

Corporate Governance and Audit Committee

Monday, 28th January, 2019

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

Attendee from Cardiff City Council

The Chair introduced and welcomed Ian Arundale, Audit Committee Chair and Chris Pyke, Head of Audit at Cardiff City Council who were in attendance to observe the proceedings of the Committee.

47 Appeals Against Refusal of Inspection of Documents

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

48 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 confidential nature of the business to be considered.

49 Late Items

There were no late items of business identified.

50 Declaration of Disclosable Pecuniary and Other Interests'

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

51 Apologies for Absence

There were no apologies for absence.

52 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 23rd November 2018 were accepted as a true and correct record.

53 Matters Arising from the Minutes

The Head of Governance and Scrutiny Support reported that information requested by the Committee had been circulated to Members following the meeting in November 2018:

- Minute No. 37 resolution (iii) on page 3 and Minute No. 42 resolution (v) - The Chair wrote to the Director of Resources and Housing in relation to both matters and that the Director had raised the Committee's observations regarding Access Data base security and Internal Audit feedback at Corporate leadership team. A response from Mr Evans was circulated to all Members on the 22nd January.
- Minute No. 44 – Recommendations of this Committee in respect to Short Notice publication of officer key decisions were considered and accepted by General Purposes Committee with the corresponding agreement to changes to the Executive and Decision Making Procedure Rules being given at Full Council on the 16th January.

Agenda Item No.15 Audit Committees: Practical Guidance for Local Authorities and Police 2018 the complete document published by CIPFA (as this is charged for document CIPFA were not comfortable with the complete document appearing on our public agenda).

Agenda Item No.9 - Up-to-date password policy for the Council – It was noted that this had not yet been circulated; the Head of Information Governance undertook to provide this to all Members.

It was also reported that a link to a document recently published by the National Audit Office in relation to Local Authority Governance had also been circulated to all Members.

In commenting on the minutes, Members raised the following issues:

- Minute No. 38 - Customer Contact and Satisfaction – Members sought clarification about the increase in telephone waiting times.

In responding the Head of Governance Services and Scrutiny Support advised that Scrutiny Board was currently having an ongoing interest in this aspect of corporate performance. It was noted that the Environment, Housing and Communities Scrutiny Board were specifically looking at this matter, particularly the differential answering time for benefits calls when compared with other services, and that a report was due back to the Board in the near future. It was agreed that the Head of Governance and Scrutiny Support would arrange for Members of this Committee to receive a copy of that report when it becomes available.

54 Applications Portfolio Programme - Update on Access Project

The Director of Resources and Housing submitted a report which provided an update on the current position on Access databases and compliance to PSN.

Members noted the report followed an initial request from this Committee in July 2018 for further details and reassurances regarding the progress in dealing with legacy Access 2003 databases that had been highlighted as a significant risk to our continued PSN certification. At the meeting of the Committee in November, Members requested regular progress reports on resolving the Access 2003 vulnerabilities.

Members were informed that 83 responses had been received so far to the questionnaires sent out to service areas. This was an increase of 9 since the last report to Committee. Of those 83, 20 of the respondents had identified their database as business critical (criticality based on whether those services would stop without the use of the database). Of those 20, 12 have confirmed the Access database is the main operational system of that function; meaning 8 of them are supplementary.

It was reported that engagement had taken place separately with several services where they had significant numbers of databases, e.g. Highways and Transport, who have 87 databases. The project team continued to engage with all service areas to identify potential solutions to replace Access databases.

Members were informed that so far, the project had confirmed that 5 databases were due to be deleted once they've fully migrated over to a new solution and 12 were being delivered by another project or programme. The project were prioritising the 271 that don't currently have a new solution in the pipeline.

Members queried if the service had sufficient resources to deliver the project and would there be any problems recruiting new staff with the necessary skills within the required timescales.

Members were informed that sufficient resources were in place to deliver the project, there was also funding available to recruit more staff if the need arose.

The Chair asked if there had been any engagement with the Cabinet Office about the City Council's Plan and if so, had they made their views known.

Members were informed that no communication with the Cabinet Office had taken place but that this suggestion would now be progressed

Members queried if other Local Authorities had similar PSN compliance issues, could some comparisons with other Local Authorities be obtained.

It was confirmed that PSN compliance and comparisons with other Local Authorities would be included in the next update report to Committee.

Referring to the next update report the Chair requested if the information on progress could be presented as a directorate by directorate summary.

Officers confirmed that the next update report would include a directorate by directorate summary, as requested.

RESOLVED -

- (i) That the contents of the report be noted
- (ii) To note the assurances provided around the Council's approach to maintaining PSN compliance and where progress had been made
- (iii) That regular updates on progress continue to be brought to future meetings of this Committee.
- (iv) That engagement takes place with the Cabinet Office to seek an indication as to whether the City Council's plans for compliance are sufficient
- (v) To obtain comparisons with other Local Authorities about PSN compliance for inclusion in the next update report to Committee.
- (vi) That future update reports would include a directorate by directorate summary.

55 Information Management and Governance - Update on the Password Protocol for Network ID.

The Director of Resources and Housing submitted a report which provided an update on the arrangements in place regarding the LCC Network ID Password Protocol, whether it was up to date, fit for purpose, effectively communicated routinely complied with and monitored.

The report also sought to address the previous concerns raised by newly contracted auditors, Grant Thornton, in lieu of the upcoming audit on financial systems.

Members were informed that as from April 2018, Leeds City Council's password protocol improvements were now in-line with National Cyber Security Centre (NCSC) guidance. It was reported that the then external Auditors (KPMG) whilst carrying out an audit of financial statements found that, for two key financial systems (SAP(HR system) and FMS(Financial Management) and their associated infrastructure, the technical password policies were not fully aligned with Corporate Protocol.

Following the appointment of new External Auditors, Grant Thornton's dialogue had continued on this issue and in light of those discussions a further revision to the Password protocol has been made. This had resulted in the establishment of a minimal password length for access to secondary systems that could not meet the Single Sign-on requirement.

The Chair invited the external auditors to comment on the report.

In responding Mr Sethi, (representing the external auditors, Grant Thornton) said a specialist IT review was currently ongoing and it was intended the review would be completed by July.

RESOLVED

- (i) That the contents of the report be noted
- (ii) To note the assurances provided around the Council's approach to the controls about access to the LCC Network ID, the password protocol and the progress so far in implementing the protocol

56 KPMG Certification of Grants Report 2017/18

The Chief Finance Officer submitted a report which informed Members of the outcomes of the work of auditors in respect of the certification of grant claims in 2017/18

Members were informed that all grant claims and returns had been successfully completed and the final approved claims submitted to the relevant granting organisation.

Members noted that KPMG's audit work identified a number of minor errors in the Housing Benefit Subsidy claim which required qualification and amendment.

RESOLVED –

- (i) To receive KPMG's Certification of Grant Claims and Returns report
- (ii) To note the conclusion arising from their 2017/18 audit work

57 2018/19 Grant Thornton Audit Plan

The Chief Finance Officer submitted a report which informed Members of Grant Thornton's audit plan for the audit of the Council's accounts and value for money arrangements.

The report highlighted the risk based approach to the audit and the main risks the auditors had identified for 2018/19.

Gareth Mills, Engagement Lead, Grant Thornton attended the meeting and spoke on the key matters impacting on the audit which included:

- Significant risk
- Materiality
- Value for money arrangements
- Audit logistics
- Independence

Members were informed that an Audit Progress Report would be prepared for the meeting in March, with the final opinion being delivered towards the end of July.

Commenting on the value for money arrangements and in particular the reference on the Authority's arrangements and plans to mitigate any risks on Brexit, Members queried if there existed a basic Brexit checklist.

Members were informed there was no standard Brexit checklist. Brexit was a key value for money risk and an area for focus. It was understood that the Council already had in place a Members Cross Party Working Group together with various Officer Working Parties to monitor and plan for implications arising from Brexit. This was considered to be a reasonable course of action

Referring to the Members Cross Party Working Group, Members suggested that the Lead Officer who advised the Group be invited to attend a future meeting of this Committee.

The Head of Governance and Scrutiny Support suggested that a report on Brexit, seeking assurance that appropriate arrangements are in place to manage the impact of Brexit on City Council Services be scheduled for the next meeting in March, with the appropriate Lead Officer being invited to attend.

Members queried if Grant Thornton's treatment of materiality differed from that used by the Council's previous auditors and if so what impact that might have on the information presented to the Audit Committee?

In responding Mr Mills said that the materiality thresholds identified were similar to those used by KPMG in 2017/18. The planned materiality thresholds were based on the Council's expected gross expenditure and would be reviewed at the year-end audit for any necessary changes. Grant Thornton would report to the Committee on any unadjusted audit differences which were not clearly trivial.

On a related issue Mr Sethi informed Members that on 26th February 2019 Grant Thornton were running an event to explain how the external audit operates. An invitation to attend was extended to all Members of this Committee.

Reference was made to the recently published National Audit Office (NAO) report on local authority governance which commented that 30% of section 151 officers did not agree that sufficient time was allocated by External Auditors to Value for Money work.

In responding Mr Mills said that discussions with the Chief Finance Officer and the new external auditors had already taken place, as a consequence Grant Thornton were confident with their proposed Audit Plan. It was

suggested that the requirements for local authority auditors may require revisions in the area of value for money work in the future.

Referring to the coverage on Independence & Non-Audit Services, page 50 of the submitted plan, Members noted that Grant Thornton had provided advice on funding and associated financial modelling for redevelopment of Headingley Stadium, and asked whether, as the new external auditors to the authority, Grant Thornton considered there was any conflict of interest.

In responding Mr Sethi said that Grant Thornton's work on the Headingley Stadium had come to an end and as far as he was aware there were no other interests or ethical issues to be addressed.

The Chair thanked Mr Mills and Mr Sethi for their attendance and contributions.

RESOLVED –

- (i) To note the contents of the report
- (ii) To approve the nature and scope of the audit plan as presented by Grant Thornton
- (iii) To receive an Audit Progress Report at the next meeting
- (iv) That a report on Brexit and the implications that may impact on City Council Services be scheduled for the next meeting in March, with the appropriate Lead Officer being invited to attend

58 Internal Audit Update Report November to December 2018

The Chief Finance Officer submitted a report which provided a summary of the Internal Audit activity for the period November to December 2018 and to highlight any significant failings or weaknesses.

Commenting upon an earlier agenda item "Application Portfolio Programme – Update on Access Project" (Minute No. 54 referred) - The Head of Internal Audit confirmed that PSN certification had been scheduled into the audit plan.

Members noted that an audit had taken place in respect of the Leeds Carnival and Black Music Festival Event Management arrangements. The audit findings had been fed back to a number of key stakeholders with recommendations being taken forward with the relevant service areas.

Reference was made to Private Sector Legislation – Homes of Multiple Occupancy, Members noted weaknesses had been identified in the inspection process which had led to a limited opinion being given relating to the compliance with the controls for this objective.

If was the view of Members that the Chair, on behalf of the Committee, be requested to write to the appropriate Scrutiny Board and Executive Member responsible in order to draw the issue of weaknesses in the inspection process to their attention.

The Chair queried if sufficient resources were available to the Head of Internal Audit to provide an evidence based opinion to the Committee next year.

The Head of Internal Audit confirmed that there would be sufficient resources available to enable her to issue an evidenced based opinion and formulate a robust Internal Audit Plan for 2019/20.

In offering suggestions on the forthcoming Audit Plan for 2019/20 the Chair said PSN Certification had already been scheduled, but in addition could the following issues be incorporated in the Audit Plan:

- Highway's Contracts review
- Elected Members complaints.

The Head of Internal Audit confirmed the requested topics would be incorporated into the 2019/20 Audit Plan.

RESOLVED –

- (i) To receive the Internal Audit Update Report covering the period from November to December 2018 and note the work undertaken by Internal Audit during the period covered by the report.
- (ii) 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.
- (iii) That the Chair, on behalf of the Committee, be requested to write to the appropriate Scrutiny Board and Executive Member responsible in order to draw the issue of weaknesses in the inspection process to their attention.
- (iv) That the issue of: Highway's Contracts review and Elected Members complaints be incorporated into the 2019/20 Audit Plan.

59 Review of the Anti - Money Laundering and Anti Bribery Policies

The Chief Finance Officer submitted a report which informed Members of the revisions to the Anti - Money Laundering and Anti Bribery Policy and provided Members with an opportunity to comment on the policies prior to the revised documents being published.

Appended to the report were copies of the following documents:

- Anti-Money Laundering Policy, Procedure and Reporting Arrangements (Appendix A)
- Anti-Bribery Policy (Appendix B)

Addressing the report the Principle Audit Manager explained that money laundering was the process by which criminals disguised the origins of property derived from illegal activity, by making the property seem to have come from a legitimate source. Bribery was an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

Members were informed that the updated policies set out the procedures which must be followed to enable the council to comply with its legal obligations in seeking to prevent or identify money laundering or bribery.

In considering the anti-money laundering policy Members queried the use of “satisfactory evidence of identity” and suggested the inclusion of example forms of identification that are appropriate.

Members were informed that example forms of identification that are appropriate would be included within the policy.

Commenting on the anti-bribery policy, one Member raised the issue of “future employment” and queried if there was any monitoring of officers leaving the Council to take up employment with an external company, having established a close working relationship with that organisation whilst in the employment of the City Council. He queried if there was there any type of restricted covenants in use?

In responding the Head of Governance and Scrutiny Support said the Annual Report on Employment Policies and Practices was due back to this Committee and June and the use of restricted covenants may be explored more at that time.

RESOLVED –

- (i) That the contents of the report by noted
- (ii) To include within the Anti-Money Laundering Policy example forms of identification which are acceptable
- (iii) That the use of restricted covenants be explored further in the Annual Report on Employment and Practice due back to this Committee in June
- (iv) To note that the Chief Officer (Financial Services) would take a delegated decision to approve the revised policies prior to publication

60 Letter to the Secretary of State from Northamptonshire County Council Commissioners

The Head of Governance and Scrutiny Support introduced a report which drew to the attention of Members the governance interventions currently taking place at Northamptonshire County Council.

The report explained that the independent inspection report was published on 15th March 2018, giving evidence that the council had failed in its best value duty. The inspector found that failures at the council were not due to a lack of funding, but a result of poor management, a lack of budgetary control and a culture which discouraged challenge.

Referring to the financial management for Leeds City Council the Head of Governance and Scrutiny Support made reference to two assurance reports received by Corporate Governance and Audit Committee in relation to Financial Management and Treasury Management and the monthly monitoring reports provided to Executive Board in respect to the budget. These processes provide a framework within which financial management risks are reported to Members.

The Head of Governance and Scrutiny Support said that in drawing this report to the attention of Members it enabled the Committee to gain an understanding of contemporary governance issues within the local government sector.

In offering comment Members highlighted the importance of both officers and councillors providing challenge and leadership to the authority and not become complacent in testing assurances that are provided.

RESOLVED – That the contents of the report by noted

61 Audit Committees: Practical Guidance for Local Authorities and Police 2018

The City Solicitor submitted a report which informed Members of the publication of the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on the function and operation of audit committees in local authorities in the UK and for police audit committees in England and Wales. The guidance also sets out CIPFA's views of the role and function of audit committees.

The Head of Governance Services and Scrutiny Support reported that since the last review undertaken by this Committee the scope of CIPFA's Position Statement for Local Authority Audit Committees had become more detailed. The current position statement was reproduced at Appendix 2 of the submitted together with a 'self-assessment' drafted by officers for the Committee's consideration

Members were informed that there were no significant areas of non-compliance identified in the core functions expected of audit committees or with the identified wider functions; where variances had been identified these are listed below:

- The absence of an Independent Person on the Committee.
- The preparation of an Annual Report of the Committee to Council.
- A Knowledge and Skills Framework

In discussing the potential for appointing an Independent Member, the Committee was grateful to Mr Ian Arundale, the visiting Independent Audit Committee Chair from Cardiff Council for his input to the Committee's deliberations.

Members did not reach a definitive view on whether or not to recommend making an appointment of an independent Member. Whilst Members accepted that an Independent Person may be able to contribute specialist knowledge and skills to the Committee, Members considered that the existing arrangements allowed for sufficient breadth of expertise, knowledge and independence to be brought to the business before the Committee. Members also recognised that an Independent Member was not elected and that therefore there was little formal accountability to the public for their role.

With regard to the preparation of an Annual Report of the Committee, Members were supportive of the proposal for a report to be presented to Full Council. .

Commenting on the Knowledge and Skills Framework, Members noted that the proposed framework was not a pre- requisite for appointment to this Committee. It was suggested that annual training should be provided which delivers an "overview of change" and keeps Members up to date and with sufficient background knowledge and information to enable Members to fulfil the individual and collective roles on the Committee. The majority of Members were supportive of the suggestion of annual training.

The Head of Governance Services and Scrutiny Support offered to raise the subject of Independent Members with the Deputy Leader and then further report back to the committee.

RESOLVED

- (i) To note the recently published guidance from of the Chartered Institute of Public Finance and Accountancy's (CIPFA) on the function and operation of audit committees in local authorities in the UK (and for police audit committees in England and Wales).
- (ii) To support suggestions for the preparation of an Annual Report of the Committee to Council and to also support the introduction of appropriate Annual Training for Members of the Committee
- (iii) That a report on the appointment of Independent Members be brought back to a future meeting of the Committee.

62 Work Programme 2019

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

Following discussion at today's meeting it was agreed that the following items be added to the Work Programme:

- Audit Progress Report from Grant Thornton (the external auditors) in March
- Brexit - A report seeking assurance that appropriate arrangements are in place to manage the impact of Brexit on City Council Services (March)
- Proposed dates for Corporate Governance and Audit Committee 2019/20 (March)
- The appointment of Independent Members - To receive a further report back seeking Members views on the appointment of Independent Members to the Committee

RESOLVED – That, with the inclusion of the above, approval be given to the draft work programme 2019 as set out in the Appendix of the submitted report.

63 Date and Time of Next Meeting

RESOLVED – To note that the next meeting will take place on Friday, 22nd March 2019 at 10.00am in the Civic Hall, Leeds.