been recovered and we have confirmed that appropriate financial controls are now in place at the school.

3.5.35 As part of our proactive fraud work programme we have focussed on the National Fraud Initiative (NFI) outputs and raised awareness of fraud risks across the council. Internal Audit and the Schools Finance Team have worked collaboratively to prepare and deliver a training course aimed at improving awareness of fraud risks, assist in improving the financial systems and controls within schools, and provide advice and guidance on new and emerging risks in relation to cyber fraud. The course has been delivered to over 300 school based staff.

3.5.36 The latest NFI exercise (2016/17) included approximately 30,000 matches, of which approximately 7,000 had been categorised by the NFI as recommended to be investigated. The council has also participated in the additional flexible matching service offered by the NFI. To date, the exercise has recovered fraud, errors or overpayments totalling approximately £332,000 made up of 71 individual cases. Where we have identified that weaknesses in the processes have led to these payments, recommendations have been made to mitigate the risk of similar payments occurring in the future.

### ***Other Work***

3.5.37 We have provided training and advice on a wide range of control issues in response to queries raised from across the organisation during the year and completed analytical review exercises to support work being undertaken within directorates.

3.5.38 Following the sentencing of the former Leeds councillor and former Lord Mayor, Neil Taggart in July 2017, the Chief Executive asked Internal Audit to carry out an investigation into the council's arrangements in order to provide assurance that no council resources were used to commit his crimes. The investigation found no evidence that council equipment was used for the offences committed by Neil Taggart.

## **3.6 Summary of Completed Audit Reviews**

3.6.1 This section provides a summary of all reports issued since 1st June 2017, along with the Corporate Governance and Audit Committee meeting date where the audits

were reported. Audit reviews completed from 1st June 2016 to 31st May 2017 were reported in the Internal Audit Annual Report for 2016/17. All reviews up to 31<sup>st</sup> May 2018 have already been highlighted to the Corporate Governance and Audit Committee in the Internal Audit Update Reports throughout the year.

Table 1: Completed Audit Reviews

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
<b>Key Financial Systems</b>				
Financial Management Central Controls	Substantial	N/A	Minor	September 2017
Bank Reconciliation and Cashbook	Substantial	N/A	Minor	January 2018
Total Repairs	Substantial	Substantial	Minor	March 2018
Sundry Income Central Controls	Substantial	Substantial	Minor	March 2018
Income Management System	Substantial	N/A	Minor	March 2018
Business Rates	Substantial	N/A	Minor	March 2018
Housing Rents	Substantial	N/A	Minor	March 2018
Housing Benefits and Council Tax Support Assessment and Payments	Substantial	N/A	Minor	March 2018
Council Tax	Substantial	Substantial	Minor	March 2018
Housing Benefit and Council Tax Support Reconciliations	Substantial	N/A	Minor	March 2018
Payroll Central Controls	Good	Substantial	Minor	March 2018
Central Purchasing Cards Controls	Good	Substantial	Minor	June 2018

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Pension Fund Contributions	Memo issued – no issues identified			June 2018
FMS Creditor Purchase and Payments	Substantial	Substantial	Minor	June 2018
Treasury Management and Bankline	Substantial	Substantial	Minor	June 2018
CIS Payments (Community Care Finance Follow Up)	Good	Acceptable	Minor	June 2018
<b>Procurement and Contracts</b>				
Contract Extensions Follow Up	Good	Good	Minor	September 2017
Leeds Building Services Subcontractors Follow Up	Good	Limited	Minor	September 2017
Contract Review: Recycling and Energy Recovery Facility (RERF) PFI	Substantial	N/A	Minor	September 2017
Leeds Grand Theatre – Contract Procedure Rules Follow Up	Acceptable	N/A	N/A	January 2018
Contract Review: Vehicle Hire Framework	Acceptable	Acceptable	Minor	January 2018
Contract Review: Electricity	Limited	N/A	Minor	January 2018
Contract Review: Homecare	Substantial	N/A	Minor	June 2018
Contract Review: Joint Venture (NPS Leeds City Council) Follow Up	Memo issued – further follow up required			June 2018
<b>Directorate Risks</b>				
Community Infrastructure Levy	Limited	Acceptable	Minor	September 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Community Asset Transfers	Acceptable	N/A	Minor	September 2017
Children's and Families Safeguarding	Substantial	N/A	Minor	September 2017
Primary School	Acceptable	Acceptable	N/A	September 2017
Sundry Income – Network Management	Good	Good	Minor	September 2017
Sundry Income – Sports Centre	Acceptable	Acceptable	Minor	September 2017
BITMO Assurance Framework: Customer Complaints, Satisfaction and Requests for Information	Good	Substantial	Minor	September 2017
BITMO Assurance Framework: Planned and Programmed Maintenance	Good	Substantial	Minor	September 2017
Better Care Fund	Memo issued			January 2018
Adult Social Care: Payments to Providers of Homecare	Good	Good	Minor	January 2018
Lettings Enforcement	Good	Good	Minor	January 2018
Housing Advisory Panel Grants	Good	Good	Minor	January 2018
Tenancy Management Follow Up	N/A	Good	Minor	January 2018
Members Improvements in the Community and Environment (MICE)	Good	N/A	Minor	January 2018
Ward Based Initiatives	Good	N/A	Minor	January 2018
Deprivation of Liberty Safeguards	Acceptable	Good	Moderate	March 2018

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Major Adaptions	Good	Substantial	Minor	March 2018
Nursery Fees Central Controls Follow Up	Acceptable	Good	Minor	March 2018
Flooding Grants	Good	Acceptable	Minor	June 2018
Approval for Care Proceedings and Payments to Providers of External Placements Follow Up	Good	N/A	Minor	June 2018
Adults and Health - Reablement	Substantial	Good	Minor	June 2018
IR 35 Legislation	Limited	Limited	Minor	June 2018
Financial Governance and Control Arrangements for Partnerships	Acceptable	N/A	Moderate	June 2018
Primary School	Limited	N/A	N/A	June 2018
Primary School	Acceptable	N/A	N/A	June 2018
Primary School Follow Up	Good	Good	N/A	June 2018
External Advertising Income	Limited	Limited	Minor	June 2018
Leeds Building Services – Out of Hours (Lifts)	Limited	No	Moderate	June 2018
Governance Arrangements for One Adoption West Yorkshire	Substantial	N/A	Minor	June 2018
<b>Information Governance and ICT</b>				
Adults and Health Risk Management Arrangements for Information	Substantial	N/A	Minor	September 2017

Report Title	Audit Opinion			Included in Report to CGAC
	Control Environment	Compliance	Impact	
Governance				
ICT Data Security	Acceptable	Acceptable	Moderate	September 2017
ICT Projects	Substantial	Good	Minor	January 2018
Implementation of the Client Information System (CIS) Follow Up	Memo issued			June 2018
Business Application Audit: C Series (BACS payment system)	Acceptable	N/A	Minor	June 2018
Business Application Audit: Income Management System	Good	N/A	Moderate	June 2018
Adults and Health Data Quality in relation to Safeguarding	Good	N/A	Minor	June 2018
Leeds Building Services - Information Governance (Records Management)	N/A	Limited	Moderate	June 2018

3.6.2 During the year, we have certified 19 School Voluntary Funds and completed 11 reviews which have provided assurance to various central government departments and other bodies that grant conditions have been complied with. These are listed below:

- Local Transport Block Funding Grant
- Cycling Ambition Grant Determination
- West Yorkshire Plus Capital Grant
- West Yorkshire Combined Authority Treasury Management Assurance
- Families First Grant Claims (September and March)
- Local Authority Bus Subsidy Ring-Fenced (revenue) Grant
- Disabled Facilities Grant
- Green Deal Grant



- Pot Holes Grant
- Flooding Grant

### 3.7 Quality Assurance and Improvement Programme and Conformance with PSIAS 2016/17

#### ***Internal Audit Performance***

- 3.7.1 The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements for monitoring the performance of Internal Audit. This section of the report summarises the performance information that has been reported throughout the year to the Corporate Governance and Audit Committee.
- 3.7.2 Fundamental to the performance of Internal Audit is the assessment that Internal Audit performs in accordance with the PSIAS. The standards require that an external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 3.7.3 Our external assessment was undertaken in October 2016 and the results were reported to the Committee at the January 2017 meeting. The review concluded that the council's Internal Audit service conforms to the requirements of the PSIAS.
- 3.7.4 The Internal Audit team won the national Government Counter Fraud Award in the Outstanding Proactive Detection category in September 2017. Following this award, we were invited by the Chartered Institute of Public Finance and Accountancy (CIPFA) to share our auditing best practice at two events across the country to support other counter fraud practitioners. The Government Counter Fraud judges made the following comments on our achievement:

*'Leeds City Council's use of proactive data analysis, combined with robust and diligently executed internal audit techniques, exemplifies best practice. The steps taken highlight what can be achieved when rigour and proper processes are observed.'*

Table 2: Reports to the Corporate Governance and Audit Committee (1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018)

<b>Report</b>	<b>Purpose</b>
Internal Audit Update Reports	Provided regular summaries of the work undertaken by Internal Audit and allowed the Committee to review the performance of the section.
Whistleblowing Policy	Presented the updated Whistleblowing Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication.

<b>Report</b>	<b>Purpose</b>
Raising Concerns Policy	Presented the refreshed Raising Concerns Policy to inform the Committee of the revisions and to provide an opportunity to comment prior to approval and publication.
Annual Report 2016/17	Provided an overview of the work undertaken by Internal Audit and the annual audit opinion in respect of the council's governance, risk management and control arrangements for 2016/17.
Annual Audit Plan 2018/19	Presented the proposed Internal Audit Plan for 2018-19 for review and approval.

### ***Resources***

- 3.7.5 Resources have been appropriate, sufficient and effectively deployed to achieve the audit coverage necessary to deliver the annual Internal Audit opinion. We have delivered the audit days that were allocated for assurance work in the Annual Audit Plan that was approved by the Committee for 2017/18.

### ***Proficiency and Due Professional Care***

- 3.7.6 Proficiency and due professional care is a key requirement of the PSIAS. All internal auditors have a personal responsibility to undertake a programme of Continuing Professional Development (CPD) to maintain and develop their competence. We have allocated time within the audit plan for CPD, training and personal development to be undertaken throughout the year to continuously improve the knowledge and skills within the Internal Audit section.
- 3.7.7 All members of the Internal Audit team are professionally qualified or studying for professional qualifications and table 3 demonstrates that there is also a good level of local government auditing experience within the team.

Table 3: Experience of staff in post

<b>Years of experience – local government auditing</b>	<b>FTE at 31/03/2018</b>	<b>FTE at 31/03/2017</b>
Less than 1 year	0	4.2
1 – 5 years	7.0	4.0
6 – 10 years	2.0	2.61

Over 10 years	9.59	8.64
Total FTE	18.59	19.4

### **Quality**

- 3.7.8 The annual independent review of the Internal Audit quality system was undertaken in December 2017. The assessment confirmed that the management system continues to conform to our own standards and procedures and is demonstrating continual improvement. We successfully transitioned to the requirements of the latest standard ISO 9001:2015. All Internal Audit work is undertaken in accordance with internal quality procedures incorporated in the quality management system, which has been ISO certified since 1998.
- 3.7.9 A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee's opinion on a range of issues with an assessment ranging from 5 (for excellent) to 1 (for poor). Table 4 below shows the results for the 46 questionnaires received between 1st April 2017 to 31st March 2018. The results are presented as an average of the scores received for each question and the results for the 42 CSQs received for the same period in 2016/17 are provided for comparison.

Table 4: Average scores from Customer Satisfaction Questionnaires for 2017/18 and 2016/17

<b>Question</b>	<b>Average score (of 46 CSQs) 2017/18</b>	<b>Average score (of 42 CSQs) 2016/17</b>
Sufficient notice was given	4.80	4.90
Level of consultation on scope	4.67	4.76
Auditor's understanding of systems	4.41	4.52
Audit was undertaken efficiently	4.65	4.79
Level of consultation during the audit	4.71	4.79
Audit carried out professionally and objectively	4.85	4.93

Accuracy of draft report	4.64	4.64
Opportunity to comment on audit findings	4.87	4.90
Clarity and conciseness of final report	4.72	4.72
Prompt issue of final report	4.41	4.66
Audit recommendations will improve control	4.54	4.61
The audit was constructive and added value	4.54	4.67
<b>Overall Average Score</b>	<b>4.65</b>	<b>4.74</b>

- 3.7.10 The customer satisfaction results reflect our commitment to delivering a quality product to the highest professional standards that adds value and improves the council's operations.

***Quality Assurance and Improvement Action Plan***

- 3.7.11 The PSIAS require that the results of the Internal Audit Quality Assurance and Improvement Plan are included in the annual report. The Action Plan is provided at table 5 below and includes the residual actions from our ongoing self-review and the external assessment reported to the Committee in January 2017.

Table 5 Quality Assurance and Improvement Action Plan 2017/18

<b>Action</b>	<b>Timescale and Status</b>	<b>Comments</b>
Assurance mapping will continue to be developed and evolve during the annual planning process.	Ongoing action carried forward to 2018/19	Maps have been drafted for each assurance area. These will be updated and refreshed during 2018/19.
The external assessors reported a non-conformance with the PSIAS relating to the HR processes involved in the appraisal, recruitment and removal of the Chief Audit Executive.	Complete	The Chair of the Corporate Governance and Audit Committee was involved in the process to recruit the Head of Audit. This was minuted at the meeting in January 2018.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

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

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

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

### **4.3 Council policies and Best Council Plan**

4.3.1 The Terms of Reference for the Corporate Governance and Audit Committee require the Committee to review the adequacy of the council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee. The Internal Audit Plan has links to risks that may affect the achievement of Best Council Plan objectives and the aims of council policies.

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

### **4.4 Resources and value for money**

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

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

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

4.5.1 None.

### **4.6 Risk Management**

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

## **5 Conclusions**

5.1 The overall conclusion is that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. A satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report. The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes

quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

## **6 Recommendations**

6.1 The Corporate Governance and Audit Committee is asked to receive the Annual Internal Audit Report and Opinion for 2017/18 and note the opinion given. In particular:

- that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
- a satisfactory overall opinion is provided for 2017/18, based on the audit work detailed within this report
- that the work undertaken to support the opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing

6.2 The Committee is also asked to note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.

## **7 Background documents**

7.1 None



Report author: A.Hodson  
Tel: 0113 378 8660

**Report of City Solicitor**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> July 2018**

**Subject: Annual Governance Statement**

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

**Summary of main issues**

1. The Council has a duty to undertake an annual review of the effectiveness of its system of internal control. Following that review a committee, in our case the Corporate Governance and Audit Committee, must approve an annual governance statement.
  
2. The review of effectiveness of the Council's Governance arrangements, has been informed by matters considered by;
  - Executive Board
  - Corporate Governance and Audit Committee (particularly assurance reports from officers reporting to the committee)
  - Reports and opinions from;
    - Internal Audit
    - External Audit
    - Inspectorates
    - Peer Reviews
  - Appropriate enquiries of management and staff with relevant knowledge and experience.
  
3. The attached Annual Governance Statement has been prepared in accordance with proper practices specified by the Accounts and Audit Regulations 2015 has been previously released as a draft in June to accompany the Statement of Accounts when put on deposit. This committee considered that version of the document at the meeting of the committee on the 26<sup>th</sup> June.

4. The document has been updated following assurances received by Committee in June and now reflects reports considered by the Executive Board in the intervening period (e.g. the annual report from the Leeds Safeguarding Children Board) and is presented to this committee for approval.

### **Recommendations**

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



## **1 Purpose of this report**

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

## **2 Background information**

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

## **3 Main issues**

- 3.1 This year, as last, the review of effectiveness has been undertaken on an ongoing basis including internal and external audit of our internal control processes, and matters that have been the subject of reports to Corporate Governance and Audit Committee, the Executive Board and other member forums. In addition Directors have reviewed the attached statement and have confirmed that, to the best of their knowledge and belief, all matters of significance have been disclosed.
- 3.2 Members will recall from the June meeting that as a result of requirements contained in Accounts and Audit Regulations 2015 the Authority was under a duty to release a draft Annual Governance Statement to accompany the Accounts when they are placed on deposit. That draft document was signed by both the Council's Section 151 Officer and Monitoring Officer and was available for Member comment at the last meeting of the committee.
- 3.3 The document has been updated following assurances received by Committee in June and now also reflects:
  - Reports considered by the Executive Board in the intervening period (e.g. the annual report from the Leeds Safeguarding Children Board);
  - Receipt by the authority of the Local Government and Social Care Ombudsman's Annual letter to the Authority; and,
  - The view received from our External Auditor on the Statement, which is that "the Annual Governance Statement is not misleading or inconsistent with information they are aware of from their audit of the financial statements."
- 3.4 The Statement is now presented to committee for approval.
- 3.5 Corporate Governance and Audit Committee is asked to agree the attached Annual Governance Statement and authorise the Chair to sign the statement on behalf of the committee.

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

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

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

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

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

### **4.3 Council Policies and City Priorities**

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

### **4.4 Resources and Value for Money**

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

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

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

### **4.6 Risk Management**

- 4.6.1 The Accounts and Audit (England) Regulations 2015, specifically Regulation 6, requires authorities to conduct a review at least once a year of the effectiveness of its systems of internal control in accordance with proper practices. The system of internal control, including arrangements for the management of risk, assists the Council in effectively exercising its functions.
- 4.6.2 In addition the committee and the Executive Board have received regular reports which demonstrate that there is an on-going process for identifying, evaluating and managing risks.

## **5 Conclusions**

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

## **6 Recommendations**

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

## **7 Background documents**

- 7.1 None

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**Draft**

**Annual Governance**

**Statement**

**2018**

**July 2018**

## **1. SCOPE OF RESPONSIBILITY**

- 1.01 We must conduct a review of the effectiveness of our system of internal control and report our findings in an annual governance statement. The statement must be prepared in accordance with proper practices and be reported to a committee of Councillors. This document comprises our Annual Governance Statement (AGS) for 2018.

### **Context**

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

## 2. THE GOVERNANCE FRAMEWORK

2.01 Our governance arrangements are designed to ensure that we take an appropriate and proportionate approach to managing risk whilst ensuring that our outcomes are defined and delivered. The arrangements are not designed to eliminate all risks but rather provide a reasonable degree of assurance of our effectiveness.

2.02 Our governance framework in Leeds comprises of our policies, plans, systems and processes and culture and values that allow us to achieve our strategic outcomes and provide services in a cost effective way and in the public interest. The arrangements can be summarised as:

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

### **3. REVIEW OF EFFECTIVENESS**

3.01 Our process of review is continuous and considers decisions taken and matters considered by:

- Full Council and committees appointed by Full Council, including the specific assurance work of the Corporate Governance and Audit Committee;
- the Executive Board;
- Directors under their delegated authority and with the knowledge of the operation of governance arrangements within their directorates;
- Corporate Leadership Team (and via consideration of this statement by our Corporate Leadership Team);
- Internal Audit;
- External Audit and Inspectorates.

This Annual Governance Statement draws on that work and presents a conclusion in relation to our governance arrangements.

#### **A self-assessment of our effectiveness**

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

- 3.02 Our council values provide a framework within which our organisational culture has become embedded. Our values are at the heart of our organisation. In a period of immense change and real challenge we must be both confident and decisive about what we do and how we do it.
- 3.03 An annual assurance report, compiled by the Chief Officer HR, has provided assurances that employee conduct is properly managed, employment policies are regularly reviewed and that key policies and procedures are fit for purpose, effectively communicated, working as intended and have been regularly reviewed. Our Corporate Governance and Audit Committee successfully escalated concerns about the timeliness of register of interest returns from officers in high risk posts.
- 3.04 The Standards and Conduct Committee has operated in accordance with the terms of reference approved by full Council and reported on its activities by way of an annual report in March 2018. No Leeds City Councillor, nor any Parish or Town Councillor (in the Leeds area), has been found by a Stage 3 Hearing to have failed to comply with the Code of Conduct adopted.
- 3.05 The Monitoring Officer has supported members of the authority (and of Parish and Town Councils) in meeting their obligations to notify disclosable pecuniary interests. These requirements have been met during the year with quarterly reminders being issued to elected members and Clerks at Parish and Town Councils for registers of interests to be reviewed. Guidance has also been provided to support the registration of Gifts and Hospitality.



- 3.06 An important element of our arrangements relates to the independence brought to the consideration of Members' Allowances (through our Independent Remuneration Panel) and issues relating to Member Conduct (through our appointed Independent Person). During the year a refresh of the Remuneration Panel has taken place with three new Members being recruited through an open advert and appointed by full Council. The authority, rather than making a direct appointment, has left the decision of who chairs the panel to the Independent Members themselves – this being to provide further assurance that the Panel is independently minded.
- 3.07 Our Whistleblowing Policy sets out the correct channels through which serious issues can be appropriately escalated from within the organisation and the Raising Concerns Policy provides guidance and direction to the wider public. Both policies have been reviewed during the year by the Corporate Governance and Audit Committee and assurances that these policies are routinely complied with are gained by Internal Audit reporting to each meeting of the committee on issues raised.
- 3.08 In-house lawyers provide comprehensive legal advice, training, and support to members, member bodies, and all directorates, as well as managing the provision, where necessary, of external legal advice. The in-house lawyers have effective relationships with services which facilitates a high support, high challenge environment, leading to better and more robust outcomes. In sum, the ready access by members and officers to high quality lawyers, specialised in local government work and having a clear understanding of the council's vision and values, plays an important part in helping to ensure that the council adheres to the principle of behaving lawfully.

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

- 3.09 Our business planning and performance management arrangements have enabled members and senior management to focus our resources on outcomes and ensure value for money. The arrangements are centred on our 'Best Council Plan' which is updated each year.
- 3.10 Following consultation with staff and elected members, the refreshed Best Council Plan 2018/19 was approved by Full Council in February 2018. The Plan is aligned with the Medium-Term Financial Strategy (2018/19- 2020/21) and sets out 8 outcomes, priority areas of work and a range of supporting key performance indicators (KPIs) to help monitor progress as well as being clear on our values and how we will work as an organisation.
- 3.11 The Best Council Plan KPIs are reviewed quarterly with performance scorecards published. This is supplemented by an annual performance report that looks back on progress in delivering the Best Council Plan over the previous year. Both the scorecard and annual reports are publicly available on the leeds.gov website and the Leeds Observatory.
- 3.12 In addition a range of supporting plans and strategies (for example, the Children and Young People's Plan; Leeds Housing Strategy; Better Lives Strategy; Safer Leeds Plan and Joint Health and Wellbeing Strategy), sit alongside the Best Council Plan each with their own performance management arrangements, including Scrutiny Boards and partnership boards. Operational performance management arrangements are in place at service level.

- 3.13 An annual assurance report is provided to the Corporate Governance and Audit Committee on the council's Performance Management arrangements. This demonstrated that our strategic objectives have been reviewed (approved by full Council in February 2018) and are fit for purpose and that supporting performance management arrangements are effectively communicated and monitored.
- 3.14 Our Corporate Governance and Audit Committee considered the Annual Assurance report of the Chief Officer Projects, Programmes and Procurement Unit (PPPU) in relation to procurement policies and practices. The committee received assurance that these arrangements are compliant with legislation, are up to date, fit for purpose and effectively communicated with no procurement challenges being brought against the council in-year. Social Value has continued to be a key theme in procurement activities with details of spend with local suppliers being monitored and reported to Executive Board.
- 3.15 From the review, assessment and ongoing monitoring carried out the Chief Officer PPPU reached the opinion that, overall, systems are operating effectively, that there are no fundamental control weaknesses but there remain areas for improvement.

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

- 3.16 The delivery of our Best Council Plan recognises the importance of effective engagement with the public, partners and staff and taking account of this in decisions that we take. These approaches are embedded in our Values – these are at the heart of everything we do. They inform the way we design and deliver our services and the way we all work and behave. A central theme running throughout our Best Council Plan is to tackle inequalities and so we also recognise the importance of taking account of equality considerations in the decisions we take.
- 3.17 The work that our Staff Networks have delivered and supported within the organisation has been recognised with our placement this year in the top 50 employers by LGBT+ charity Stonewall. The ranking is against organisations of all sizes, including large multinational companies, government departments and universities. Our Executive Board also receives regular reports and updates on our Equality Improvement Priorities.
- 3.18 Our Equality Hubs have continued to thrive. Our partnership with Voluntary Action Leeds delivering our BME Hub is continuing to develop and improve our engagement with BME communities across the city. Our Disability Hub and Access and Usability Group provide the authority with regular challenge on making our services and developments across the city as accessible as possible. Our LGBT+ Hub was awarded Best Community Organisation at the cities annual LGBT+ awards in February 2018. Our Religion or Belief Hub is extending its engagement across all faith communities in the city, meeting quarterly to address issues that affect faith communities in the delivery of services by the Council and partners. The Women's hub also assisted the council in securing funding from Government Equalities Office to deliver a programme of activities to commemorate 100 years of votes for Women.

- 3.19 The shaping of our services in the present financial climate is challenging, particularly where those services are provided to vulnerable people. Our Executive Board has worked to balance need, service provision and available resources in difficult financial circumstances. Consultation on our budget proposals was extensive with detailed annexes summarising contributions from the Public, Scrutiny Boards and other Organisations included in our budget setting reports to Executive Board and full Council
- 3.20 Working with communities and with partners particularly in the third sector, we are building further resilience through improving community capacity and leadership, helping communities become more enterprising through citizen led approaches, supporting people to grow more financially resilient and carrying out a range of community safety actions through the Safer Leeds Partnership. We strive to continually improve the relationship between the council and the citizens of Leeds, and in so doing improve trust in public services and ensure the delivery of local integrated and responsive services for local people. Our Community Committees are an integral part of that vision.
- 3.21 The committees have a crucial role in improving the way we work locally and form a vital part of our commitment to involving our residents more closely with the priorities for their local area and decision-making on funding and services. The committees have played an important part in meeting our ambition to bring place, people and resources together by:
- ensuring that we spend money and work more intelligently and flexibly than before;
  - making it easier for people to do business with us; and
  - improving the way we make decisions locally with residents.
- 3.22 Following a review of locality arrangements our Executive Board has placed greater emphasis on a new place-based integrated approach to service delivery to tackle poverty and reduce inequality in some of our poorest neighbourhoods. The Board has also agreed the next phase of a community hub programme.
- 3.23 In addition the Executive Board receives a number of significant annual reports concerning;
- The local social care account (providing an explanation of the responsibilities placed upon councils and the contribution made towards enhancing local accountability to the public and as a tool to support sector led service improvement);
  - The Quality of Care across Leeds;
  - Public Health – the Annual report ‘Nobody Left Behind: Good Health and A Strong Economy’ of the Director of Public Health - provided a commentary on the reasons behind current life expectancy levels in Leeds and demonstrates how the Leeds Inclusive Growth Strategy is supporting the drive to reduce health inequalities;

- 3.24 Corporate Governance and Audit Committee has reviewed the council's processes and procedures around customer access and satisfaction. Whilst noting the assurances received the committee wished for further consideration to be given to the top complaint issues and to establishing a mechanism for measuring and reporting the overall satisfaction of citizens with the services provided by the council. There has been increased effort in using digital channels to reach audiences with an improved website and a greater use of social media.
- 3.25 Internal Audit will devote time to review arrangements customer access and satisfaction as part of audit coverage in 2018/19.
- 3.26 Significant engagement activities have taken place during the year relating to the Core Strategy and site allocations, school places, and a bid to be designated as European Capital of Culture, the South Bank and Station Masterplan and on Air Quality.

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

Finance Management

- 3.27 Between the 2010/11 and 2017/18 budgets, our core funding from Government has reduced by around £239m, and will reduce by a further £14.1m in 2018/19. Additionally we have faced significant demand-led cost pressures, especially within the Adults & Health and Children & Families directorates.
- 3.28 We have responded successfully to that challenge through a combination of stimulating good economic growth, creatively managing service demand, increasing traded and commercial income, and a significant programme of organisational efficiencies, including reducing staffing levels.
- 3.29 The Section 151 Officer has continued to ensure that effective budget monitoring and reporting arrangements (involving the Executive Board, the Corporate Governance and Audit Committee and Scrutiny) are in place.
- 3.30 Our Executive Board reviews the budget outturn position at the end of each financial year. Our 2017/18 general fund revenue budget identified a variety of actions to reduce net spend through the delivery of £64m of budget action plans by March 2018. The final position on the General Fund shows an underspend of £6.95m after the creation of a number of earmarked reserves – this being significantly contributed to by a VAT rebate received from HMRC. The amount of General Reserve at 31<sup>st</sup> March 2018 is £25.6m. The Executive Board also received the Treasury Management Outturn Report for 2017/18. This provided a final position statement on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in overall savings to the revenue budget.
- 3.31 The Council's arrangements around financial accountability and responsibility have been further refined during the year in light of the streamlining of senior officer arrangements.

- 3.32 The Responsible Financial Officer has established an effective overall financial control environment framework to discharge both his statutory responsibilities and ensure consistency with the Chief Financial Officer protocol (which forms part of the Council's constitution).
- 3.33 The basis for the assurance opinion which the Corporate Governance and Audit Committee received was a number of rigorous reviews and assessments undertaken during the year, including;
- Internal Audit annual assurances on the major financial systems and controls.
  - Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget continues to meet the council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the Council's accounts.
  - Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, Directorate leadership teams and the Corporate Leadership Team.
  - Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.
  - External Audit evaluation of the council's key financial systems as part of their audit work in respect of the 2017/18 accounts, work that will be repeated again as part of the 2018/19 audit.

#### Business Continuity and Risk Management

- 3.34 Of vital importance to us, is ensuring that we have arrangements in place to ensure our critical services can recover quickly from serious untoward incidents. Our Corporate Governance and Audit Committee has received assurance that our business continuity plans are in place for all our critical services and that these are subject to continuous review.
- 3.35 The review process and continued heightened awareness of the impact of incidents on communities and local businesses, allows us to learn from recent events and incidents and inform the development of business continuity and emergency planning arrangements both at a service level and through our multi-agency response and recovery plans.
- 3.36 The council's Risk Management Policy sets out our commitment to a risk management framework that enables staff and elected members to identify, understand, manage and report on strategic and operational risks that could impact upon delivery of the Best Council Plan. As part of our decision-making arrangements, all reports for key and Significant Operational decisions consider risk management.

- 3.67 The council's most significant risks are captured in a corporate risk register. An annual report is provided to the Executive Board and published on the leeds.gov.uk website explaining the corporate risks and how they are managed – this will be considered by our Executive Board in July 2018. A corporate risk map is updated and published each quarter and senior politicians continue to be briefed on key risks.
- 3.38 An annual assurance report is also provided to the Corporate Governance and Audit Committee on the council's risk management arrangements. This demonstrated that our risk management arrangements are embedded with corporate, directorate, programme and project risk registers being maintained with significant risks being escalated as necessary.
- 3.39 The Corporate Risk Register continues to document the most significant risks with seven 'standing' corporate risks being:
- Safeguarding children
  - Safeguarding adults
  - Health and Safety
  - City Resilience (emergency planning)
  - Council resilience (business continuity management)
  - Finance (both in-year budget risks and medium-term financial sustainability)
  - Information management and governance
- 3.40 During the year two new corporate risks on Poverty and Community Cohesion were also added.

#### Information Governance

- 3.41 Significant work on information management and information governance has been undertaken to strengthen management of our information assets, to respond to external requirements and to identify opportunities for efficiency and other value gains in the management of information.
- 3.42 As regards information access and compliance our Corporate Governance and Audit Committee has been assured that processes and procedures are in place regarding upholding citizen rights to request information and that we operate within the Information Commissioners Office thresholds for response times. Assurance has also been received that we are compliant with current Data Protection legislation and that work has been completed or is on track to ensure we will be compliant with the General Data Protection Regulations.
- 3.43 Significant work has been undertaken to enable the Council to become compliant with the more stringent compliance control arrangements to meet the Public Services Network (PSN) certification requirements. Our Corporate Governance and Audit Committee has regularly reviewed these activities. We recognise that whilst we still have some unresolved issues, we do have comprehensive plans in place to deal with outstanding issues. The Head of Information Management and Governance has provided assurance that, at this time, this will not present problems with regards to connecting to other government services and that a reapplication for PSN certification for the authority will soon be made.

- 3.44 Through our Open Data approach, we continue to proactively publish datasets over and beyond that required by the Local Government Transparency Code 2015 and make data available in response to FOI requests. This means that we are one of the most open and transparent local authorities in the country and ensures we are compliant with the EU Public Sector Information Re-Use Directive focusing on making data from public authorities available for re-use.
- 3.45 In respect of the INSPIRE standards it is still unclear which direction the UK Government will take with this Directive. A full review and consultation of how the council should move forwards with a strategy for GIS (Geographic Information System) is being undertaken for the council by SOCITM Advisory, and the statement of requirements for this review include providing recommendations about how the council should proceed with implementing INSPIRE data standards. No further work is being undertaken in relation to INSPIRE until these recommendations are received.
- 3.46 With regards to records management our Corporate Governance and Audit Committee has received reasonable assurance from the Information Management and Governance Team that processes and procedures are in place and delivering data protection compliance in this regard. Arrangements are in place to ensure continuous improvement and ensure that changes to retention schedules are sufficiently challenged and simplified.

#### Scrutiny

- 3.47 Scrutiny arrangements are operating in accordance with the terms of reference and procedures agreed by full council with inquiries both adding value to the delivery of the council's outcomes and providing challenge to the Executive. An annual report relating to the Council's activities will be presented to the full Council in July 2018. The Council sees Scrutiny as a key performance tool in ensuring that the Council meets its best city ambitions.
- 3.48 The proportion of work undertaken by Scrutiny Boards that relates to pre-decision Scrutiny and the development of new policy is testament to the value placed upon Scrutiny Boards by the Executive to help inform what are often high profile and sensitive decisions to be made. Scrutiny Boards have also continued to demonstrate their unique strength in bringing together a wide range of sectors and service users to identify solutions in addressing complex and often challenging cross cutting issues. Notable inquiries completed during the year have been on Business Rates, Prisoner Health and Social Care needs, Child Poverty and the production of an Information Advice and Guidance (IAG) Charter for Young People in Leeds.
- 3.49 Work undertaken by Scrutiny is a key element in the continuous review of our governance arrangements and assists in ensuring that they are up-to-date, fit for purpose that they focus resources on outcomes and ensure council tax payers and service users receive excellent value for money.

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

### Electoral Arrangements

- 3.50 As a consequence of the recent Boundary Commission Review (which altered some of our electoral divisions), we have been required to undertake both a Community Governance Review and a Review of Polling districts and places. This work was completed in time for the All-out Elections in May 2018.
- 3.51 Executive leadership were reported to our Annual Meeting where committee governance and membership and outside body appointments were also approved.
- 3.52 Our Constitution, including the delegation scheme for Council and Executive responsibilities, has also been regularly reviewed and updated to reflect various legislative (including the new Leeds Electoral Order following the Boundary Commission Review) and other organisational changes.

### Partnership Arrangements

- 3.53 Partnerships and other joint working arrangements with external bodies form an increasing element of our activities, providing challenges in terms of transparency, demonstrating accountability and managing risk.
- 3.54 The delivery of the Best Council Plan priorities is dependent on effective partnership working and an enabling approach which encourages all partners to play an active role and make maximum impact in the city. Maintaining and developing the range, reach, capacity and skill of the third sector is critical to the delivery of the Best Council Plan. Leeds has a large and diverse third sector with over 3500 organisations from the smallest neighbourhood community group to major providers of services and we are recognised as a centre for best practice for its partnership working with the third sector.
- 3.55 The Compact for Leeds and the supporting codes are a part of the strategic infrastructure which creates the conditions for the thriving third sector that the city needs and benefits from, providing a framework to strengthen and guide working relationships. Leeds launched its first Compact in 2003 and it has been revised every 2 or 3 years in order to reflect the changing operating context and to drive best practice. The Compact 2017 has been developed and approved by the Third Sector Partnership, an umbrella organisation including Leeds City Council, NHS Leeds Clinical Commissioning Group, University of Leeds, Leeds Beckett University and Third Sector Leeds and was endorsed in late January 2018. The Compact provides an invaluable framework which enables commissioners to manage challenging commissioning and decommissioning decisions, with clear expectations around practice, timelines and communication. This reduces conflict and risks to reputation and working relationships that are key to delivering on the best city ambitions and the compassionate city agenda.



- 3.56 The Corporate Governance and Audit Committee received assurances from the Chief Finance Officer that the Corporate Financial Integrity Forum has the oversight of the financial governance risk of partnerships and other joint working arrangements within its remit. This work being supported by Internal Audit who reviewed the financial governance and control arrangements in place for partnerships. That review confirmed that a structure is in place to enable central oversight of the financial risks posed by joint working arrangements but that opportunities exist to further strengthen control through robust risk assessment and formalisation of the monitoring framework.
- 3.57 The City Council as a member of the West Yorkshire Combined Authority and the Transport for the North Board has supported the establishment of Transport for the North (TfN) as a statutory body. This newly established body will seek to deliver strategic transport improvements, which are needed to support transformational economic growth. This will allow the North to increase its productivity, create more job opportunities and make a greater contribution to the UK economy through delivery of a sustained investment programme across the North to build infrastructure, strengthen skills, harness innovation, and encourage smart technology.
- 3.58 We have also fully participated in the work of the West Yorkshire Combined Authority, and in doing so have, with our neighbouring local authorities, reviewed and streamlined other aspects of regional governance. Collaborative working is taking place across the region to support progressive negotiations with HM Government for a devolution deal for the region. Given the importance of this, full Council receives a regular update report on the devolved matters; allowing cross party engagement and debate on this evolving area.
- 3.59 Our Health and Wellbeing Board has provided an open and transparent forum through which joint work on improving health and wellbeing is progressed. The Health and Wellbeing Board has considered and provided an opinion on whether to NHS Leeds Clinical Commissioning Groups takes proper account of the outcomes set out in the Leeds Health and Wellbeing Strategy and has agreed an approach to review the operational plans during 2018-2019. Our full Council meeting has considered the minutes of the Board to enable wider member engagement.
- 3.60 We have implemented, in collaboration with other Local Authorities and Voluntary adoption agencies (VAA's), a new model of service delivery for adoption services in line with the government's agenda. A new Joint Committee - The West Yorkshire Adoption Joint Committee – has been appointed by the five West Yorkshire authorities to have oversight of the regional adoption agency "One Adoption West Yorkshire". The Committee is responsible for ensuring that the adoption services (including the recruitment and approval of potential adopters; identification of potential matches between children and adopters; and the provision of adoption support services) are carried out safely, effectively and efficiently. Our Executive Board has reviewed the successful operation of the new arrangements.

- 3.61 To accelerate the reforms in Children’s Social Care, the Department for Education has invested an additional £9.6m in Leeds as part of their Partner’s in Practice programme. The funding supports expansion of restorative social work practice and improved leadership in local authorities and also is enabling early support teams to develop practitioner’s existing skills (using restorative practices) to improve early interventions with children and families and establish an integrated restorative adolescent service that will work with families, based around reformed residential homes.
- 3.62 In addition, the Council has entered into a Partnership arrangement with Kirklees Metropolitan District Council and the Department for Education to support Kirklees’s improvement journey over the coming three years.
- 3.63 We have also played a central role in the development of the Leeds Health and Care Academy. This innovative approach has brought together our Universities and NHS bodies into a close partnership with the City Council to help strategically plan a long term approach to the workforce challenges faced by the City. It is designed to make Leeds the destination of choice for health and care staff as well as ensuring partners focus on social mobility and ensuring the workforce reflects the diversity of the Leeds population as outlined in the Health and Wellbeing Strategy.
- 3.64 Unfortunately despite working collaboratively and with the support of local authorities across Yorkshire, the core cities from the North of England, each of the Further and Higher Education institutions in the City and securing private sector sponsorship, our bid to be European Capital of Culture did not progress as we had hoped. However the strength of partnership has endured and extended since the late announcement from Europe of the ineligibility of UK cities to bid for this designation (post the decision to leave the EU). Further work is taking place with partners, including with the other UK bidding cities, to harness the enthusiasm and commitment that the bidding process had been a catalyst for.

#### Safeguarding

- 3.65 Our Executive Board considers regular reports on our safeguarding arrangements. The reports consider whether systems and practices are in place to safeguard adults and children at risk. A Cross Council Safeguarding Board also works with representatives from the Leeds Safeguarding Children Partnership, Safer Leeds Executive and Leeds Safeguarding Adults Board to promote and embed safeguarding awareness and training across the council. The board oversees the network of Safeguarding Lead Officers; nominated individuals from within directorates who have a specific focus on helping the directorate to continually think about how to keep colleagues and members of the public safe from harm.

#### **Take informed and transparent decisions.**

- 3.66 Our decision-making arrangements are one of our key governance controls, linking to all the governance principles that are set out in our Code of Corporate Governance.

- 3.67 The annual report to our Corporate Governance and Audit Committee (June 2018) provided assurances that the arrangements are up-to date, fit for purpose and are functioning well. In particular assurance was provided that systems and processes exist and are used to review and maintain the framework, that requirements in relation to publication of decisions are embedded and routinely complied with, that key performance indicators are regularly monitored and that steps are taken to work positively and transparently. The committee identified improvements to the level of information that is included in the 28 day notice which is published in advance of taking a Key Decision and sought further assurances concerning delays in publishing Significant Operational Decisions in one of our Directorates.
- 3.68 Our report template helps to ensure that governance considerations form a key element of our decision making processes. Key to this is the need to specifically address:
- Consultation and Engagement
  - Equality and Diversity / Cohesion and Integration
  - Council policies and the Best Council Plan
  - Resources and value for money
  - Legal Implications, Access to Information and Call In
  - Risk Management
- 3.69 The City Solicitor has provided ongoing assurance (via a commentary included in regular Internal Audit reports) to our Corporate Governance and Audit Committee that the council has complied with the requirements of the Regulation of Investigatory Powers Act 2000 – both as regards directed surveillance and the use of covert surveillance sources and also as regards the acquisition and disclosure of communications data.

### **Develop our capacity and capability to be effective.**

#### Elected Members

- 3.70 As community leaders, it is vital that our councillors are supported to be as effective as possible. This being particularly important following the 2018 all-out elections where a large number of new councillors were be elected.
- 3.71 An induction programme and a variety of learning programmes are in place and are continually monitored and evaluated by our Member Management Committee. Where needed, new learning programmes are developed and implemented quickly and effectively.
- 3.72 Our Standards and Conduct Committee has reported on their work to full Council to promote and maintain high standards of conduct by members and co-opted members of the authority.

## Employees

- 3.73 We make a significant investment in staff training and development with, in 2017/18 a corporate training budget of £1.5m. The vast majority of these funds are held at a service level with the responsibility for planning, organising and delivery being tailored locally to service specific needs including developing resilience and succession planning.
- 3.74 Mandatory information governance training for all employees was completed in summer 2016. Employees with IT access completed an e-learning package and those without IT access received a leaflet to their home address. The refreshed training incorporates information to ensure employees understand their responsibilities under the new General Data Protection Regulations. Employees have 8 weeks to complete the e learning after which if it is not complete their system access will be withdrawn until it is complete.
- 3.75 Within Adult Social Care and Children's and Families there are a number of job roles that require statutory training. We were successful in a bid to be a Teaching Partnership. The Leeds and Wakefield Social Work Teaching Partnership comprises of Leeds Adults and Children's social work, Wakefield Adult and Children social work, Leeds Beckett University and University of Leeds.
- 3.76 The partnership leads the whole of social work development and curriculum from starting at university on the degree course to practicing as a social worker. In Children's and Families examples of training to meet a statutory requirement include "Safeguarding Children" which is compulsory for all staff and "Therapeutic Crisis Intervention" which is required for all residential workers. In ASC there are courses, "Safeguarding for Adults" which is for all staff and "The Mental Capacity Act in the workplace" which is for frontline care staff.
- 3.77 Our health and safety team deliver or advise on a range of training and development to ensure that we meet our statutory obligations and that all employees have the necessary knowledge and skills to carry out their roles safely. The Head of Health and Safety has monthly assurance meetings with the Director of Resources and Housing to discuss Health and Safety performance and the high hazard group meets quarterly to discuss priorities and share details of any incidents and good practice across services. The annual health and safety report which provides assurance on health, safety & wellbeing is presented to our Corporate Leadership Team, Executive Board and the Corporate Health and Safety Forum each year. The annual report highlights Health and Safety performance across the year and also identifies new priorities and strategies for the coming years.

## An Independent opinion of effectiveness

- 3.78 The Corporate Governance and Audit Committee receive updates on audit activity and progress in meeting the audit plan at each of their meetings. The annual report, from the Head of Internal Audit, was received in July 2018. This examined, evaluated and reported on the control environment within the council and provided an opinion about the adequacy of the systems and processes in place. The Head of Internal Audit Opinion reported to the Committee was as follows:

### *Head of Audit opinion for 2017/18*

*On the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.*

*We have audited several areas that have resulted in 'Limited Assurance' opinions, one area that has resulted in 'No Assurance' and we have highlighted weaknesses that may present risk to the council. In these cases, we have made recommendations to further improve the arrangements in place. Although significant to the control environment in place for the individual system areas that have been audited, these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the council's governance, risk management and control arrangements at the year end. A **satisfactory** overall opinion is provided for 2017/18, based on the audit work detailed within this report. The outcomes of the audit work that supports this opinion have been reported to members of the Corporate Governance and Audit Committee during the year.*

*The audit work undertaken to support this opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.*

- 3.79 In January 2018 Ofsted conducted a two day visit to look at our arrangements for the quality of matching, placement and decision making for children in care, including the quality of planning and the identification and management of risk and vulnerability. Inspectors also evaluated the effectiveness of performance management, management oversight, supervision, quality assurance and the continuous professional development of the workforce.
- 3.80 The outcome of the Inspection was that most children are being cared for in stable family placements that meet their needs. Social workers know the children well. Practice is child-centred. Social work assessments reflect the wishes and feelings of children and young people. Children's plans are clear and coherent. There is evidence of a strong focus on achieving permanence for children and young people. Regular reviews and effective management oversight help to ensure minimum drift or delay in meeting children's needs. The Inspectors also identified that we clearly understand our strengths and areas for development and that we take our corporate parenting responsibilities very seriously.

- 3.81 Other observations were that our senior leaders have created an environment in which social work is flourishing; Children, young people and their carers are benefiting from an increasingly stable workforce and that our commitment to continuous improvement is tangible. Areas for development were identified around performance management and the varied quality of Personal Education Plans. Details of the inspection outcome can be accessed [here](#).
- 3.8 The Care Quality Commission (CQC) is the independent regulator of health and adult social care services across England – aiming to ensure health and social care services provide people with safe, effective, compassionate and high-quality care, and encouraging care services to improve where necessary. As the regulator, the CQC produce reports based on their inspection process for care providers in a range of settings, including residential and nursing homes across the city. Our Scrutiny Board Adults and Health continues to monitor the quality of care across the city and support the drive in care quality. Council Officers and CQC officials have attended the Scrutiny Board to answer questions from its members, and provide assurance on improvement actions and processes
- 3.83 KPMG have completed their review of the Annual Governance Statement and have concluded that it is not misleading or inconsistent with information they are aware of from their audit of the financial statements.
- 3.84 Although KPMG issued an audit opinion for our 2016/17 accounts confirming that they presented a true and fair position, the audit for that year has not yet been closed pending resolution of an objection made by a local elector. The objection concerned the lawfulness of the council's borrowing via LOBO loan instruments. Our Corporate Governance and Audit Committee raised concerns with the Auditor about the period of time taken to resolve the query from the elector.
- 3.85 As has been the case in previous years, KPMG have qualified the Housing Benefit Subsidy claim due to minor errors. The net impact on the value of the claim was to increase it by £288 in a claim of £268 million. As a result of the errors found, KPMG have re-iterated their recommendation from 2015/16 that training for staff should focus on earned income classification. Officers in the Welfare and Benefits service will address this in order to try to minimise future errors. In addition to the above, audit of a number of other grants not covered by the appointed auditor role have also taken place. To date, all such completed audits have been certified without adjustment.
- 3.86 As part of their work on the Council's overall control environment each year, the External Auditor's IT specialists carry out audit work on the council's IT controls. Due to the revised reporting timescales for the Annual Governance Statement the 2017/18 audit will not yet be concluded in time for inclusion in the 2018 Statement.

- 3.87 On the 18th July the Local Government and Social Care Ombudsman (LGSCO) provided his Annual Letter to the authority with statistics on the complaints made to the Local Government and Social Care Ombudsman for the year ended 31 March 2018. The Ombudsman commented that “Over the year my investigators have noted your Council’s positive approach to complaint handling. It is very pleasing to see an example of a Council who constructively engages with us to ensure complainants are properly heard and matters resolved where appropriate.”

### **Appointment of our External Auditor 2018/19**

- 3.88 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and also established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. The Act allowed authorities to consider three broad options in respect of External Audit appointment:

Option 1 – to make a stand alone appointment;  
Option 2 – set-up a joint Auditor Panel/local joint procurement arrangements;  
Option 3 – opt-in to a sector led body.

- 3.89 The Local Government Association established the sector-led body referred to in Option 3 which the Council opted into. Through that body, from 2018/19, Grant Thornton has been appointed as our external auditor.

#### **4. SIGNIFICANT GOVERNANCE CHALLENGES**

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

##### Our Best City / Best Council Ambitions

- 4.02 Our journey to become a more efficient and enterprising organisation centres on an ongoing programme of organisational cultural change aimed at making the best use of the resources within the council and strengthening our leverage, influence and partnerships across the city, the region, and nationally.
- 4.03 To date, we have responded to the financial challenges facing local government and been able to balance the budget each year, protecting front-line services, avoiding large-scale compulsory redundancies and targeting resources into preventative services, helping manage the implications of demand and demographic pressures. This has been achieved by stimulating good economic growth, creatively managing demand for services, increasing trading and commercial income and a significant range of organisational efficiencies, including reducing staffing levels by over 3,200 'FTEs' (full-time equivalent members of staff) between 2010/11 and 2017/18. These efforts will continue as set out in our annual Budget with our Medium-Term Financial Strategy updated to reflect the latest financial and economic conditions. For 2018/19, this includes the introduction of 100% business rates retention, the Leeds City Region Business Rates Pool (of which Leeds City Council is a member local authority) having successfully applied to take part in government's pilot programme.
- 4.04 Though we have fewer people employed by the council, we remain confident we can deliver our Best Council Plan priorities through investing in our staff's wellbeing, helping them perform at their very best. We continue to encourage a 'can do' culture across the organisation where people feel more confident and empowered, and maintain our focus on inclusion and diversity, aiming to raise awareness, eliminate barriers, celebrate differences and create a workforce more representative of our communities. The 'breakthrough' approach that has served us well in bringing together multi-disciplinary teams from across council services, partners and communities to tackle key challenges also continues, with a specific 'task and finish' focus on programmes and projects that support our strategic priorities and help address future financial challenges.
- 4.05 With the reopening of a refurbished Merrion House in 2018, many of our front-line council services are in one place, improving customer access in the city; the ongoing rollout of Community Hubs serving as focal points for members of the public in other parts of Leeds. While face-to-face customer contact remains important, we are using technology and training to grow people's digital skills, making it easier for staff and citizens to self-serve online and enabling a quicker, more streamlined response to customers who can access services at times that best suit them.



- 4.06 This is supported by our work to improve the quality and availability of information provided to customers, staff and elected members based on a range of insight, including stakeholder engagement and data analysis; we remain committed to 'open data' where possible and in compliance with the General Data Protection Regulations in effect from May 2018. This insight informs our decision-making, enabling us to better prioritise interventions and resources to where they are most needed.
- 4.07 Underpinning everything we do – our policies, strategies, processes, communications and resilience – and how we work are our values. They will continue to provide a reference point for staff on how they are expected to behave and what they, and our customers and partners, can expect from Leeds City Council: a council which is honest, fair, good with money, joined up and proud to make a difference – the Best Council in the UK.

#### Workforce Development and Training

- 4.08 We are undertaking a review of workforce development and training to explore current practice and ensure that all our colleagues have fair and full access to learning so we can meet our statutory, mandatory and essential training needs in the most effective and cost efficient way and enable effective succession planning.

#### Financial Pressures

- 4.09 Inevitably, managing the large reduction in government funding and increasing cost pressures has meant that the Council has had to make some difficult decisions around the level and quality of services. However, it will become increasingly difficult over the coming years to identify further financial savings without significant changes in what the Council does and how it does it. This will have significant implications for the services provided directly and those commissioned by the local authority, impacting upon staff, partners and service users.
- 4.10 In order to continue delivering the Council's ambitions of tackling poverty and reducing inequalities, consideration may have to be given to stopping, delivering differently or charging for those services that are no longer affordable and are a lesser priority than others. This will be achieved through a continuing process of policy and service reviews across the Council's functions and ongoing consultation, engagement and scrutiny.
- 4.11 The Council has commenced upon the process of updating its medium term financial strategy 2019/20 to 2021/22. This will be impacted upon by a combination of the outcome of the next Government spending review, the implications of the Government's proposals in respect of business rate retention and the outcome of the Government's Fair Funding review which won't be known until the autumn of 2019.
- 4.12 In the context of reduced budgets across the public sector we are keen to ensure the strategic and leadership role of local government continues to be recognised. The UK continues to face a challenging 'productivity puzzle' and around 40% of low productivity in the UK's Core Cities linked to deprivation, low skills, inappropriate housing and poor health. These are issues that can only be dealt with effectively by high quality public services, many of which are delivered by or in partnership with local government.

- 4.13 In the upcoming Comprehensive Spending Review there is a clear case for both protecting and investing in quality public services which are aligned with local need, to both tackle deprivation and boost productivity. We have already delivered substantial savings at scale, we would now welcome a shift in mind-set away from seeing council spending as a deficit to be cut back and instead towards recognising the wider value that quality council services can bring.

#### *Demand and Demography*

- 4.14 Looking ahead (specifically to the next spending review period), our options for reducing expenditure without seeing basic services being very adversely affected are limited:
- Our estimates are that Adult Social Care faces annual pressures of £12m just to “stand still”. Therefore with a rising ageing population and the impacts of pay pressures including national living wage in the sector these costs will inevitably rise. This by itself is equivalent to a 4% increase in Council Tax.
  - Our Children and Families budget rose by nearly 8% in 2018/19 (£8.7m). Of this £4m has specifically been added to the Children Looked After budget.
- 4.15 We face increasing demography and consequential demand pressures for services in Adults and Health and Children and Families. Within Adults and Health the population growth forecast assumes a steady increase in the number of people aged 85-89 during 2018 (1.87%). This will result in additional costs of £0.8m for domiciliary care and placements and increasing cash personal budgets. The learning disability demography is expected to grow by £0.5m per annum, this includes an anticipated growth in numbers of 0.6% (based on ONS data) over the period and is coupled with increasingly complex (and costly) packages for those entering adult care, as well as meeting the costs of the increasing need for existing clients whose packages may last a lifetime.
- 4.16 Services to Children and Families continue to face demographic and demand pressures. These pressures reflect relatively high birth rates (particularly within the most deprived clusters within the city), increasing inward migration into the city (particularly from BME groups from outside the UK), the increasing population of children & young people with special and very complex needs, greater awareness of the risks of child sexual exploitation, growing expectations of families and carers in terms of services offered and changes in government legislation, including ‘staying put’ arrangements that enable young people to remain with their carers up to the age of 21.
- 4.17 The demography for clients with a Mental Health need and those with a Physical Impairment are expected to grow by 2.6% and 2.1% respectively. In addition, demand over that anticipated in 2017/18 is calculated to costs across all client groups in 2018/19.

### *Business rates 100% Retention Pilot 2018/19*

- 4.18 We are a member of the Leeds City Region Business Rates Pool along with the other four West Yorkshire Authorities, Harrogate and York. In December 2017, Government notified us that the Leeds City Region Business Rates Pool bid to pilot 100% Business Rates Retention in 2018/19 had been successful. This is an expansion of the existing 100% pilot programme and is intended to help Government and the local government sector to explore options for the design of future increased business rate retention. The pilot scheme is for one year only and allows the Leeds City Region to retain all additional growth in business rates above business rate baselines determined by Government and associated Section 31 grants, whereas currently 50% of that growth is remitted to Government.
- 4.19 For the Leeds City Region Pilot this additional income is estimated to be in the region of £40m, with the Pool retaining 50% (£20m) to continue to support and enable regional economic growth. The other 50% (£20m) will be allocated to the member authorities themselves to improve financial stability within their authorities. Of the 50% allocated to member authorities, half will be based on each authority's actual additional growth and half will be redistributed by population. For us, the estimated gain as a result of the Pilot is estimated to be in the order of £9m.
- 4.20 A significant benefit of the Leeds City Region Business Rates Pool pooling arrangement is that additional growth above the Government determined baselines is retained in the region rather than being paid over to the Government. However, income from business rates has proved to be volatile and there remains uncertainty as to how Brexit may impact upon the economy. The adequacy of resources to meet Best Council Plan objectives in a sustainable way is identified as one of the Council's corporate risks. The management of business rates risks will continue to be a key element of this and will be subject to regular review through detailed monitoring through our Financial Performance Group and the Executive Board.

### Care Quality

- 4.21 A programme of work will be further progressed with the older people's care sector by adopting a partnership approach to ensure implementation of a One City approach to achieving higher quality care within the independent older people's care home sector. Our action plan, coproduced with a wide range of stakeholders, identifies where improvements can be made, clarified where accountable rests with organisations and the timescales for improvements necessary to bring benefits to the citizens of Leeds who either reside or work within the independent sector older peoples care homes.
- 4.22 This initiative will be supported by a Quality Team (working alongside existing Adult Social Care commissioners) who will ensure that care homes get the support that they require which will lead to better CQC ratings within the sector. In addition we will develop a Leadership Academy for Registered Managers of Care Homes to assist with developing further skills and knowledge which can then be enhanced by sector led peer to peer support.

## Devolution

- 4.23 We are an integral member of the West Yorkshire Combined Authority and are fully engaged at Leader and Chief Executive Level through to project delivery in specific areas such as economic development, housing, skills and transport. Leeds is represented in Northern Powerhouse discussions and as a member of Transport for the North, as well as our Leader recently becoming the Chair of the Core Cities UK group. Whilst Leeds has not been able so far to secure a new devolution deal as other city regions have, the Leaders and Chief Executives in the region are in dialogue with central government on the geography and powers of a deal that would bring further powers and resources to the city. This recently culminated in a devolution proposal being sent Secretary of State for Housing, Communities and Local Government by the leaders of 18 of Yorkshire's 20 councils.

## Community Hubs

- 4.24 In order to build upon the positive progress made so far, and to achieve our long-term aims around delivering integrated and accessible services which meet the increasingly complex needs of the citizens and communities of Leeds, it is important that we continue our commitment to Community Hubs through our Phase 3 programme. Through this programme we will ensure all sites are refurbished and furnished to provide a modern safe environment that treats our customers with respect and encourages contact with us as an organisation that can offer help and assistance.

## Information Governance

- 4.25 We will need to be able to demonstrate that we have put in place appropriate technical and organisational measures, to ensure and to demonstrate compliance with all aspects of the General Data Protection Regulation. All of these processes will be monitored and audited to ensure on-going effectiveness. These more exacting requirements mean we will need to review our approach to governance, and how data protection compliance is managed as a corporate issue.
- 4.26 Whilst no longer in 'Escalation' measures work to further progress from 'Remediation' and regain PSN certification is the highest priority for the forthcoming year.

## Procurement

- 4.27 We remain concerned about the impact on local government services arising when private sector companies, such as the various Carillion group companies, enter into a 'compulsory liquidation' insolvency process. Our Scrutiny Board (Strategy and Resources) will maintain a watching brief on this including reviewing the longer-term implications of compulsory liquidation and any relevant outcomes from the parliamentary select committee inquiry.

4.28 In addition to planned Internal Audit work, arrangements for strengthening Procurement Assurance will be progressed with the following actions already identified for 2018/19;

- Refresh of the Procurement Strategy, including a review of the reliance upon the current Category Management Methodology
- Review of Contract Procedure Rules in line with changes in legislation and Council policy.
- Continued focus on compliance, notably around justification in reports considering waivers and off contract spend.

#### Ethical Framework

4.29 We will review any findings emerging from the Committee on Standards in Public Life's consideration of the national framework governing elected member conduct.

#### Partnerships

4.30 The council's risk management policy and risk framework are currently being updated and will include details of how partnership risks should be identified and recorded. The review will consider best practice available and examples of good practice of partnership risk management from other local authorities. It is anticipated that central guidance will be developed to help ensure there is a consistent and effective approach across the authority for managing risk with partners.

#### Staff Development and Training

4.31 We have an apprenticeship Levy commitment of 0.5% of our pay bill per annum. This provides a significant dedicated pot of money for apprenticeship training. We will ensure apprenticeships become a key feature of our workforce development plans for the future.

4.32 As part of this our Corporate Leadership Team have agreed that Leadership and Management Apprenticeships will be established to support workforce development and in particular support managers to continue to embed our values and culture.

4.33 Whilst in its infancy initial indications show that this approach will be a key feature of our management development offer. It is likely that our suggested approach will broadly align Apprenticeship Levels to our management grades to offer structured learning leading to a recognised professional qualification.

## **5. ASSURANCE CONCLUSION**

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

**Councillor Judith Blake**  
Leader of the Council

**Councillor Kevin Ritchie**  
Chair, Corporate Governance and  
Audit Committee

**Tom Riordan**  
Chief Executive

**Doug Meeson**  
Chief Officer Financial Services  
& Section 151 Officer

**Catherine Witham**  
City Solicitor  
& Monitoring Officer

**Report of City Solicitor**

**Report to Corporate Governance and Audit Committee**

**Date: 30<sup>th</sup> July 2018**

**Subject: Draft 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

**1 Purpose of this report**

1.1 The Purpose of this report is to notify Members of the Committee’s draft work programme for the forthcoming Municipal Year. The draft work programme is attached at Appendix 1.

**2 Background information**

2.1 The work programme provides information about the future items for the Corporate Governance and Audit Committee agenda, when items will be presented and which officer will be responsible for the item.

**3 Main issues**

3.1 Members are requested to consider the draft work programme attached at Appendix 1. Following the circulation of additional information requested by Members during the meeting of the committee in June a request has been made by a Committee Member for a further update position to be received by Members relating to decision administration in Children’s Services in November. The committee is to consider and agree this request.

**4 Corporate Considerations**

**4.1 Consultation and Engagement**

4.1.1 This report consults seeks Members views on the content of the work programme of the Committee, so that it might meet the responsibilities set out in the committee’s terms of reference.

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

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

## **4.3 Council Policies and City Priorities**

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

## **4.4 Resources and Value for Money**

4.4.1 It is in the best interests of the Council to have sound control arrangements in place to ensure effective use of resources, these should be regularly reviewed and monitored as such the work programme directly contributes to this.

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

4.5.1 This report is not an executive function and is not subject to call in.

## **4.6 Risk Management**

4.6.1 By the Committee being assured that effective controls are in place throughout the Council the work programme promotes the management of risk at the Council.

4.6.2 The work programme adopts a risk based approach to the significant governance arrangements of the Council.

## **5 Conclusions**

5.1 The work programme of the Committee should be reviewed regularly and be updated appropriately in line with the risks currently facing the Council.

## **6 Recommendations**

6.1 Members are requested to consider the work programme at Appendix 1 and determine whether the additional item set out at paragraph 3.1 be added to the work programme.



**CORPORATE GOVERNANCE AND AUDIT COMMITTEE  
WORK PROGRAMME**

<b>23<sup>rd</sup> November 2018</b>		
Transition to new External Auditor	To receive a report setting out arrangements for the transfer of External Audit responsibilities from KPMG to Grant Thornton including arrangements for engagement of External Auditor with the committee.	Doug Meeson Chief Officer (Financial Services)
Annual Audit Letter 2017/18	To receive the Annual Audit letter from the External Auditor	Doug Meeson Chief Officer (Financial Services)
Customer Contact and Satisfaction Annual Report	To receive the annual assurance report concerning customer contact and satisfaction – including details of the Local Government and Social Care Ombudsman’s Annual letter.	Lee Hemsworth Chief Officer (Customer Access)
Internal Audit Update Report	To receive an update report on Internal Audit’s work.	Sonya McDonald Acting Head Of Internal Audit
Treasury Management Annual Report	To receive the annually Treasury Management Report providing assurance on the processes used by the department	Doug Meeson Chief Officer (Financial Services)
<i>Children and Families – Decision Administration</i>	<i>To receive an update in relation to delegated decision administration (proposed Item for consideration and agreement by the committee)</i>	<i>Tim Pouncey Chief Officer (Resources and Strategy)</i>

<b>22<sup>nd</sup> March 2019</b>		
Certification of Grant Claims and Returns	To receive a report from the External Auditor certifying grants and returns.	Doug Meeson Chief Officer (Financial Services)
Internal Audit Plan	To receive a report seeking views on the Internal Audit Plan for 2018/19	Sonya McDonald Acting Head Of Internal Audit
External Audit Plan	To receive a report from the External Auditor presenting the external audit plan	Doug Meeson Chief Officer (Financial Services)
Internal Audit Update Report	To receive an update report on Internal Audit's work.	Sonya McDonald Acting Head Of Internal Audit
Annual Business Continuity Report	To receive the annual assurance report concerning the Council's Business Continuity arrangements.	Mariana Pexton (Chief Officer Strategy and Improvement)
Annual Assurance Report on the Procurement, Policies and Practices	To receive the annual assurance report concerning Procurement, Policies and Practices	Doug Meeson Chief Officer (Financial Services)
Annual Financial Management Report (Incorporating Capital) 2016/17	To receive the annual assurance report concerning Financial Planning and Management Arrangements at the Council	Richard Ellis (Head of Finance)
Information Governance Annual Report	To receive an annual Assurance report on the Council's Information Governance arrangements.	Louise Whitworth, Chief Head of Information Management and Governance

**TBC June 2019**

Annual Decision Making Assurance Report	To receive an annual assurance report on the Council's decision making governance arrangements.	Andy Hodson Head of Governance and Scrutiny Support
Internal Audit Update report	To receive the Internal Audit update report	Sonya McDonald Acting Head Of Internal Audit
Annual Risk and Performance Management Report	To receive an annual assurance report on the Council's Risk and Performance Management arrangements.	Coral Main Head of Business Planning & Risk
Annual Report on employment policies and practices	To receive an annual assurance report on the Council's employment policies and practices arrangements.	Helen Fallows Senior HR Business Partner
Publication of Draft Statement of Accounts	To note the draft Statement of Accounts	Doug Meeson Chief Officer (Financial Services)

