CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Meeting to be held in the Civic Hall, Leeds on
Monday, 28th January, 2019 at 10.00 am

MEMBERSHIP

Councillors

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

Agenda compiled by: John Grieve 0113
Governance Services 37 88662
Civic Hall
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<td><strong>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</strong></td>
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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).

(*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)

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<td><strong>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</strong></td>
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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.

2. To consider whether or not to accept the officers recommendation in respect of the above information.

3. If so, to formally pass the following resolution:-

**RESOLVED** – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-
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<td>LATE ITEMS</td>
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<td>To identify items which have been admitted to the agenda by the Chair for consideration</td>
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<td>DECLARATION OF DISCLOSABLE PECUNIARY AND OTHER INTERESTS’</td>
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<td>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.</td>
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<td>To receive apologies for absence (If any)</td>
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<td>MINUTES OF THE PREVIOUS MEETING</td>
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<td>To receive and approve the minutes of the previous meeting held on 23rd November 2018.</td>
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<td>MATTERS ARISING FROM THE MINUTES</td>
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<td>To consider any matters arising from the minutes.</td>
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<td>APPLICATIONS PORTFOLIO PROGRAMME - UPDATE ON ACCESS PROJECT</td>
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<td>To consider a report by the Director of Resources and Housing which provides an update on the current position on Access databases and compliance to PSN.</td>
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<td>INFORMATION MANAGEMENT AND GOVERNANCE - UPDATE ON THE PASSWORD PROTOCOL FOR NETWORK ID.</td>
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<td>To consider a report by the Director of Resources and Housing which provides an update on the arrangements in place regarding the LCC Network ID Password Protocol, whether up to date, fit for purpose, effectively communicated, routinely complied with and monitored.</td>
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<td>The report also seeks to address the previous concerns raised by newly contracted auditors, Grant Thornton, in lieu of the upcoming audit on financial systems.</td>
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<td>KPMG CERTIFICATION OF GRANTS REPORT 2017/18</td>
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<td>To consider a report by the Chief Finance Officer which informs Members of the outcomes of the work of auditors in respect of the certification of grant claims in 2017/18.</td>
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<td>2018/19 GRANT THORNTON AUDIT PLAN</td>
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<td>To consider a report by the Chief Finance Officer which informs Members of Grant Thornton’s audit plan for the audit of the Council’s accounts and value for money arrangements. The report from Grant Thornton highlights the risk based approach to the audit and the main risks they have identified for 2018/19.</td>
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<td>INTERNAL AUDIT UPDATE REPORT NOVEMBER TO DECEMBER 2018</td>
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<td>To consider a report by the Chief Finance Officer which provides a summary of the Internal Audit activity for the period November to December 2018 and highlight the incidence of any significant control failings or weaknesses.</td>
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<td>REVIEW OF THE ANTI MONEY LAUNDERING AND ANTI BRIBERY POLICIES</td>
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<td>To consider a report by the Chief Finance Officers which informs Members of the revisions to the Anti Money Laundering and Anti Bribery Policy and to provide an opportunity to comment on the updated policies prior to being published.</td>
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<td>LETTER TO THE SECRETARY OF STATE FROM NORTHAMPTONSHIRE COUNTY COUNCIL COMMISSIONERS</td>
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<td>To consider a report by the City Solicitor which draws to the attention of Members the governance interventions currently taking place at Northamptonshire County Council.</td>
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<td>15</td>
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<td><strong>AUDIT COMMITTEES: PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE 2018</strong></td>
<td>117 - 132</td>
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To consider a report of the City Solicitor which advises 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 view of the role and function of audit committees.

Members are asked to review the guidance and identify any areas where further development of the arrangements operating at Leeds City Council might be required.

(Report attached)

| 16      |      | **WORK PROGRAMME 2019** | 133 - 136 |

To receive a report by the City Solicitor which notifies Members of the Committee’s draft Work Programme for 2019.

(Report attached)

| 17      |      | **DATE AND TIME OF NEXT MEETING** |

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

2

a)

b)
Corporate Governance and Audit Committee

Friday, 23rd November, 2018

PRESENT: Councillor K Ritchie in the Chair

Councillors J Bentley, P Harrand, P Grahame, M Harrison, A Scopes and B Garner

30 Appeals Against Refusal of Inspection of Documents

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

31 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.

32 Late Items

There were no late items of business identified.

33 Declaration of Disclosable Pecuniary and Other Interests'

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

34 Apologies for Absence

Apologies for absence were received from Councillors: J Illingworth and P Truswell.

35 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 30th July 2018 were accepted as a true and correct record.

36 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 July;

- Minute 22 point 5 on page 2 Further information was circulated on the Ethical Landlord Policy and examples of Community Asset Transfer to all Members by email on the 16th August 2018
• Minute 23 Resolution 2 on page 4 concerning the PSN recertification process was circulated to all Members on the 30th October.

• Minute 25 – in respect to the protective claim referred to on page 6, should Members wish, Finance colleagues will be able to provide an update on this matter – however given the present status of the claim, this will need to be without the press and public present – I suggest that this be at the conclusion of today’s formal business.

• Again in relation to Minute 25 - Resolution 5 on page 6 – the outstanding Elector Objection is referenced in the report to committee at Item 11

• Minute 26 – Resolution 3 on 8 is responded to the report of the Head of Internal Audit at Item 13

• Minute 28 – Members are asked to note that the committee’s resolution to request a report on Password policies is now scheduled for the proposed additional meeting of the committee in January 2019 – Minute No. 45 refers.

37 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 considered the progress made so far in addressing the Access 2003 Databases that had been identified by the Cabinet Office as a risk requiring resolution by authority. Members were informed that of 304 databases having been identified that were a concern:

• 141 belong to cities and communities functions
• 82 related to Shared Services and housing functions
• 10 are associated with adult’s and children’s services functions
• The remaining 71 are yet to have an ‘owner’ identified – additional analysis is taking place to ascertain which service areas own that data.

In order to establish the nature of the databases in scope the Head of Information Management and Governance advised that a questionnaire had been issued to directorates. Members were informed that 76 responses had been received and from those returns 4 data bases had been identified that relate to services to vulnerable service users – these would be a priority focus for the project.

Members were concerned that whilst there appeared to be a project plan for risks associated with Access 2003 databases to be resolved by December
2019, prior to this, in June 2019, there would be a further PSN Certification Annual review; if sufficient progress had not been made this may be a risk factor to the authority in retaining PSN Certification.

Members also sought assurance with regard to the sufficiency of resources available to carry out the work required.

Officers had confirmed that the backstop position for the databases concerned was for the data to be ‘lifted and dropped’ onto compliant operating systems.

Members also noted the further remediation steps were necessary in relation to cloud security principles and that ongoing work was being undertaken with suppliers.

RESOLVED

(i) To note the assurances provided to date

(ii) That regular updates on progress be brought to future meetings of this Committee.

(iii) That the Chair, on behalf of the Committee be requested write to the Director of Resources and Housing with a request that he highlights the importance of engagement of directorates with the work being undertaken to mitigate the risks associated with Access 2003 databases.

38 Customer Contact and Satisfaction

The Chief Officer, Customer Access and Welfare submitted a report which provided a response to the queries raised at the meeting held in January 2018. The report also delivered an update on customer contact and customer satisfaction with Council services.

An update on progress on the recommendations from the 2016 Review of Compliments and Complaints was provided together with information from the Local Government Ombudsman.

Members considered a range of information and data showing customer contact, satisfaction levels and compliments and complaints and noted the Chief Officer for Customer Access and Welfare’s assurances that the Council’s processes and procedures around customer contact and satisfaction were deemed adequate and acceptable.

Members in particular commented on:

- The increase in telephone waiting times;
- The need to ensure in transitioning to digital channels, that training and support remains a priority in order that service users are not disenfranchised from the services they need to access;
- Implications for the Services in terms of the introduction of Universal Credit and the likely need to reconfigure services to address potential growth in Rent and Council Tax issues;
- The need for future annual reports to incorporate financial settlements arising from Insurance claims;
- The steps being taken to build career pathways for apprenticeships as a method of resolving resourcing issues in the Customer Services function;
- The need for consistency in terminology used for customer satisfaction in the annual report to committee and in the Best Council Performance Report;
- The Internal Audit work currently being undertaken at Customer Services and the engagement of Corporate Governance and Audit Committee Members in that audit.

Members also noted that the number of Ombudsman enquires increased in 2017/18 and was likely to rise again in future years.

The Ombudsman however had commented that; “Over the year my investigators had noted your Council’s positive approach to complaint handling. It was 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.”

RESOLVED –

(i) That the contents of the report be noted

(ii) To support the work outlined to develop the approach further

(iii) To recognise that the Customer Satisfaction Audit due to take place shortly would inform further development

(iv) That future reports to this Committee should incorporate financial settlements arising from Insurance claims;

39 Annual Assurance Report on Corporate Performance Management

The Director of Resources and Housing submitted a report which sought to provide assurance on the robustness of the Council’s corporate performance management arrangements: that they are up to date, fit for purpose, effectively communicated and routinely complied with.

In noting the assurance Members queried whether the Best Council Plan Performance report presented an accurate reflection of what the Council needs to do to achieve its ambitions.
Members were informed that the Best Council plan was refreshed on a regular basis with changes made to Key Performance Indicators to ensure they properly inform the progress being made on delivering priorities.

In relation to the Annual Performance Report, Members noted that reports in respect of risk and performance would in future be reported separately with performance been reported each autumn.

RESOLVED –

(i) That the report together with a copy of the Best Council Plan 2017/8 (as referred to at Appendix No.1) be accepted as providing key forms of assurance on the robustness of the authority’s corporate performance management arrangements

(ii) To approve that future assurance reports on both the authority’s corporate performance management and risk management arrangements are supplemented by the annual reports considered by the Executive Board: on performance in delivering the Best Council Plan outcomes and priorities and on management of the most significant corporate risks respectively

40 KPMG Annual Audit Letter 2017/18 and Update on Issues Arising

The Chief Finance Officer submitted a report which presented KPMG’s Annual Audit Letter and provided a summary of the key external audit findings in respect of the 2017/18 financial year. The report also provided an update on matters arising from the audit.

Members were advised that KPMG had resolved the matter in connection with the 2016/17 elector objection. The External Auditor found that the Council had acted lawfully in its use of LOBO borrowing.

Officers advised the Committee that final audit certificates had now been received for both 2016/17 and 2017/18 and that these had been added to the published Statements of Accounts for those years on the Council’s website.

Officers also updated Members on the recommendations arising from Audits Undertaken by KPMG:

- In relation to the Accounts Audit - following discussions with the Council’s in-house valuation team and the District Valuer, the authority would be moving to a valuation date of the 30th September – this being the latest date considered practical in terms of carrying out a valuation based on sound evidence.
- In relation to the ICT Audit – Members were advised that progress had been made in addressing the password recommendations for FMS – in addition further work was being explored to introduce Single Sign On for both FMS and SAP
RESOLVED –

(i) To receive the Annual Audit Letter and note the conclusions and the recommendations arising from the 2017/18 external audit process

(ii) To further note that following the conclusion of the outstanding elector objection from 2016/17, the 2016/17 and 2017/18 audits had now been formally closed by KPMG

41 Introduction to New Auditors Grant Thornton

The Chair welcomed and introduced Perminder Sethi (Engagement Senior Manager) and Chloe Edwards from Grant Thornton, the City Council’s new external auditors.

Mr Sethi confirmed that Grant Thornton would be operating from their Leeds Office and that so far as could be foreseen they would be seeking to maintain consistency of the staff team during the term of the 5 year contract.

Members sought assurance that the handover between KPMG and Grant Thornton had been completed in accordance with the processes laid out by Public Sector Audit Appointments (PSAA) and that Grant Thornton were not conducting any other consultancy work for the authority.

Mr Sethi confirmed that the transition had gone smoothly with working papers being reviewed to enable Grant Thornton to rely, as a starting point, on the figures that KPMG had audited.

Members were also assured that all disclosures had been made to PSAA concerning Grant Thornton’s previous engagement with the Council and that during the term of the External Audit contract with the Council any consultancy work could only be undertaken within strict rules set out by PSAA and subject to their approval.

RESOLVED – To receive and note the introductory report from Grant Thornton.

42 Internal Audit Update Report June to October 2018

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

The report also presented the options available to supplement the five yearly external assessment of the Internal Audit Function against the Public Sector Internal Audit Standards.

In considering the report Members sought further assurance about resources available to the Head of Internal Audit to complete the audit plan and whether
the reported reduction in staff will have an impact on the Audit Plan for next year.

The Head of Internal Audit confirmed that there will be sufficient resources to enable her to issue an evidenced based opinion for 2018/19 and to formulate a robust Internal Audit Plan for 2019/20.

Members queried the use of ‘Memo issued’ terminology in the update report.

The Head of Internal Audit confirmed that this was used where the Internal Audit team were keeping a watching brief on an issue or that the amount of audit coverage undertaken was not sufficient to enable an evidence based opinion to be provided

Members raised specific queries in respect to the In-House Fostering, Special Guardianship and Leaving Care Payments Follow Up Audit.

The Head of Internal Audit confirmed that whilst progress had been made by Children and Families there remained some aspects of the agreed action plan that had not been progressed and it was for this reason that the assurance opinion had not yet increased.

Members welcomed and noted the recommendations arising from the Use of Resources Audit report to committee in September 2017 had been progressed. It was the Committee’s view that the acceptable use policy and the training associated with it be applicable to Elected Members as well as Officers.

Discussion took place in relation to the frequency of the external review of Internal Audit against the Public Sector Internal Audit Standards. In noting that the standards require that this be undertaken no less than every 5 years (with the last undertaken in Leeds in 2016), Members considered the arrangements for the next external assessment.

Members were supportive of the suggestion that the next external assessment should take the form of a self-assessment undertaken by Internal Audit with this being validated by an independent third party.

Members noted that the return of individual audit questionnaires provided a source of opinion on the Internal Audit teams work. In reviewing this it was noted that there had been a reduction in the proportion of questionnaires being returned at the conclusion of audits.

**RESOLVED** –

(i) To receive the Internal Audit Update Report covering the period from June to October 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) In relation to the 5 yearly external assessment of the Internal Audit function required by the Public Sector Internal Audit Standards, that the next external assessment to take the form of a self-assessment undertaken by Internal Audit with this being validated by an independent third party.

(iv) To support of the suggestion made by the Head of Internal Audit that she writes on an annual basis to receive an opinion from Directors in relation to Internal Audit's work.

(v) That the Chair, on behalf of the Committee be requested write to the Director of Resources and Housing to seek his support in ensuring individual audit questionnaires were routinely completed.

43 Children and Families - Decision Administration

The Director of Children and Families submitted a report which provided an update on Children and Families decision making arrangements following consideration of the Annual Decision Making Assurance report from the City Solicitor.

Members noted the apology received from the Chief Officer Resources and Strategy and the reasons set out for the backlog in the publication of significant operational decisions.

Members were satisfied that once identified, arrangements were put in place to deal with the backlog and ensure the decisions were published.

The Chief Officer Strategy and Resources also confirmed that at no point were children at risk as the placement decisions were made in an appropriate and timely manner.

Members were further reassured that Children and Families directorate, unlike other directorates, keeps a central record of all administrative decisions that are approved and recorded on a delegated decision notification form.

RESOLVED – That the contents of the report be noted and the positive assurance that arrangements were now in place to ensure compliance with statutory and corporate requirements.

44 Procedure for Short Notice Publication of Officer Key Decision Reports

The City Solicitor submitted a report which identified a gap in the Council’s Constitutional arrangements and sought the views of Members on a proposed
procedure to regularise the process for the late publication of report supporting an officer decision

Members considered the proposals as set out in paragraphs 3.6 and 3.7 of the submitted report and the comments of the Chair of the Children and Families Scrutiny Board.

In making recommendations to the General Purposes Committee Members were mindful to ensure that the proposals were proportionate and targeted to the gap in the constitutional provisions that had been identified.

RESOLVED –

(i) That the General Purposes Committee be asked to consider recommending to full Council amendments to the Executive and decision Making Procedure Rules as follows:-

- Where a decision maker has ensured the appropriate 28 day notification of a decision, but is not in a position to publish a report 5 clear days in advance of the decision needing to be taken, then that decision may only proceed with the agreement of the relevant Executive Member that the decision is urgent and cannot reasonably be delayed until the full five days’ notice have been given. Responsibility for the substantive decision will remain with the decision making officer unless, in accordance with the officer delegation scheme the Executive Member requests or the relevant Director decides that the matter should be referred to Executive Board.

- If the relevant Executive Member is not available the decision maker may ask the Leader to provide this agreement and if the Leader is also unavailable may seek the agreement of the Deputy Leader;

- That the circumstances as to why it has not been possible to comply with the requirement for 5 days’ notice be set out in the decision report;

- That the relevant Scrutiny Chair be advised of the circumstances;

(ii) That Corporate Governance and Audit Committee monitor instances of these provisions being used by way of the annual assurance report to the committee on decision making.

45 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.
In light of the amount of business to be considered it was suggested that an additional meeting of the Committee be convened for 28th January 2019 and that the following additional item be added to the Work Programme

- PSN - Applications Portfolio Programme – Update on Access project to January and future meetings of the committee

**RESOLVED** –

(i) That an additional meeting of the Committee be arranged for Monday 28th January 2019 at 10.00am in the Civic Hall, Leeds.

(ii) 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.

**Date and Time of Next Meeting**

**RESOLVED** – To note that the next meeting will take place on Monday 28th January 2019 at 10.00am in the Civic Hall, Leeds.
Summary of main issues

The Public Services Network (PSN) was set up as an assured route for information sharing by central government, to facilitate shared services. 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.

Due to more stringent compliance controls brought in by the Cabinet Office in 2014 the Council has worked hard to ensure it meets PSN compliancy. The Cabinet Office contacted the Council through the Chief Executive in January 2017, to ensure that the Council brought itself into compliance as soon as possible. PSN accreditation was awarded in 2018 on the basis that good progress had been made and with the assurance we will remove Access databases running on 2003 by December 2019.

Recommendations

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 maintaining PSN compliance and where progress has been made.

The project team recommends providing the Committee with another update paper on Access progress for the next meeting.
1. **Purpose of this report**

1.1 To provide Corporate Governance and Audit Committee with an update on the current position on Access databases and compliance to PSN.

2. **Background information**

2.1 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 and if not, this could be an issue for PSN Certification. Specifically, Access 2003 runtime is the issue for PSN Certification, not 2010 as an example (so those are not in scope right now for the 2019 deadline).

2.2 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 a significant improvement.

2.3 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. As detailed above, PSN accreditation was awarded in 2018 with the assurance we will remove Access databases running on 2003 by December 2019.

3. **Main issues**

3.1 Analysis of which databases are in use, by whom and their file paths has been identified and engagement with the service areas, users, application managers and business partners is ongoing to work together on an alternative solution where required.

3.2 We have received 83 responses so far to the questionnaires sent out to service areas. This is an increase of 9 since the last report to Committee. Of those 83, 20 of the respondents have 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.

3.3 We have engaged separately with several services where they have significant numbers of databases, e.g. Highways and Transport, who have 87 databases.

3.4 The project team have engaged with all service areas to identify where new solutions are already in the pipeline to replace Access databases and are focussing on those that haven’t, whilst still keeping a view of those that are due to be replaced; in case their timescales slip. So far, the project have confirmed that 5 databases are due to be deleted once they’ve fully migrated over to a new solution and 12 are being delivered by another project or programme. This means the project are prioritising the 271 that don’t currently have a new solution in the pipeline.

3.5 The planned approach is to focus on databases which are business critical and contain highly sensitive data and the project is working on finalising the database list by planned approach.
3.6 Whilst the deadline of December 2019 was agreed with the Cabinet Office as the deadline for completion of this remediation task, the Council will have to reapply for PSN certification in June 2019 (this is an annual certification process). Prior to the reapplication the Council will also have to undergo a further IT Health Check by external auditors to validate our application. At this stage the Council will have to have confidence that the Access 2003 project is on track and will be able to complete by the deadline.

3.7 Following the last meeting of the Corporate Governance and Audit Committee, Councillor Ritchie wrote to the Director of Resources and Housing asking for his assistance in bringing the issue of the Access 2003 remediation work to the attention of the Corporate Leadership Team (CLT) and to push progress within the directorate, particularly with regards to the directorates engaging with the project team. The Director of Resources and Housing has acted upon this letter, taking the matter to CLT on the 4th December 2018. The Director of Resources and Housing has asked for subsequent updates since that date and asked that all Directors be supplied with a list of all the databases within their directorates so they can actively pursue.

3.8 CLT also agreed a mechanism by which, under the supervision of the Head of Information Management and Governance, non-compliant databases could be deleted without the approval of a service, should an owner for a database not be determined within the timescales. This mechanism has been added to the Plan B described in 4.5 Risk Management.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 Consultation has taken place across service areas, along with application managers and business partners to gather the information needed to assess the status of the databases. Regular communications and updates are planned in and provided to the key stakeholders.

4.1.2 Engagement with service areas takes place regularly and is planned in on an ongoing basis, to reassure them, provide updates and discuss potential solutions. We are consulting with IG where necessary.

4.2 Equality and diversity / cohesion and integration

4.2.1 There are no issues in relation to Equality and Diversity or Cohesion and Integration.

4.3 Council policies and best council plan

4.3.1 The Access project falls under a large programme of work within DIS called the Application Portfolio Programme. This programme is set to look at all our applications within the council and to make sure we meet statutory and regulatory requirements and where possible reduce the overall cost to the Council via rationalisation. The Access replacements will take into account the other projects under the programme, e.g. GDPR and Cloud Security Principles to ensure we continue to remain compliant whatever the new solution.

4.4 Resources and value for money
4.4.1 The approach to resolve the Access 2003 databases is to remove or replace with suitable in-house solutions initially, thus saving time and money. Therefore internal resource is being utilised and value for money sought. Initial analysis shows that the majority of the databases can be replaced by in-house developed solutions, such as SharePoint lists or corporate case management solutions.

4.4.2 There are no issues in relation to resources and value for money

**Legal implications, access to information, and call-in**

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

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

**4.5 Risk management**

**Access Risks**

**Timescales**

4.5.1 The project has concerns due to the lack of information being provided within timeframes that will potentially impact on timescales for delivery. This is due to a number of factors, including services being unclear about who manages or owns their databases (i.e. staff who built it have now left the council) and the level of information which is held. The project team are working with service areas to identify this information.

4.5.2 The amount of data held in the redundant databases and where it needs to go. Identifying what we need to keep and do not.

4.5.3 Dependencies on service areas to work with us in the timescales we need them to, e.g. providing information in a timely manner, being able to implement a new solution within timescales and working around their usual business workload. It’s been identified by more than one service area that they have restrictions on when they can implement new solutions (e.g. financial reporting period) and timescales for new solutions in the pipeline to be delivered (e.g. Housing’s new solution).

4.5.4 Databases which are live and in use which the project are not aware of. Work has been done to identify the databases in use, but there is a small risk there are other databases in use which tools have not yet identified – meaning the number to work with could be bigger.

4.5.5 The project team is now drawing up a Plan B, which will determine how we will complete all the work required within the timescales, should we not be able to obtain all the information needed to progress as currently in plan. Actions in Plan B include the 'lift and drop' of data into a compliant database whilst an owner is still determined or following consultation with the Head of Information Management and
Governance, the deletion of a non-compliant database where relevant and appropriate.

**Resource**

4.5.6 The amount of resource needed once the work progresses to deliver in the timescale needed with the correct skills, is a risk, if this cannot be provided. Individuals with the appropriate technical skillset are highly sought after in the City. Recruitment is currently underway to ensure the project team has capacity to complete the work within the timescales.

**PSN Risks**

4.5.7 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 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.

5. **Conclusions**

5.1 The actions outlined in this report are being managed both in the project scope and through to service delivery and any risks such as timescales have been identified (as above) and we are working with service areas and teams within DIS to remove the databases within the timeline.

6. **Recommendations**

6.1 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 maintaining PSN compliance and where progress has been made.

6.2 The project team recommends providing the Committee with another update paper on Access progress for the next meeting.
7. **Background documents**

7.1 No other documents to be included.

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1 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.
Report of Director of Resources and Housing
Report to Corporate Governance and Audit Committee

Date: 28th January 2018

Subject: Information Management and Governance – Update on the Password Protocol for Network ID.

<table>
<thead>
<tr>
<th>Are specific electoral wards affected?</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>If yes, name(s) of ward(s):</td>
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<tr>
<th>Are there implications for equality and diversity and cohesion and integration?</th>
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<th>No</th>
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<tr>
<th>Is the decision eligible for call-in?</th>
<th>Yes</th>
<th>No</th>
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<tr>
<th>Does the report contain confidential or exempt information?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>If relevant, access to information procedure rule number:</td>
<td></td>
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Summary of main issues

1. Following the publication of the National Cyber Security Centre’s password guidance, ‘Simplifying your approach’, the password policy for Leeds City Council Network ID was reviewed. It was decided to update the password policy to a protocol under a renewed policy document set and the improvements were approved by CLT on the 23rd May 2017.

2. In the same year KPMG’s audit on key systems security, which forms an element of the wider finance audit, found that for two key financial systems and their associated infrastructure, the technical password policies were not fully aligned to the original LCC Password Policy.

3. This report provides an update on the Council’s response to the issues and more generally reports on work to increase the robustness of the Council’s Password Policy.

Recommendations

Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured of the Council’s approach to the controls around access to the LCC Network ID, the password protocol and the progress so far in implementing the protocol.
1. **Purpose of this report**

1.1 To provide Corporate Governance and Audit Committee with an update on the arrangements in place regarding the LCC Network ID Password Protocol, whether up to date, fit for purpose, effectively communicated, routinely complied with and monitored.

2. **Background information**

2.1 Authentication to systems, services and data is one of the ways in which we ensure that only appropriate users access our information assets. The main method of authentication for LCC users is the Network ID. The user name and password.

2.1 From April 2018, the LCC password protocol improvements are now in-line with National Cyber Security Centre (NCSC) guidance. This prevents the use of extremely weak passwords found on global lists.

2.2 In 2016, the NCSC published new guidance around passwords, the psychology of a user and the technical controls that should be implemented around controlling access to systems. These documents detailed efforts that should be made to reduce the challenge to the person logging in and as a result discourage the urge to write passwords down, which is evidenced to improve overall security. (see Appendix 1) LCC password Protocol is based on those recommendations.

2.3 As part of the Council’s IT Health Check (ITHC), an annual audit of the Council’s security arrangements a password audit was completed. This still discovered a number of weak passwords.

2.4 Grant Thornton have been appointed as the Council’s External Auditor from 2018/19 to deliver the Financial audit, incorporating an audit on Key financial systems and basic, entity controls across the technical infrastructure. This includes adherence to Council Protocol and a review of Best Practice

3. **Main issues**

3.1 The Head of Information Management and Governance took a paper to Corporate Leadership Team on 23rd May 2017 to agree the fundamental change in passwords for LCC. This change brings the protocol in line with NCSC guidance.

3.2 The new protocol follows the guidance issued by the NCSC, reducing the probability of a person using a single dictionary word and single number as their password as the method to authenticate the ‘User to the device’, but also to discourage the human element of writing down a password that is not memorable, one that is too complex, or due to having to remember a number of different passwords. It is also hoped due to the format of the password, users will be discouraged from using their work password for systems outside of the work environment.

3.3 To reduce the number of passwords a user is required to remember, the protocol mandates Single Sign-On to access subsidiary systems where possible. This technology turns the password into a token, which is then exchanged with the secondary system in place of a second password. It also mitigates the risk of a user accessing the secondary system with another person’s details, bypassing the segregation of duties controls held within the system itself, reducing the risk of internal fraud.
3.4 Following the usual commissioning and change processes, alterations made to the Password Protocol were communicated to coincide with the updated, mandatory Information Governance training in April 2018.

3.5 Standard User accounts have been addressed in stages, from April, concluding in a forced password reset for the remaining support and elected member accounts throughout September.

3.6 ADM accounts or admin’ accounts, those with raised privileges, began the same process in mid-September.

3.7 Another, invisible, control has been commissioned by Digital Information Services using the certificate on Council devices. This introduces a second method of authentication of the ‘device to the network’, preventing the use of unmanaged devices on the network, reducing the risk that unpatched devices can bring. This Network Access Control (NAC) solution is in the latter stages of implementation. Thus providing the additional security of Two Factor (2FA) to the Leeds Network.

3.8 Prior to the appointment of Grant Thornton, KPMG was the appointed External Auditor for the Council. Their audit of financial statements found that, for two key financial systems, and their associated infrastructure, the technical password policies were not fully aligned with Corporate Protocol. They are SAP (HR system) and FMS (Financial Management). Changes to these technical password policies have been made to bring them to compliance with the protocol. Portfolio requests have been raised to address the issue of Single Sign On in both cases.

3.9 Since Grant Thornton’s appointment dialogue has continued on this issue and in light of discussions a further revision to the Password protocol has been made. This has established a minimal password length for access to secondary systems that cannot meet the Single Sign-on requirement.

3.10 Information Governance and Information Security will continue to monitor password usage via the ITHC audit, annually. A password blacklisting tool will be commissioned as part of 2018/19 work to further prevent the use of common/known passwords. The blacklist contains a database of commonly used passwords and phrases which will prevent the user from making a poor password choice.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 Consultation on the development of strategies, protocols, policies, procedures and standards are extensively undertaken across a broad range of stakeholders including information management professionals, representatives from all directorates via representatives of Information Management and Technology Teams and Information Management Board members. In the case of the Password Protocol, additional consultation was held with the National Cyber Security Centre, the Cabinet Office, Security partners, Surecloud and auditors KMPG and now Grant Thornton
4.2 Equality and diversity / cohesion and integration

4.2.1 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.

4.3 Council policies and best council plan

4.3.1 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.

4.4 Resources and value for money

4.4.1 There are no specific implications arising from this report.

4.5 Legal implications, access to information, and call-in

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

4.5.2 Restrictions as to the nature of the Council’s authentication methods should be considered seriously as they may be used to scope a Cyber Attack on Council systems.

4.6 Risk management

4.6.1 The benefits of full implementation of the password protocol will reduce user burden, which increases security. It will also reduce the sharing of passwords between work accounts and home accounts, increase the security of the network and the systems protected by it and reduce the risk of cyber-attack. Should the password protocol not be implemented in full, across all users and secondary systems the benefits proposed will not be realised in full.

4.6.2 A long and strong approach to passwords reduces the overall risk of unauthorised access to Leeds City Council Networks by brute force attack and from those writing down their password, or using the same password across numerous systems due to its’ length.

5. Conclusions

5.1 The establishment of strengthened authentication methods including alterations to the Password protocol have improved the Council’s security posture and continue to protect the environment, alongside additional measures to incorporate controls against unmanaged device access. This means Leeds City Council devices and authorised users can access the network and the data it protects.

5.2 Secondary systems unable to meet the requirements of the protocol have work requests logged and will follow the amended password protocol until Single Sign-On can be implemented.
6. Recommendations

6.1 Corporate Governance and Audit Committee is asked to consider the contents of this report and be assured of the Council’s approach to the controls around access to the LCC Network, and the password protocol.

7. Background documents¹

None.

¹ 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.
Appendix 1

Extracts from the National Cyber Security Centre’s guidance on simplifying your approach to passwords. [https://www.ncsc.gov.uk/guidance/password-guidance-simplifying-your-approach](https://www.ncsc.gov.uk/guidance/password-guidance-simplifying-your-approach)

Attackers use a variety of techniques to discover passwords. Many of these techniques are freely available and documented on the Internet, and use powerful, automated tools. LCC have assessed the threat from each of the types of attack and written the Password Protocol to address each.

<table>
<thead>
<tr>
<th>Threat</th>
<th>LCC Mitigation</th>
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<tbody>
<tr>
<td>Social engineering eg phishing; coercion</td>
<td>Protocol, training and communication, 2 Factor Authentication.</td>
</tr>
<tr>
<td>Manual password guessing, perhaps using personal information ‘cribs’ such as name, date of birth, or pet names</td>
<td>Protocol, guidance on selecting random words, training, 2 Factor Authentication.</td>
</tr>
<tr>
<td>Intercepting a password as it is transmitted over a network</td>
<td>Passwords are encrypted in the Active Directory, which requires the highest privilege and a BPSS check. Authentication processes are also encrypted. Caching (storing) of passwords on council systems is disabled. 2 Factor Authentication.</td>
</tr>
<tr>
<td>‘Shoulder surfing’, observing someone typing in their password at their desk</td>
<td>Length of password</td>
</tr>
<tr>
<td>Installing a keylogger to intercept passwords when they are entered into a device</td>
<td>Endpoint protection installed on user devices, background scanning. 2 factor authentication</td>
</tr>
<tr>
<td>Searching an enterprise’s IT infrastructure for electronically stored password information</td>
<td>Ferret tool has been used for audit of password data 2 factor authentication</td>
</tr>
<tr>
<td>Brute-force attacks; the automated guessing of large numbers of passwords until the correct one is found</td>
<td>Number of attempts to guess password locks out at ten attempts 2 factor authentication</td>
</tr>
<tr>
<td>Finding passwords which have been stored insecurely, such as handwritten on paper and hidden close to a device</td>
<td>Removal of requirement to change passwords, unless compromised. Single password for Network ID and secondary systems. Single Sign On. 2 Factor Authentication</td>
</tr>
<tr>
<td>Compromising databases containing large numbers of user passwords, then using this information to attack other systems where users have</td>
<td>Passwords are not stored in plain text, in that they are hashed, a type of encryption that cannot be reversed, where possible a ‘salt’ is applied before the hash, which</td>
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NCSC extract

Changing passwords

Most administrators will force users to change their password at regular intervals, typically every 30, 60 or 90 days. This imposes burdens on the user (who is likely to choose new passwords that are only minor variations of the old) and carries no real benefits as stolen passwords are generally exploited immediately. Long-term illicit use of compromised passwords is better combated by:

- monitoring logins to detect unusual use
- notifying users with details of attempted logins, successful or unsuccessful; they should report any for which they were not responsible

Regular password changing harms rather than improves security, so avoid placing this burden on users. However, users must change their passwords on indication or suspicion of compromise.

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Summary of main issues

1. The only grant claim which a council’s appointed auditors were required to audit for 2017/18 was the Housing Benefit Subsidy claim. Their report on this audit is attached, and represents the final report from KPMG in their capacity as the council’s appointed auditors.

2. KPMG’s audit of the Housing Benefit Subsidy claim identified a number of minor errors, as a result of which KPMG have qualified the claim. This is in line with the outcome in previous years.

3. There are also a number of minor grants each year for which the council is required by the awarding body to arrange for an external audit. All such grant claims during the year have been certified without adjustment.

Recommendations

4. Members are asked to receive KPMG’s Certification of Grant Claims and Returns report and to note the conclusions arising from their 2017/18 audit work.
1 Purpose of this report

1.1 To inform members on the outcomes of the work of auditors in respect of the certification of grant claims in 2017/18.

2 Background information

2.1 Each year the Government determines which grant claims require audit certification by a council’s appointed auditors. For 2017/18, the only such grant claim was the Housing Benefit Subsidy claim.

2.2 In addition the Council is required to arrange independent audits of a number of grants requested directly by the granting body. Audit firms are invited to tender for this work on a grant-by-grant basis.

3 Main issues

3.1 The attached report highlights the audit issues identified by KPMG in respect of the 2017/18 Housing Benefit Subsidy grant claim.

3.2 As has been the case in previous years, KPMG have qualified the Housing Benefit Subsidy claim due to minor errors. There was a nil net impact on the value of the claim as a result. KPMG have made no new recommendations as a result of their audit, but have commented that the Council should continue its current approach of providing training to staff and undertaking quality checks in order to minimise the risk of errors.

3.3 In addition to the above, during 2017/18 the Council invited tenders for the audit of a number of other grants not covered by the appointed auditor role. To date, all such completed audits have been certified without adjustment.

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 Members are asked to note the KPMG audit fee of £15.9k for certification of grants and returns for the financial year 2017/18.

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 In line with KPMG’s comments, the Benefits Service will continue to provide training to staff and to undertake quality checks in order to minimise the risk of errors.

5 Conclusions

5.1 All grant claims and returns have been successfully completed and the final approved claims submitted to the relevant granting organisation.

5.2 KPMG’s audit work identified a number of minor errors in the Housing Benefit Subsidy claim which required qualification and amendment.

6 Recommendations

6.1 Members are asked to receive KPMG’s report on the Certification of Grant Claims and Returns and to note the conclusions arising from their audit work.

7 Background documents

7.1 None.

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1 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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Dear Doug

Leeds City Council - Certification of Claims and Returns - Annual Report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £253.8 million and we completed our work and certified the claim on 29 November 2018.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.
We identified a number of issues in 2017/18 that have been communicated through a qualification letter submitted to the Department for Work and Pensions. These related to:

- The incorrect calculation of a claimant’s income on HRA Rent Rebate cases. Testing of our initial sample identified one case where benefit had been overpaid as a result of the authority incorrectly calculating the claimant’s income assessment. Testing of an additional sample of 40 cases from a sub-population of HRA Rent Rebate cases with income assessments identified a further three errors as a result of incorrect income assessments. Of these additional errors, two resulted in an underpayment of benefit and one had no impact on the benefit awarded. The extrapolated result reported for the unadjusted error was a potential overstatement of benefit of £46 (in Cell 061) and a corresponding understatement of the overpayment cell 065; and

- The incorrect calculation of a claimant’s income on Rent Allowance cases. Testing of our initial sample identified one case where the claimant’s income assessment had been incorrectly calculated. Although there was no impact on the award of benefit, an additional sample of 40 cases was selected for testing from a sub-population of Rent Allowance cases with income assessments, as the cause of the initial error could have resulted in an overpayment of benefit. Testing of the additional sample identified a further 2 cases where benefit had been overpaid as a result of incorrect income assessments. The extrapolated result reported for the unadjusted error was a potential overstatement of benefit of £36,709 (in Cell 102) and £198 (in Cell 103) with a corresponding understatement of the overpayment cell 113.

We also reported a number of observations within our qualification letter which did not result in extrapolated unadjusted errors. These related to:

- Two cases where an underpayment of benefit was identified within the initial sample of Rent Allowance cases. These were as a result of the incorrect deductions to a claimant’s self-employed earnings in one case and the incorrect inclusion of a partner’s carer’s allowance. As these identified errors would always result in an underpayment of benefit and because there is no entitlement to subsidy for benefit which has not been paid, these were not classified as errors for subsidy purposes and no additional testing was undertaken;

- The misclassification of tenure type for one case where a Housing Association case had been incorrectly included within the Non-HRA Rent Rebate Cells. This misclassification was between cells on the claim form attracting the same subsidy rate and therefore there is no impact on the claim; and
- Errors identified through the testing undertaken by the Authority to address an issue identified in the previous year where incorrect assessment figures were applied on housing benefit cases with two homes. In testing the current year impact of this issue, the Authority identified three cases where the incorrect assessment figure resulted in an underpayment of benefit and six cases where this resulted in an overpayment of benefit. As the Authority have corrected the cases in the benefit system in 2018-19, no amendments were made to the 2017-18 claim for the results of the identified population.

In 2017/18, we have made no recommendations to the Council to improve its claims completion process. The Council should however continue to deliver training to staff and undertake quality checks to minimise the number of errors within the claim.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £15,923. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee for this claim of £17,721.

Yours sincerely

Tim Cutler
Partner, KPMG LLP
This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.
Summary of main issues

1. In order to discharge their statutory duties, Grant Thornton issue an annual audit plan which covers the Council’s accounts and the process for assessing its arrangements to secure value for money in the use of resources. The attached report from Grant Thornton represents their audit plan for 2018/19, covering their audit approach, the timing of audit work, and the significant audit risks identified to date.

Recommendations

2. Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of the audit plan presented by Grant Thornton.
1 Purpose of this report

1.1 To inform members of Grant Thornton’s audit plan for the audit of the Council’s accounts and value for money arrangements. The attached report from Grant Thornton highlights the risk based approach to the audit and the main risks they have identified for 2018/19.

2 Background information

2.2 Grant Thornton’s statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office’s Code of Audit Practice. As the Council’s external auditors, Grant Thornton are required to satisfy themselves that the Council’s accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

3 Main issues

3.1 Grant Thornton’s audit has two key objectives, to give an opinion on the council’s financial statements (including the annual governance statement), and to review and report on the council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Their audit plan sets out their approach to this work and the planned timing of their reporting to the council during the year.

3.2 In relation to their audit of the council’s statement of accounts, Grant Thornton have identified two areas where there is a significant risk of material misstatement due to the scale of the assets and liabilities involved – the valuation of property, plant and equipment and the valuation of pension liabilities and assets.

3.3 In relation to their audit of the council’s arrangements for securing value for money, Grant Thornton have identified the key risks as being the council’s overall financial standing given the continuing significant pressures which it faces, and the potential for Brexit to impact on the council.

3.4 The audit plan confirms that Grant Thornton’s proposed audit fee for 2018/19 is £179k.

4 Corporate Considerations

4.1 Consultation and Engagement

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

4.2 Equality and Diversity / Cohesion and Integration

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

4.3 Council policies and Best Council Plan
4.3.1 Under the Committee’s terms of reference members are required to agree the nature and scope of the external audit plan.

4.4 Resources and value for money

4.4.1 The audit plan outlines the areas which Grant Thornton will review in assessing whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 In their audit plan Grant Thornton outline how they propose to discharge their responsibilities as defined by in the Local Audit and Accountability Act 2014 and the National Audit Office’s Code of Audit Practice.

4.5.3 As this is a factual report 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 The report identifies the key risks which Grant Thornton have identified in their audit planning process so far.

5 Conclusions

5.1 Grant Thornton have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council’s 2018/19 accounts and for assessing the Council’s arrangements for securing value for money. They have also identified what they see as the main risks.

6 Recommendations

6.1 Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of Grant Thornton’s external audit plan.

7 Background documents

7.1 None.

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1 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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Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose
This document provides an overview of the planned scope and timing of the statutory audit of Leeds City Council (‘the Authority’) for those charged with governance.

## Respective responsibilities
The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Leeds City Council. We draw your attention to both of these documents.

## Scope of our audit
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority’s financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit Committee)
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for.

Our audit approach is based on a thorough understanding of the Authority’s business and is risk based.

## Significant risks
Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Property, Plant and Equipment valuation (including the Council’s 13 PFI schemes in the first year of audit)
- Pension fund net liability valuation.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report in July 2019.

## Materiality
We have determined planning materiality to be £24,011k (PY £25,000k) for the Authority, which equates to 1.3% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £720k (PY £750k).

## Value for Money arrangements
Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial standing – the Authority as other authorities, continues to operate under significant financial pressures. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £34m whilst managing cost pressures within Children’s Services and Adult Social Care at a time of reduced funding
- Brexit - the UK is due to leave the European Union on 29 March 2019. There will be national and local implications resulting from Brexit that will impact on Leeds City Council, which the Authority will need to plan for.

## Audit logistics
Our interim visit will take place in February and March and our final visit will take place in June and July 2019. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £178,604 (PY: £231,953) for the Authority, subject to the Authority meeting our requirements set out on page 12.

## Independence
We have complied with the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
## 2. Key matters impacting our audit

<table>
<thead>
<tr>
<th>External Factors</th>
<th>Changes to the CIPFA 2018-19 Accounting Code</th>
<th>Internal Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The wider economy and political uncertainty</strong></td>
<td>The most significant changes relate to the adoption of:</td>
<td><strong>Local issues – valuation of the Authority’s property assets</strong></td>
</tr>
<tr>
<td>Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Leeds City Council delivered an underspend in 2017-18 of £6.9m, transferring £5.5m to the General Fund at the year end. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £34m whilst continuing to manage cost pressures within Children’s Services and Adult Social Care. The Financial Monitoring Report presented to Executive Board in December 2018 to Month 7 (October 2018), indicates the majority of savings plans are on track to be delivered although the report highlights overspends of £3.55m which need to be addressed to deliver a balanced outturn position at the year end.</td>
<td>The Council is changing its valuation date for property assets from 1 April, the start of the financial year, to 30 September, part way through the year. This change follows an audit adjustment of £101m to the 2017-18 accounts.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.</td>
<td>The Headingley Stadium development is on-going. The Council is taking the head lease and agreeing sub leases to the rugby and cricket clubs based at the stadium.</td>
</tr>
<tr>
<td></td>
<td>• IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.</td>
<td></td>
</tr>
</tbody>
</table>

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will continue to meet with senior managers and consider the Authority’s financial position and delivery of the £34m savings programme.
- We will keep you informed of changes to the financial reporting requirements for 2018-19 through on-going discussions and invitations for your finance team to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018-19 CIPFA Code.
- We have identified Property, Plant and Equipment as a significant risk for our 2018-19 audit. As part of our work in this area, we will consider the arrangements management has used to ensure the valuation as at 30 September 2018, remains materially appropriate at 31 March 2019.
- Our work looking at the development arrangements for Headingley Stadium will consider how the Authority has managed the risks associated with the use of a head lease. In addition, we will consider any associated accounting issues for 2018/19 and beyond.
## 3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reason for risk identification</th>
<th>Key aspects of our proposed response to the risk</th>
</tr>
</thead>
</table>
| The revenue cycle includes fraudulent transactions | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.  
Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:  
  - there is little incentive to manipulate revenue recognition  
  - opportunities to manipulate revenue recognition are very limited  
  - the culture and ethical frameworks of local authorities, including Leeds City Council, mean that all forms of fraud are seen as unacceptable  
Therefore we do not consider this to be a significant risk for the Authority. | As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income. |
| Management over-ride of controls | Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.  
We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We will:  
  - evaluate the design effectiveness of management controls over journals  
  - analyse the journals listing and determine the criteria for selecting high risk unusual journals  
  - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroborator evidence  
  - gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence  
  - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |
## Significant risks identified continued

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reason for risk identification</th>
<th>Key aspects of our proposed response to the risk</th>
</tr>
</thead>
</table>
| Valuation of land and buildings (rolling revaluation) including the Council’s 13 PFI schemes in the first year of audit | The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.3 billion) and the sensitivity of this estimate to changes in key assumptions.  
Additionally, management will need to ensure the carrying value in the Authority’s financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.  
We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We will:  
• evaluate management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work  
• evaluate the competence, capabilities and objectivity of the valuation expert  
• discuss with the valuer the basis on which the valuation was carried out  
• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding  
• test revaluations made during the year to see if they had been input correctly into the Authority’s asset register  
• consider how management have confirmed assets valued at 30 September 2018 have not significantly changed in value by the year end, 31 March 2019  
• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end  
• review the Authority’s 13 PFI schemes to consider the appropriateness of the accounting entries  
• consider management’s assessment of property values in the light of Britain leaving the European Union on 29th March 2019. |
## Significant risks identified continued

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reason for risk identification</th>
<th>Key aspects of our proposed response to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of the pension fund net liability</td>
<td>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.3 billion in the Authority’s prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority’s pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</td>
<td>We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary’s work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements • assess the related impact of Britain leaving the European Union on 29 March 2019.</td>
</tr>
</tbody>
</table>

We will communicate our findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA260) Report in July 2019.
4. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.

- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018-19 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act
  - Issuing an advisory notice under Section 29 of the Act.

- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.
5. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year the same benchmark was used. Materiality at the planning stage of our audit is £24,011k (PY £25,000k) for the Authority, which equates to 1.3% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £5,000 for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £720k (PY £750k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.
6. Value for Money arrangements

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

**Significant VFM risks**

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

**Financial standing**

Leeds City Council as other authorities, continues to operate under significant financial pressures. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £34m whilst managing cost pressures within Children’s Services and Adult Social Care at a time of reduced funding. The Financial Monitoring Report presented to Executive Board in December 2018 to Month 7 (October 2018), indicates the majority of savings plans are on track to be delivered although the report highlights overspends of £3.55m which need to be addressed to deliver a balanced outturn position at the year end.

For 2019-20, the initial budget proposals presented to Executive Board (December 2018) indicate a Council Tax increase of 2.99% and a further 1.0% for Adult Social Care, with in year savings required of some £24.4m.

We will continue to monitor the Authority’s financial position through regular meetings with senior management and consider how the Authority manages overspends within both Children’s and Adult Social Services. We will continue to assess progress in the identification and delivery of the £34m savings required and plans in place to identify cost improvements into 2019/20 and beyond.

**Brexit**

The UK is due to leave the European Union on 29 March 2019. There will be national and local implications resulting from Brexit that will impact on the Authority, which the Authority will need to plan for.

We will consider the Authority’s arrangements and plans to mitigate any risks on Brexit. We will consider areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council’s assets.
7. Audit logistics, team & fees

Audit fees
The planned audit fees are £178,604 (PY: £231,953) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements
To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.
8. Early close

Meeting the 31 July audit timeframe

The statutory date for publication of audited local government accounts last year was brought forward to 31 July 2018, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Regular liaison

We consider it important to meet on a regular basis to understand the Council’s plans and developments, as well as any emerging issues which may impact on the financial statements and our audit work. To this end, we have held a number of meetings with the Chief Executive and Chief Officers since July 2018. We have also held meetings with senior finance managers on a number of occasions to consider the approach to the 2018/19 audit, specific issues, including for example, accounting for the lease at Merrion House, as well as early planning to ensure the audit process runs smoothly. We will continue to meet on a regular basis throughout the audit process.

Client and audit responsibilities

To meet the earlier timetable, we will work together with you so that you are able to:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we will share with you
- ensure that agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

We will also ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.
9. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services other than the statutory audit were identified. A summary of our previous engagements with the Authority are provided overleaf on page 14.
Independence & non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the Authority prior to our appointment as auditor on 1 April 2018.

<table>
<thead>
<tr>
<th>Service</th>
<th>Date of service</th>
<th>Fees £</th>
<th>Would the service have been prohibited if we had been auditor?</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of joint venture property transaction – Merrion House</td>
<td>December 2017</td>
<td>20,263</td>
<td>Y</td>
<td>Review of proposed property transaction, including a review of PWLB reference rates. No threats identified.</td>
</tr>
<tr>
<td>Advice in connection with the redevelopment of the North/South stand at Headingley Stadium</td>
<td>June 2017</td>
<td>125,040</td>
<td>Y</td>
<td>Self review and management threat considered immaterial to both the accounts and VFM work. The work mainly provided a review of funding arrangements and commentary on areas of concern, operational business plans and associated financial modelling, and credit ratings.</td>
</tr>
<tr>
<td>Financial advice on the delivery of a Telecommunications Network Services contract</td>
<td>September 2017</td>
<td>18,019</td>
<td>Y</td>
<td>Self review and management threat considered immaterial to both the accounts and VFM work. The work only provided a review of alternative delivery options and no advice.</td>
</tr>
<tr>
<td>CFO Insights</td>
<td>February 2018</td>
<td>12,500</td>
<td>N</td>
<td>This is an online software services that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton &amp; CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities. It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.</td>
</tr>
</tbody>
</table>

We do not believe that the previous services detailed above will impact our independence as auditors.
Appendix A: Audit approach

Use of audit, data interrogation and analytics software

IDEA
- We use one of the world’s leading data interrogation software tools, called ‘IDEA’ which integrates the latest data analytics techniques into our audit approach.
- We have used IDEA since its inception in the 1980’s and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group.
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server.
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively.

LEAP
Audit software
- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency.
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients’ businesses.
- A cloud-based industry-leading audit tool developed in partnership with Microsoft.

Appian
- Business process management.
  - Clear timeline for account review:
    - disclosure dealing
    - analytical review
  - Simple version control
  - Allow content team to identify potential risk areas for auditors to focus on.

Inflo
Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.
Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council’s corporate governance arrangements. Reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended. This report provides a summary of the Internal Audit activity for the period from November to December 2018 and highlights the incidence of any significant control failings or weaknesses.

2. The detailed proposals for the Audit Plan for 2019/20 will be presented to the Corporate Governance and Audit Committee at the meeting in March 2019.

Recommendations

3. The Corporate Governance and Audit Committee is asked 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. 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.

4. Members are invited to provide any suggestions on the coverage of the Audit Plan for 2019/20 arising from the work of this Committee. These will be incorporated into the audit planning process.
1 Purpose of this report

1.1 The purpose of this report is to provide a summary of the Internal Audit activity for the period November to December 2018 and highlight the incidence of any significant control failings or weaknesses.

2 Background information

2.1 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. The reports issued by Internal Audit are a key source of assurance providing the Committee with some evidence that the internal control environment is operating as intended.

2.2 The reports issued by Internal Audit are directed by the Internal Audit Annual Plan. This has been developed in line with the Public Sector Internal Audit Standards (PSIAS) and has been reviewed and approved by the Committee.

2.3 The Corporate Governance and Audit Committee considers the council’s arrangements relating to internal audit requirements, including monitoring the performance of Internal Audit.

2.4 This update report provides a summary of the Internal Audit activity for the period from November to December 2018.

3 Main issues

3.1 Audit Reports Issued

3.1.1 The title of the audit reports issued during the reporting period and level of assurance provided for each review is detailed in table 1. Depending on the type of audit review undertaken, an assurance opinion 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 provides assurance on the extent to which the controls are being complied with. Assurance opinion levels for the control environment and compliance are categorised as follows: substantial (highest level); good; acceptable; limited and no assurance.

3.1.2 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.
## Table 1: Summary of Reports Issued November to December 2018

<table>
<thead>
<tr>
<th>Report Title</th>
<th>Audit Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Control Environment Assurance</td>
</tr>
<tr>
<td><strong>Key Financial Systems</strong></td>
<td></td>
</tr>
<tr>
<td>Income Management System(^1)</td>
<td>Substantial</td>
</tr>
<tr>
<td><strong>Communities and Environment</strong></td>
<td></td>
</tr>
<tr>
<td>Leeds Carnival and Black Music Festival Event Management Arrangements</td>
<td>Acceptable</td>
</tr>
<tr>
<td>Electoral Roll</td>
<td>Good</td>
</tr>
<tr>
<td><strong>Resources and Housing</strong></td>
<td></td>
</tr>
<tr>
<td>Homelessness and Temporary Accommodation (Homelessness Reduction Act 2017)</td>
<td>Good</td>
</tr>
<tr>
<td>Private Sector Legislation – Homes of Multiple Occupancy</td>
<td>Acceptable(^2)</td>
</tr>
<tr>
<td><strong>Procurement and Contracts</strong></td>
<td></td>
</tr>
<tr>
<td>Waivers of Contract Procedure Rules</td>
<td>Acceptable(^3)</td>
</tr>
<tr>
<td>Nursing and Residential Care Framework Contract</td>
<td>Substantial</td>
</tr>
<tr>
<td><strong>ICT and Information Governance</strong></td>
<td></td>
</tr>
<tr>
<td>Externally Hosted Software</td>
<td>Acceptable</td>
</tr>
<tr>
<td><strong>Schools</strong></td>
<td></td>
</tr>
<tr>
<td>School voluntary fund</td>
<td>Certification of balances</td>
</tr>
</tbody>
</table>

---

1. The scope of the audit included relevant Business Application objectives
2. Although acceptable assurance was provided for compliance with the control environment, limited assurance was given for one of the three objectives covered as part of the review. Further information is provided below at 3.2.9
3. Although acceptable assurance was provided for the control environment, limited assurance was given for one of the three objectives covered as part of the review. Further information is provided below at 3.2.6
3.1.3 In addition to the reports detailed in table 1 above, the following assurance has been finalised during the reporting period:

- Disabled Facilities Grant Claim

3.2 Summary of Audit Activity and Key Issues

3.2.1 During the reporting period, there have been no limitations in scope and nothing has arisen to compromise our independence. We have finalised 12 audit reviews (excluding data analytics, work for external clients and fraud and irregularity work) and we have not identified any issues that would necessitate direct intervention by the Corporate Governance and Audit Committee.

3.2.2 Having identified some pressures in the Leeds Carnival and Black Music Festival event management arrangements, the Director of Communities and Environment engaged the assistance of Internal Audit. Our initial audit work substantiated a number of areas for improvement that were recognised within the service, and this culminated in the audit findings being reported to the Corporate Leadership Team in May 2018. Additional measures and actions were subsequently agreed and put in place ahead of the carnival taking place over the 2018 August Bank Holiday weekend. We have since refreshed the audit work to reflect on this year’s event and to reaffirm the actions required to further strengthen the event planning and management arrangements going forward.

3.2.3 Acceptable assurance has been provided for the control environment as it is clear that steps have been taken to determine the level of resource required to manage the planning and delivery of the event. An established governance structure is in place that is designed to encourage key planning tasks to be completed at a stage that builds in review, challenge and relevant stakeholder engagement through a Safety Advisory Group (SAG). Recommendations have been agreed that are primarily geared towards timetabling and organising all of the event planning tasks in accordance with the timescales set out by the SAG, and thus enabling all of the necessary actions to be agreed and assigned well in advance of the event. The audit findings have been fed back to a number of key stakeholders and our recommendations are already being taken forward within the relevant service areas. Continued progress against the actions highlighted within our report will
help to ensure that the council is taking the necessary steps to mitigate the risk of a preventable incident impacting on the safe delivery of the event.

Limited or No Assurance Opinions

3.2.4 Of the audit reviews finalised during the period, no weaknesses have been identified that would result in a ‘major’ organisational impact.

3.2.5 No audits have resulted in a limited or no assurance opinion overall, however the following two audits resulted in a limited assurance opinion for part of the audit coverage.

Waivers of Contract Procedure Rules

3.2.6 An overall opinion of acceptable assurance has been provided for our review of waivers of Contract Procedure Rules (CPRs). There are provisions within CPRs that allow for exceptional circumstances in which certain requirements of the rules may be waived when undertaking procurements and any decision to waive CPRs is ultimately taken at directorate level by officers with appropriate delegated authority. CPRs outline a high level summary of the controls that must be adhered to in respect of documentation and authorisation when completing a waiver, and this provides assurance that the associated requirements are set out within the council’s formal policy framework.

3.2.7 It is important to ensure that decisions to waive CPRs are supported by a sufficient level of information to confirm that the financial, legal and transparency implications have been duly considered and addressed. In reviewing a sample of waivers we found that there were some inconsistencies in the quality of information included within waiver reports, therefore Procurement and Commercial Services (PACS) have agreed to review and refresh the guidance available. A key recommendation arising from our audit work is also the promotion of greater engagement between PACS and directorates ahead of the stage at which a decision is taken to waive CPRs. By formalising a requirement for directorates to consult with PACS prior to submitting a waiver report for decision, this should enable PACS to impart relevant expertise and influence during the procurement process and will help to minimise the prospect of waivers being completed where an alternative course of action could have offered better value for money or regulatory compliance.

3.2.8 Whilst the evidence reviewed in our audit suggests that it is a minority of waivers that are being completed because insufficient time has been allowed to plan and undertake a full procurement process, it is particularly important that any such circumstances are identified and addressed from the perspective of learning and continuous improvement. We identified a gap in the extent to which waivers are reviewed and analysed to enable lessons to be learned and fed back into the procurement process, leading to an opinion of limited assurance for the controls in this specific area. Reinforcing PACS’ oversight of waivers will ensure there is a greater level of awareness centrally around the volume of waivers being processed and the reasons for doing so. The intelligence gathered through this process can then be used to continually inform strategic procurement planning and support the council’s ambition to be an efficient and enterprising organisation.
PACS have agreed our recommendation to ensure that the register of waivers is routinely shared with Category Managers and used to identify opportunities to improve procurement practices across the authority.

_Private Sector Legislation – Homes of Multiple Occupancy_

**3.2.9** A house in multiple occupation (HMO) is a property rented out by at least three people who are not from one 'household' but share facilities like the bathroom and kitchen. A licence is required if a large HMO in England or Wales is rented out, and central government places the onus on local authorities to administer this process and to inspect HMOs to ensure that certain minimum standards are being met. The extra rules are there to reduce the risk of fire and to make sure that people living in shared houses or flats have adequate facilities.

**3.2.10** The review resulted in a good assurance opinion being provided for the arrangements in place to issue licenses and for the proactive measures in place to identify properties which are operating without a license. However weaknesses were identified in the inspections process which has led to a limited opinion being given relating to the compliance with the controls for this objective. We found there was a backlog in inspections being completed and accurate records were not being kept to justify where inspections were not required. Recommendations have been agreed with the service to review their inspections process, including a review of outstanding inspections to ensure that properties which are identified as being high risk can be prioritised and improvements in the case management and recording of inspections going forwards.

_Follow Up Reviews_

**3.2.11** Our protocols specify that we undertake a follow up review where we have previously reported 'limited' or 'no' assurance for the audited area. Our audit reports include an assurance opinion for each objective reviewed within the audited area. Follow up audits are undertaken for those areas where a specific objective within the review resulted in limited or no assurance in addition to those where the limited or no assurance opinion was provided for the review overall.

**3.2.12** We have finalised one follow up review during the reporting period:

*Children’s and Families Direct Payments Follow Up*

**3.2.13** Direct payments are given to parents/carers or young people to enable them to purchase support which has been assessed as being needed. They may also be used to enable people with parental responsibility for a disabled child to pay for short breaks. We have previously reported that limited assurance has been provided in relation to compliance due to the number of errors identified in the accuracy of some payments made. We undertook a follow up review in 2017/18 which found that progress had been made in the improvement of the control environment but as the processes were not fully embedded we could not provide an updated opinion in relation to compliance. We have now completed a further follow up review and have provided an increased level of assurance to reflect the improvements in the accuracy of payments made.
Counter Fraud and Corruption

3.2.14 The counter fraud and corruption assurance block within the Internal Audit Plan includes both the reactive and proactive approaches to the council’s zero tolerance to fraud and corruption.

Proactive Anti-Fraud Work

3.2.15 During International Fraud Awareness week in November we promoted the counter fraud and corruption training package that is now available on the council’s Performance and Learning (PAL) platform. We also took the opportunity to raise awareness of the council’s Anti-Fraud and Corruption Policies by promoting an internal news item on InSite and providing advice on related matters at information stands at council buildings across Leeds. During the week we held discussions with over 200 members of staff and councillors, and we will follow up the requests for additional information and presentations at team meetings to further develop the council’s zero tolerance approach to fraud and corruption.

Reactive Anti-Fraud Work

3.2.16 During the reporting period we have received 7 potential irregularity referrals. Of these, 5 were classified under the remit of the Whistleblowing or Raising Concerns policies. All reported irregularities were risk assessed by Internal Audit and are either being investigated by ourselves, the relevant directorate or HR colleagues, as appropriate.

3.2.17 During the reporting period 12 referrals have been closed. There are 10 referrals that are currently open and being investigated.

Internal Audit Performance

3.2.18 We actively monitor our performance in a number of areas and encourage feedback. A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditee’s opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The results are presented as an average of the scores received for each question.

3.2.19 The results of the questionnaires are reported to the Audit Leadership Team and used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.

3.2.20 For the period from 1 April 2018 to 31 December 2018, 25 Customer Satisfaction Questionnaires were received. A summary of the scores is presented in table 2.

Table 2: Results from Customer Satisfaction Questionnaires for the period 1 April to 31 December 2018

<table>
<thead>
<tr>
<th>Question</th>
<th>Average Score (out of 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient notice was given</td>
<td>4.83</td>
</tr>
</tbody>
</table>
### Question & Average Score (out of 5)

<table>
<thead>
<tr>
<th>Question</th>
<th>Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of consultation on scope</td>
<td>4.78</td>
</tr>
<tr>
<td>Auditor’s understanding of systems</td>
<td>4.44</td>
</tr>
<tr>
<td>Audit was undertaken efficiently</td>
<td>4.75</td>
</tr>
<tr>
<td>Level of consultation during the audit</td>
<td>4.76</td>
</tr>
<tr>
<td>Audit carried out professionally and objectively</td>
<td>4.88</td>
</tr>
<tr>
<td>Accuracy of draft report</td>
<td>4.60</td>
</tr>
<tr>
<td>Opportunity to comment on audit findings</td>
<td>4.80</td>
</tr>
<tr>
<td>Clarity and conciseness of final report</td>
<td>4.68</td>
</tr>
<tr>
<td>Prompt issue of final report</td>
<td>4.36</td>
</tr>
<tr>
<td>Audit recommendations will improve control</td>
<td>4.52</td>
</tr>
<tr>
<td>The audit was constructive and added value</td>
<td>4.68</td>
</tr>
<tr>
<td>Overall Average Score</td>
<td><strong>4.67</strong></td>
</tr>
</tbody>
</table>

#### 3.2.21
As reported previously, overall resources for 2018/19 are now less than was anticipated when the audit plan was set. We are actively managing resources to direct these towards the areas of highest risk to ensure that an evidence-based Head of Internal Audit opinion can be provided on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control in accordance with the Public Sector Internal Audit Standards (PSIAS).

#### 3.2.22
Table 3 below provides an indication of progress against the Internal Audit Plan and demonstrates that we are on track to deliver the coverage necessary to provide the Head of Internal Audit Report and Opinion at the Corporate Governance and Audit Committee meeting in July 2019. The number of audits planned and delivered during the year will increase as the blocks of time allocated for areas of work (such as contract reviews and schools) are broken down to specific audit assignments and to address emerging issues through the use of contingency time. The table does not include fraud and irregularity work or advice issued to managers arising from adhoc requests for audit support.

**Table 3: Audit Plan Progress**

<table>
<thead>
<tr>
<th>Number of individual audit assignments</th>
<th>Planned</th>
<th>In progress</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan 2018/19 and brought forward jobs from 2017/18</td>
<td>27</td>
<td>19</td>
<td>46</td>
</tr>
<tr>
<td>Follow up audits</td>
<td>13</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>
3.2.23 The Internal Audit Plan for 2018/19 was approved by the Committee at the meeting in March 2018. A summarised version of the Audit Plan and the progress against each review is appended to this report. For completed audits, the Corporate Governance and Audit Committee meeting that considered the relevant Internal Audit Update Report has been referenced.

Audit Plan for 2019/20

3.2.24 Initial work has started on developing the Annual Audit Plan for 2019/20. The Head of Audit must provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. To support this, we must develop and deliver a risk based plan which takes into account the organisation’s risk management framework and includes an appropriate and comprehensive range of work.

3.2.25 To develop this plan, there must be a sound understanding of the risks facing the council. The Corporate Risk Register will be used as a key source of information and the planning process for 2019/20 will again necessitate a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders, including the Corporate Governance and Audit Committee, an appropriate level of assurance on the control environment of the council.

3.2.26 The detailed proposals for the Audit Plan for 2019/20 will be presented to the meeting of the Corporate Governance and Audit Committee in March 2019.

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 of 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 with the council’s strategic objectives and has close links with the council’s value of spending money wisely.

4.4 Resources and value for money

4.4.1 The Internal Audit Plan includes a number of reviews that evaluate the effectiveness of financial governance, risk management and internal control arrangements that contribute towards the council’s value of spending money wisely.
4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates a commitment to continuous improvement in respect of efficiency and effectiveness.

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 and will continue to be 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.

4.6.2 The risks relating to the achievement of the Internal Audit Plan are managed through ongoing monitoring of performance and resource levels. This information is reported to the Committee.

5 Conclusions

5.1 There are no issues identified by Internal Audit in the November to December 2018 Internal Audit Update Report that would necessitate direct intervention by the Corporate Governance and Audit Committee.

6 Recommendations

6.1 The Corporate Governance and Audit Committee is asked 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. 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.

6.2 Members are invited to provide any suggestions on the coverage of the Audit Plan for 2019/20 arising from the work of this Committee. These will be incorporated into the audit planning process.

7 Background documents

7.1 None.
### Appendix A – Status of Planned Audits from the 2018/19 Audit Plan and Follow Up Reviews

<table>
<thead>
<tr>
<th>Audit Area</th>
<th>Overview of Assurance</th>
<th>Status / CGAC Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grants and Head of Audit Assurances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and Head of Audit Assurances arising during the year</td>
<td>Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.</td>
<td>Reported November 2018, January 2019 and ongoing</td>
</tr>
<tr>
<td><strong>ICT and Information Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Data Protection Regulation (GDPR)</td>
<td>To gain assurance that appropriate arrangements are in place to manage the risks associated with the new legal framework for data protection.</td>
<td>Reported November 2018 and ongoing</td>
</tr>
<tr>
<td>Acceptable Use Proactive Monitoring Framework</td>
<td>With reference to the Corporate Governance and Audit Committee meeting in September 2017, the audit will review the framework in place to monitor the use of LCC ICT equipment in line with the council’s Acceptable Use Policy and test a sample of LCC owned devices.</td>
<td>Reported November 2018</td>
</tr>
<tr>
<td>ICT Projects - Benefits Realisation Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.</td>
<td>In progress</td>
</tr>
<tr>
<td>Password Configuration</td>
<td>Deferred from 2017/18 pending the implementation of a new council Password Policy, the audit will test whether systems enforce the password requirements in line with the new policy.</td>
<td>In progress</td>
</tr>
<tr>
<td>ICT Projects</td>
<td>Time reserved to provide internal audit support for ICT related projects.</td>
<td>Reported November 2018</td>
</tr>
<tr>
<td>Externally Hosted Software</td>
<td>To provide assurance that there are adequate contractual arrangements in place where software is hosted by an external supplier.</td>
<td>Reported January 2019</td>
</tr>
<tr>
<td>Essential Services Programme</td>
<td>To provide assurance over the processes in place to develop and monitor the essential</td>
<td>Planned</td>
</tr>
<tr>
<td>Audit Area</td>
<td>Overview of Assurance</td>
<td>Status / CGAC Meeting</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>services programme.</td>
<td></td>
</tr>
<tr>
<td>Management of the Cyber Incident Risk</td>
<td>To review how the Cyber Incident risk is being managed, including the effectiveness of the controls in place, back up processes and the assurance reporting arrangements.</td>
<td>Planned</td>
</tr>
<tr>
<td>Business Applications</td>
<td>Individual reviews of a sample of key computer applications, including system access and administration, input, processing and output controls.</td>
<td>Reported January 2019 and ongoing.</td>
</tr>
<tr>
<td>Leeds Building Services – Information Governance (Records Management) Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting.</td>
<td>Planned</td>
</tr>
</tbody>
</table>

### Key Financial Systems

<table>
<thead>
<tr>
<th>Overview of Assurance</th>
<th>Status / CGAC Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits Reconciliations</td>
<td>A review of the reconciliation processes between Orchard, Academy and FMS for Housing Benefit and Council Tax Support.</td>
</tr>
<tr>
<td>Benefits: Assessment and Payments</td>
<td>To gain assurance over the processes and performance within the Benefits Assessment Unit, including ensuring that Housing Benefit and Council Tax Support payments are accurately processed and paid.</td>
</tr>
<tr>
<td>Council Tax</td>
<td>To gain assurance over the council tax processes for billing, income collection, recovery action, refunds and write offs.</td>
</tr>
<tr>
<td>Business Rates</td>
<td>To gain assurance over the business rates processes for billing, income collection, recovery action, refunds and write offs.</td>
</tr>
<tr>
<td>Capital Programme Central Controls</td>
<td>To gain assurance that expenditure in the capital programme is appropriately approved, controlled and monitored and that the accounting system provides accurate and timely information.</td>
</tr>
<tr>
<td>Financial Management Central Controls</td>
<td>To provide assurance over the central budget setting and budget monitoring arrangements.</td>
</tr>
<tr>
<td>Treasury Management and Bankline</td>
<td>To provide assurance that treasury management transactions are authorised, correct,</td>
</tr>
<tr>
<td>Audit Area</td>
<td>Overview of Assurance</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Housing Rents</td>
<td>To gain assurance over the housing rents processes for charging, income collection, amendments and write offs.</td>
</tr>
<tr>
<td>Sundry Income Central Controls</td>
<td>To provide assurance over the central management of income collection for sundry charges raised within the council, including recovery procedures and write offs.</td>
</tr>
<tr>
<td>Sundry Income Directorate Reviews</td>
<td>To provide assurance that all income is identified and requests for sundry income accounts are promptly and accurately raised for a sample of service areas.</td>
</tr>
<tr>
<td>Income Management System</td>
<td>To provide assurance over the systems that ensure all sources of income have been identified and accurately processed through the Income Management System.</td>
</tr>
<tr>
<td>Payroll Central Controls</td>
<td>To provide assurance over the integrity of central payroll functions, including the accuracy of payments made and the authorisation and processing of new starters and leavers.</td>
</tr>
<tr>
<td>FMS Creditor Purchase and Payment; Central and Directorate Processes</td>
<td>A review of the system through which orders are raised and payments are made to suppliers for goods and services.</td>
</tr>
<tr>
<td>Central Purchasing Card Controls</td>
<td>To provide assurance over the central purchasing card functions performed by the Central Payment Services Purchasing Card Management Unit.</td>
</tr>
<tr>
<td>Bank Reconciliation and Cash Book</td>
<td>The audit assesses the accuracy and timeliness of the reconciliations performed on the cashbook and the authority’s main accounts.</td>
</tr>
<tr>
<td>Total Repairs</td>
<td>To provide assurance that there are adequate systems in place to ensure that payments made through the Total Repairs system are made to the correct creditor for goods / services which have been provided to the council and that the payments are accurately recorded within the council’s accounting system.</td>
</tr>
</tbody>
</table>

**Procurement and Contracts**

<p>| Contract Specification and Management Follow Up | To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2017 meeting. | Reported November 2018 |</p>
<table>
<thead>
<tr>
<th>Audit Area</th>
<th>Overview of Assurance</th>
<th>Status / CGAC Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non and Off Contract Spend Follow Up</td>
<td>To review the root causes for non and off contract expenditure and the processes for identifying and addressing non-compliant spend.</td>
<td>In progress</td>
</tr>
<tr>
<td>Leeds Building Services Subcontractors Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2017 meeting.</td>
<td>Reported November 2018</td>
</tr>
<tr>
<td>Contract Review: Electricity Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.</td>
<td>Planned</td>
</tr>
<tr>
<td>Procurement Maturity Review</td>
<td>This audit will review organisational procurement arrangements against best practice, including the assessment and management of contracting risk.</td>
<td>Planned</td>
</tr>
<tr>
<td>Contract Management</td>
<td>Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating open book review where necessary.</td>
<td>Reported November 2018 and January 2019</td>
</tr>
<tr>
<td>Procurement Category Actions</td>
<td>To review the effectiveness of the Category Management process in supporting the delivery of strategic procurement objectives.</td>
<td>Planned</td>
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<tr>
<td>Waivers of Contract Procedure Rules (CPRs)</td>
<td>To review the governance arrangements in place for the approval and management of waivers of CPRs.</td>
<td>Reported January 2019</td>
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<tr>
<td>Contract Review: Joint Venture Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting</td>
<td>Planned</td>
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<tr>
<td>Contract Specification and Management Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.</td>
<td>Planned</td>
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<tr>
<td>Tendering System Controls</td>
<td>To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.</td>
<td>Planned</td>
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<tr>
<td>Waivers of Contract Procedure Rules</td>
<td>To review progress in implementing the recommendations made in the recent audit as</td>
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<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.</td>
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<tr>
<td>Deprivation of Liberties Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the March 2018 meeting.</td>
<td>In progress</td>
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<tr>
<td>Customer Information System (CIS) Payments</td>
<td>To provide assurance over the accuracy and legitimacy of direct payments and residential and nursing care payments made through CIS.</td>
<td>In progress</td>
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<td>Learning Disabilities Pooled Budget</td>
<td>To provide assurance over the governance arrangements in place for the pooled budget.</td>
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<td>Mental Capacity Act</td>
<td>A review of the controls in place that ensure the council is compliant with the requirements of the Mental Capacity Act.</td>
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<td>Safeguarding Clients Personal Assets</td>
<td>To provide assurance that there are appropriate arrangements in place to safeguard the assets of the service user where the authority acts as a Deputy or Receiver.</td>
<td>Reported November 2018</td>
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<tr>
<td>Unannounced Visits</td>
<td>Individual establishment visits to provide assurance on cash handing arrangements, including the safeguarding of service users monies.</td>
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<td>Income Review - Telecare</td>
<td>To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.</td>
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<tr>
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<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2017 meeting.</td>
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<tr>
<td>Direct Payments Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audit, reported above at 3.2.6.                                                                                                                                                                                                 cocoguernit</td>
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<tr>
<td>Governance Arrangements</td>
<td>To review the directorate’s governance arrangements around decision making, reporting and assurance.</td>
<td>In progress</td>
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<tr>
<td>OfSTED Inspections</td>
<td>To gain assurance that there are effective arrangements in place for self-evaluation and ensuring that any recommendations arising from OfSTED inspections are monitored and implemented.</td>
<td>Planned</td>
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<tr>
<td>Children Looked After Services</td>
<td>To gain assurance that there are effective arrangements in place to manage and monitor the safe reduction of the numbers of children looked after.</td>
<td>Planned</td>
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<td>To provide assurance over the efficiency and effectiveness of financial controls.</td>
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<td>Cluster Model and Area Inclusion Partnerships (AIP)</td>
<td>A review of the arrangements in place to ensure that funding is spent effectively on intervention and inclusion, in support of the intended outcomes of the Cluster Model and AIPs.</td>
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<td>To review progress in implementing the recommendations made in the previous audit, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.</td>
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<td>To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2016 meeting.</td>
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<td>Leeds Building Services Stores Follow Up</td>
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<td>A review of organisational financial management arrangements against best practice.</td>
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<td>To provide assurance that all external income is identified and collected.</td>
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<td>LCC Vehicle Fleet Clean Air Zone Standards</td>
<td>Time set aside to support the directorate in ensuring that appropriate plans are in place to mitigate environmental risks relating to LCC’s vehicle fleet.</td>
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<tr>
<td>Application of HR Policies</td>
<td>To gain assurance that a sample of HR policies are consistently and properly applied across the authority.</td>
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<tr>
<td>Financial Due Diligence</td>
<td>A review of the arrangements in place to ensure that due diligence is consistently and appropriately applied before entering into an agreement or financial transaction with another party.</td>
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<tr>
<td>Passenger Transport</td>
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<td>Planned</td>
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<tr>
<td>Invest to Save – Benefits Realisation</td>
<td>To review how the benefits realisation process has been implemented for a sample of Invest to Save projects.</td>
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<td>IR 35 Legislation Follow Up</td>
<td>To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the June 2018 meeting</td>
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<tr>
<td>Leeds Building Services – Out of Hours (Lifts) Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the June 2018 meeting</td>
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<td>Housing Disrepair Follow Up</td>
<td>To review progress in implementing the recommendations made in the previous audits, as reported to the Corporate Governance and Audit Committee at the November 2018 meeting</td>
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<td>Child Poverty</td>
<td>A review of the arrangements in place to tackle child poverty across the city.</td>
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<td>Recycling Strategy</td>
<td>To provide assurance that the council’s recycling strategy is being effectively implemented.</td>
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<tr>
<td>Customer Satisfaction</td>
<td>A review of the processes that support continual improvement in respect of the customer experience.</td>
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<td>Individual establishment visits to provide assurance over cash handling arrangements.</td>
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<td>Community Infrastructure Levy Follow Up and Section 106 Monies</td>
<td>To review progress in implementing the recommendations made in respect of Community Infrastructure Levy made in the previous audit, reported to the Corporate Governance and Audit Committee at the September 2017 meeting and to provide assurance that Community Infrastructure Levy and Section 106 Monies are collected, recorded and spent appropriately.</td>
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<tr>
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<td>To provide assurance that all external income is identified and collected.</td>
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<tr>
<td>External Advertising Income – Follow Up</td>
<td>To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the June 2018 meeting.</td>
<td>Planned</td>
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<tr>
<td>Commercial Rents – Follow Up</td>
<td>To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018</td>
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<tr>
<td>Income Review – Leeds International Beer Festival Follow Up</td>
<td>To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.</td>
<td>Planned</td>
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Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 28 January 2019

Subject: Review of the Anti Money Laundering and Anti Bribery Policies

Are specific electoral Wards affected? ☐ Yes ☒ No
If relevant, name(s) of Ward(s):

Are there implications for equality and diversity and cohesion and integration? ☐ Yes ☒ No

Is the decision eligible for Call-In? ☐ Yes ☒ No

Does the report contain confidential or exempt information? ☐ Yes ☒ No
If relevant, Access to Information Procedure Rule number:
Appendix number:

Summary of main issues

1. Money Laundering is the process by which criminals disguise the origins of property derived from illegal activity, by making the property seem to have come from a legitimate source. Typically it is done by repeated movements and conversions of the criminal property through a variety of transactions to make it more difficult to trace back to its criminal origins. To ensure compliance with legislation, the council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

2. Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. The policy provides a framework to identify and report potential bribery breaches.

3. Both policies are published on the intranet and 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.

4. Incorporating advice and guidance provided by Legal Services, the policies have been reviewed and updated to ensure that they reflect the updated legislative requirements. The Anti Bribery Policy has also been reviewed by the Procurement and Commercial Services (PACS) team.

5. The revised Anti-Money Laundering and Anti Bribery Policies are attached with this report at Appendices A and B.
Recommendations

6. Members are requested to note the contents of this report, and provide comment on the updated Anti Money Laundering Policy and Anti Bribery Policy. Having taken into account Corporate Governance and Audit Committee comments, the Chief Officer (Financial Services) will take a delegated decision to approve the revised policies prior to publication.
1 Purpose of this report

1.1 The purpose of this report is to inform the Corporate Governance and Audit Committee of the revisions to the Anti Money Laundering and Anti Bribery Policy and to provide an opportunity to comment on the updated policies prior to being published.

2 Background information

2.1 Money Laundering is the process by which criminals disguise the origins of property derived from illegal activity, by making the property seem to have come from a legitimate source. Typically it is done by repeated movements and conversions of the criminal property through a variety of transactions to make it more difficult to trace back to its criminal origins.

2.2 Legislation concerning money laundering (the Proceeds of Crime Act 2002 and the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017) imposes specific obligations on those organisations carrying out what is defined as ‘relevant business’. The Council does not operate within the regulated sector, however to ensure organisational best practice the Council:

- has appointed a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity;
- has a procedure to enable the reporting of suspicions of money laundering;
- applies customer due diligence measures to establish the true identity of customers;
- provides training to relevant staff, and
- maintains record keeping procedures.

2.3 The Council’s Anti-Money Laundering Policy is published on the intranet and sets out the procedures to be followed when reporting suspicions of money laundering activity to enable the council to comply with its legal obligations. The policy offers clear guidance on how to bring concerns to the attention of the MLRO.

2.4 Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. The policy seeks to inform staff of the requirements of the Bribery Act and how this should be complied with.

2.5 The Terms of Reference of the Corporate Governance and Audit Committee establish the authority of the committee to:

- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance
3 Main issues

3.6 The Anti-Money Laundering Policy sets out appropriate and proportionate anti-money laundering safeguards and reporting arrangements. Internal Audit has reviewed the Anti-Money Laundering Policy with assistance from Legal Services and updates have been proposed to reflect the revised legislative and reporting arrangements. No further material alterations have been made to the direction of the policy. The revised policy is attached with this report at Appendix A.

3.7 The purpose of the policy is to maintain the high standards of conduct which currently exist across the council by preventing or identifying money laundering. The policy sets out the procedures which must be followed when reporting suspicions of money laundering activity and covers all officers and Members of the council.

3.8 The officer nominated to receive disclosures about money laundering activity within the council is the Head of Audit, with the Principal Audit Managers authorised to deputise.

3.9 The policy has been updated for the following:-

- More guidance regarding the key elements that could indicate the existence of money laundering which could be relevant to the activities of the Council (para 3.3 – 3.6).

- A new section regarding the exposure to risk of money laundering (para 4.4). This needs to be considered on an ongoing basis and we have specified that Heads of Service should notify Internal Audit when business operations change which impact on the exposure to money laundering risks.

- An updated section on customer due diligence and a new section on enhanced due diligence (para 7.1-7.4). Enhanced due diligence is required where the Council is conducting potentially regulated activities (for example provision of legal or financial services to external clients or customers) and certain risk factors are in place for example false documentation has been supplied.

- A new section on ongoing monitoring (para 8.1). This states that once the identity of the person or company has been identified, activity should be monitored throughout the relationship and updated documents obtained where necessary.

- A new section on training for staff. It is proposed that training sessions are offered to relevant officers across the council at least twice a year.
3.10 The council does not operate in the regulated sector, however we seek to comply with the Money Laundering Regulations as closely as possible to ensure organisational best practice. The policy should help to ensure effective and proportionate reporting, client identification and record keeping procedures so that all instances of suspected money laundering activity are addressed appropriately.

3.11 The Anti Bribery Policy sets out appropriate and proportionate anti-bribery safeguards and reporting arrangements. The policy has been reviewed with assistance from Legal Services and the procurement team and updates have been proposed to reflect the revised legislative arrangements. No further material alterations have been made to the direction of the policy. The revised policy is attached with this report at Appendix B.

3.12 The purpose of the policy is to maintain the high standards of conduct which currently exist across the council by preventing or identifying bribery. The policy sets out the procedures which must be followed when reporting suspicions of bribery activity and covers all officers and Members of the council.

3.13 The policy has been updated for the following:-

- Inclusion of other relevant legislation, namely the Criminal Finance Act 2017 and the Serious Crime Act 2015. These sections are policy statements highlighting the new areas of legislation and the links to anti bribery rather than any specific additional action required of staff or Members as a result of the changes.

- Reference to the (updated) Public Contracts Regulations 2015. The regulations make it clear that when a contracting authority has knowledge that a company or its representatives have been convicted of a corruption offence, they should be treated as ineligible (debarred) to participate in the tendering process. Public authorities are also obliged to bring debarment to an end when they can demonstrate they have taken appropriate action.

3.14 Fraud risks, including bribery and money laundering, are routinely considered within the scope of relevant planned audit work and proactive fraud exercises. Where appropriate, enhancements to controls to mitigate any risks identified are included within audit reports.

3.15 Internal Audit will drive the effective communication of the policies through our programme of counter-fraud activity to reinforce the council’s zero tolerance stance to fraud and corruption. This includes publicising the policies on the intranet, promoting the training that is available and undertaking risk assessments, ensuring that all actions resulting from the risk assessments are completed. Assurance around compliance with anti-fraud and corruption policies is achieved through ensuring that a sound control environment exists within key systems, undertaking proactive anti-fraud exercises and ensuring that there are robust routes for people to raise any concerns they may have. These assurances are provided to the Committee through our regular update reports. Internal Audit will periodically monitor and review the content of the policies to ensure that they continue to underpin the principles of good governance throughout the organisation.
4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Consultation with Legal and HR services on both policies has taken place and the procurement team has been consulted on the Anti-Bribery Policy. Through this report, Members of the Corporate Governance and Audit Committee have been informed of the policy revisions and offered the opportunity to review and provide comment.

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 The council takes a zero tolerance approach to fraud and corruption and the Anti Money Laundering and Anti Bribery Policies are a key part of this culture.

4.4 Resources and value for money

4.4.1 There are no implications upon resources or value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 Updates to the policies take account of advice provided by Legal Services. The report does not require a key decision and is therefore not subject to call in.

4.6 Risk Management

4.6.1 There are no risk management implications.

5 Conclusions

5.1 The reviews of the Anti-Money Laundering Policy and Anti Bribery Policy have been undertaken to ensure that they are both up to date and fit for purpose in accordance with legislation and best practice. Once approved, the policies will be published on the intranet.

6 Recommendations

6.1 Members are requested to note the contents of this report, and provide comment on the proposed policies. Having taken into account Corporate Governance and Audit Committee feedback, the Chief Officer (Financial Services) will take a delegated decision to approve the revised policies prior to publication.

7 Background documents

7.1 None.
Anti-Money Laundering Policy, Procedure and Reporting Arrangements
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ANTI-MONEY LAUNDERING POLICY

1.0 INTRODUCTION

1.1 Leeds City Council is committed to the highest standards of openness, probity and accountability. In line with this commitment, the Council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

2.0 SCOPE OF THE POLICY

2.1 This policy applies to Leeds City Council and as a consequence it applies to all its Members and officers of the Council. It contains specific sections to advise officers and Members of the process to be followed to enable the Council to comply with its legal obligations.

2.2 Our policy is to ensure all appropriate action is taken to prevent, wherever possible, the Council and its Members and officers, including agency workers, from being exposed to money laundering and to comply with all legal and regulatory obligations. This includes the reporting of suspected or actual cases in line with disclosure requirements.

3.0 WHAT IS MONEY LAUNDERING?

3.1 Money laundering is the process by which criminals disguise the origins of property derived from illegal activity, by making the property seem to have come from a legitimate source. Typically it is done by repeated movements and conversions of the criminal property through a variety of transactions to make it more difficult to trace back to its criminal origins.

3.2 The principal money laundering offences are found in the Proceeds of Crime Act (POCA) 2002 and apply to all persons. The principal offences are:

- Concealing, disguising, converting, exporting or transferring property which you know or suspect represents the proceeds of crime;
- Entering into an arrangement or transaction which you know or suspect facilitates the use or control of criminal property on behalf of another person;
- Acquiring, using or possessing criminal property;
- Prejudicing an investigation into money laundering, either by making a disclosure to any person which is likely to prejudice the investigation (“tipping off”), or by falsifying, concealing or destroying documents likely to be relevant to the investigation.

3.3 Money Laundering covers a range of activities, which are not always easy to identify. As such it is not practical to give a definitive list of all the potential ways to spot money laundering. However, the following are generally accepted as some of the key elements which could indicate the existence of money laundering and which could have relevance to activities of the Council:-
• The existence of a secretive customer who, for example, fails or refuses to provide information which has been requested without an appropriate explanation
• Movement of funds to / from overseas, particularly if involving a country which is known to be high risk
• Payment of a substantial sum in cash
• Overpayments by a customer
• A transaction without obvious legitimate purpose or which appears uneconomic, inefficient or illogical
• Involvement of 3rd parties which are illogical or unsubstantiated

3.4 The above does not purport to be a definitive list and all officers and Members should be able to identify suspicious money laundering activity in their own work area. As always common sense applies if there are doubts about the integrity and honesty of individuals who are dealing with the Authority.

3.5 Anyone who becomes involved in money laundering activities, either knowingly or unwittingly can be guilty of these principal offences referred to at 3.2. Potentially any officer or Member could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and /or do nothing about it.

3.6 All officers and Members must be familiar with their responsibilities in respect of reporting any suspicions around money laundering activity, as failures to report can result in criminal convictions and custodial sentences. This Policy sets out how any concerns should be raised.

4.0 REQUIREMENTS OF THE MONEY LAUNDERING LEGISLATION

4.1 The Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose specific obligations on those organisations carrying out what is defined as ‘relevant business.’

4.2 This term does not apply to most areas of work carried out by the Council. However there may be discrete areas of work, particularly when carrying out work on behalf of external organisations, when these regulations may apply. As such, it is considered safest to comply with the spirit of the regulations in all work carried out by the Council to avoid inadvertent infringement.

4.3 This includes:

• Appointing a Money Laundering Reporting Officer
• Implementing a procedure for reporting suspicions about money laundering
ANTI-MONEY LAUNDERING POLICY

- Applying customer due diligence measures to establish the true identity of customers in certain circumstances. Enhanced due diligence will be applied in circumstances which pose greater potential risk for money laundering to the Council
- Providing training to relevant staff
- Maintaining record keeping procedures

4.4 Exposure to the risk of money laundering should be considered on an ongoing basis. Heads of Service should notify the Internal Audit section when business operations change which may impact upon the Council’s exposure to money laundering risks. This information will then feed into the money laundering risk assessments undertaken by Internal Audit.

4.5 The following sections of this Policy provide further detail about the Council’s arrangements in respect of these requirements.

5.0 THE MONEY LAUNDERING REPORTING OFFICER

5.1 If an individual becomes aware of suspicious activity or that their involvement in a matter may amount to a money laundering offence then they must report it to the Money Laundering Reporting Officer (MLRO) and not take any further action until they have received consent from the MRLO.

5.2 The MRLO nominated to receive disclosures about money laundering activity within the Council is the Head of Audit, who can be contacted at:

   Head of Audit
   Internal Audit
   Civic Hall, Third Floor West
   Leeds
   LS1 1JF
   Telephone: 0113 37 88693

5.3 In the absence of the MLRO, the Principal Audit Managers are authorised to deputise and can be contacted at the above address or on 0113 37 88579.

6.0 DISCLOSURE PROCEDURE

6.1 All persons within the regulated sector and nominated officers have obligations under the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, to make disclosures of suspicions of money laundering, terrorist financing and terrorist property offences.
Reporting to the Money Laundering Reporting Officer

6.2 Where you know or suspect that money laundering activity is taking place or has taken place, or you have become concerned that your involvement in a matter may amount to a prohibited act, you **must** disclose this **as soon as practicable** to the MLRO.

6.3 When disclosure is to be made to the MLRO the proforma report attached at Appendix 1 should be used. The report must include as much detail as possible, for example:

- Full details of the people involved (including yourself, if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc
- Full details of the nature of their/your involvement
- The types of money laundering activity involved
- The dates of such activities, including whether the transactions have happened, are ongoing or are imminent
- Where they took place
- How they were undertaken
- The (likely) amount of money/assets involved
- Why, exactly, you are suspicious

6.4 The report should include any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering. This will help to enable the MLRO to prepare a report to the National Crime Agency (NCA), where appropriate. You should also enclose copies of any relevant supporting documentation.

6.5 Once you have reported the matter to the MLRO you must follow any directions that the MLRO may give you. You must **NOT** make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.

6.6 Similarly, at no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, or any other third party, even after consent may have been given to a transaction proceeding. Alerting the individual to the fact that a referral has been made may result in you committing the criminal offence of “tipping off.”

6.7 Do not, therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.
6.8 Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. The MLRO should also advise you of the timescale within which they expect to respond to you. This should be within three days.

6.9 The MLRO will consider the report and any other available internal information that they think is relevant, for example:

- reviewing other transaction patterns and volumes
- the length of any business relationship involved
- the number of transactions and linked one-off transactions
- any identification evidence held

6.10 The MLRO will undertake any other reasonable enquiries that they think are appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCA is required. These enquiries will be made in such a way as to avoid any appearance of tipping off those involved. The MLRO may also need to discuss the report with you.

6.11 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- whether they need to seek consent from the NCA for a particular transaction to proceed.

6.12 Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless they have a reasonable rationale for non-disclosure to the NCA.

6.13 Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.

6.14 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
6.15 All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

6.16 The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

7.0 CUSTOMER DUE DILIGENCE

7.1 Where the Council is carrying out activities which may be covered by Part 3 of the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, extra care needs to be taken to check the identity of the customer. The following activities may fall within the scope of the regulations when carried out in the course of business:

- Provision of credit services to external clients/customers, Provision of financial services to external clients/customers
- Provision of audit, insolvency, accountancy or tax advice services to external clients/customers, Provision of legal services to external clients/customers
- Provision of trust or company services to external clients/customers, Provision of estate agency services to external clients/customers
- Trading in goods by way of business where cash payments of at least €10,000 are made or received in one transaction.
- Business in connection with the holding of a casino operating license.

7.2 Where any of the potentially regulated activities described in paragraph 7.1 are being carried out, the Client Identification Procedure must be followed before the Council:

- Forms an ongoing business relationship with a client;
- Undertakes an occasional transaction that amounts to a transfer of funds exceeding €1,000;
- Undertakes an occasional transaction that amounts to €15000 or more by any payment method;
- Suspects money laundering or terrorist financing; or
- Doubts the veracity or adequacy of documents or information previously obtained for the purposes of identification or verification.

7.3 In the above circumstances, staff in the relevant unit of the Council must obtain satisfactory evidence of the identity of the prospective client, and must assess the purpose and intended nature of the business relationship or transaction, as soon as practicable after instructions are received (unless evidence of the client has already been obtained). This applies to existing clients, as well as new ones.
7.4 Enhanced customer due diligence will be required where the Council is conducting potentially regulated activities as described in paragraph 7.1 and:

- The case is identified as being at high risk of money laundering or terrorist financing;
- Business is to be conducted with a person established in a foreign country identified as being at high risk of money laundering;
- False documentation has been supplied;
- The transaction is complex or unusually large, or there is an unusual pattern of transactions; or
- The customer is a Politically Exposed Person (PEP) or a family member or close associate of a PEP. A PEP is defined as a person entrusted with prominent public functions.

Enhanced customer due diligence must include examining the background and purpose of the transaction, and increasing the degree and nature of monitoring of the business relationship, and increasing the degree of vigilance for suspicious circumstances.

Internal Clients

7.5 Client identification procedures are not required for internal clients.

External Clients

7.6 For external clients of the Council, appropriate evidence of identity, particularly from new clients or in relation to further instructions from clients not well known to you will be obtained. Such correspondence should then be placed on the council’s client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.

7.7 In all cases, the evidence should be retained for at least five years from the end of the business relationship or one-off transaction(s).

7.8 \textit{If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.}

8.0 ONGOING MONITORING AND RECORD KEEPING PROCEDURES

8.1 Once you have verified the identity of the person (or company), activity should be monitored throughout the relationship with the Council and updated documents should be obtained when necessary. Records must be kept of identification and business transactions for a least five years after the transaction or end of the business relationship. All records must be kept in accordance with data protection legislation.
ANTI-MONEY LAUNDERING POLICY

8.2 The records held must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

9.0 TRAINING

9.1 Staff are the most effective defence against money launderers and terrorist financiers and regulations require that relevant officers:

- Are made aware of the law relating to money laundering, terrorist financing and the requirements of data protection which are relevant to the implementation of the Regulations
- Are provided with training in how to recognise and deal with transactions and other activities which may be related to money laundering or terrorist financing

9.2 Training can be requested through the Internal Audit Section.

9.3 All officers and Members have a duty to report suspicious transactions, regardless of whether training has been received or not.

10.0 OWNERSHIP, REVIEW AND MONITORING

10.1 This policy is owned by the Money Laundering Reporting Officer, who will ensure the accuracy and appropriateness of content and efficient operation by means of a periodic review.

11.0 HELP AND ADVICE

11.1 This Policy has been written so as to enable the Council to meet the legal requirements concerning anti-money laundering procedures in a way that is proportionate to the level of risk of contravening the legislation.

11.2 Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO, the Principal Audit Managers in the Internal Audit section or the Money Laundering Awareness Officer in Legal Services.
CONFIDENTIAL

REPORT TO MONEY LAUNDERING REPORTING OFFICER

RE: SUSPECTED MONEY LAUNDERING ACTIVITY

To: Head of Audit, Money Laundering Reporting Officer
From: ………………………………………… [Name of employee]
Department: ………………………………………… [Post title and Service Area]
Ext / Tel No: …………………………………………

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:
[If a company / public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please include full details e.g. what, where, how. Continue on a separate sheet if necessary]
Nature of suspicions regarding such activity:
[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)? [Please tick relevant box]

If yes, please include details below:
Have you discussed your suspicions with anyone else?  
[Please tick relevant box]  
Yes ☐  No ☐

If yes, please provide details of who the discussions took place with and explain why such discussion was necessary:


Have you consulted any supervisory body guidance re: money laundering (e.g. the Law Society)?  
[Please tick relevant box]  
Yes ☐  No ☐

If yes, please specify below:
Appendix 1

Do you feel you have a reasonable justification for not disclosing the matter to the NCA? (e.g. are you a lawyer and wish to claim legal privilege?) [Please tick relevant box]

If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act under sections 327-329 of the act and which requires appropriate consent from the NCA [Please tick relevant box]

If yes, please include details below:
Please set out below any other information you feel is relevant:

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment.

Signed: ............................................

Dated: ............................................
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Anti-Bribery Policy
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1.0 INTRODUCTION

1.1 Leeds City Council is committed to the highest standards of integrity, honesty and openness, and expects the highest standards of conduct from its employees, contractors and elected Members. All employees, contractors and elected Members are expected to abide by their respective codes of conduct and act in accordance with the Council’s values to work collectively to achieve the objectives set out in the Best Council Plan.

1.2 Bribery is a criminal offence for which the Council has zero tolerance, and the Council is committed to the prevention, deterrence and detection of bribery in all areas of their activities. The Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor accept bribes or improper inducements. To use a third party as a conduit to channel bribes to others is a criminal offence and the Council does not, and will not, engage indirectly in or otherwise encourage bribery.

2.0 SCOPE OF THE POLICY

2.1 This policy seeks to inform all personnel (permanent, temporary, agency and contractor staff), contractors and elected Members of the requirements of the Bribery Act 2010 (in force from July 2011) and sets out the requirements to comply with the legislation.

2.2 It provides a coherent and consistent framework to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable the identification and effective reporting of a potential breach. The responsibility to control the risk of bribery occurring resides at all levels of the Council and not solely within assurance functions.

2.3 This policy will:

- Demonstrate the Council’s commitment to tackling fraud and corruption through this Anti-Bribery Policy
- Make all personnel aware of their responsibilities to adhere strictly to this policy at all times
- Encourage everyone to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Offer reassurance that the Council will be rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Confirm that the Council will be taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to report breaches and suspected breaches of this policy
- Ensure the inclusion of appropriate clauses in contracts to prevent bribery.
Anti-Bribery Policy

3.0 WHAT IS BRIBERY?

3.1 Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act 2010 (the “Act”)

3.2 There are four key offences under the Act:

- bribery of another person – offer, promise or give a bribe (section 1)
- accepting a bribe – request, agree to receive, or accept a bribe (section 2)
- bribing a foreign official – with the intention of obtaining or retaining business or an advantage in the conduct of business (section 6)
- failing to prevent bribery – corporate offence of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation (section 7)

3.3 An organisation will have a defence to failing to prevent bribery if it can show that it has in place adequate procedures designed to prevent bribery by, or of, persons associated with the organisation.

Other relevant legislation

3.4 The Criminal Finance Act 2017: Whilst this in the main relates to a UK tax evasion facilitation offence, Government guidance suggests prevention measures similar to the prevention measures under s7 of the Act 2010. The Council needs to have policies and procedures in place to prevent tax evasion from occurring in the first place and so that there is a defence of adequate procedures should this be required.

3.5 The Serious Crime Act 2015: The Serious Crime Act gives effect to a number of legislative proposals in relation to serious and organised crime. In doing so, it builds on current law to ensure that the relevant bodies have the powers they need effectively and relentlessly to pursue, disrupt and bring to justice serious and organised criminals.

4.0 WHAT ARE ‘ADEQUATE PROCEDURES’?

4.1 Whether the procedures in place to prevent bribery are adequate will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the organisation. It is for individual organisations to determine proportionate procedures and these should be informed by the following six principles. The Council is committed to proportional implementation of these principles.
4.2 **Principle 1 - Proportionate procedures**

The Council’s procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of its activities. They are also clear, practical, accessible, effectively implemented and enforced.

4.3 **Principle 2 - Top level commitment**

The top-level management are committed to preventing bribery by persons associated with the Council. They foster a culture within the Council in which bribery is never acceptable.

4.4 **Principle 3 - Risk Assessment**

The Council assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage.

4.5 **Principle 4 - Due diligence**

The Council applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the Council, in order to mitigate identified bribery risks.

4.6 **Principle 5 – Communication (including training)**

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

4.7 **Principle 6 - Monitoring and review**

The Council monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

5.0 **CONSENT TO PROSECUTION**

5.1 Proceedings for an offence under the Act must be by or with the consent of: the Director of Public Prosecutions; the Director of the Serious Fraud Office; or the Director of Revenue and Customs Prosecutions.
6.0 PENALTIES

6.1 Bribery Act offences can be prosecuted at magistrates or crown court and can be against both individuals and organisations. Penalties for individuals include unlimited fines and/or imprisonment and organisations can receive unlimited fines.

7. BRIBERY IS NOT TOLERATED

7.1 Bribery undermines democracy and the rule of law and improperly influences the decision making process. This leaves the Council open to the risk of funding not being effectively utilised and the associated risk of reputational damage. It is important therefore that everyone is clear as to what is unacceptable.

7.2 It is unacceptable to:

- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them;
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return;
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy; or
- engage in activity in breach of this policy.

8.0 WHAT ARE FACILITATION PAYMENTS?

8.1 A facilitation payment is a payment (money or goods) made to a public or government official that acts as an incentive for the official to complete some action or process expeditiously to the benefit of the party making the payment. In general a facilitation payment is made to smooth the progress of a service to which the payer is legally entitled, without making such a payment.

8.2 These payments are not tolerated by the Council and are illegal under the Act.

9.0 GIFTS AND HOSPITALITY

9.1 This policy is not meant to change the requirements of the Employee Gifts & Hospitality Policy which forms part of the terms and conditions of employment with the Council.

9.2 The Employee Gifts & Hospitality Policy makes it clear that as an employee you should not benefit from your position at the Council beyond the pay and reward schemes that the Council has in place. The policy provides clear guidance regarding what is and what is not acceptable.
9.3 In summary never accept a gift or hospitality;

- As an inducement or reward for anything you do as an employee of the Council;
- Which puts you under an improper obligation; or
- If acceptance might be open to misinterpretation.

9.4 You must not solicit gifts or hospitality (other than modest refreshments which are incidental to the business at hand, for example a cup of tea at a meeting).

10.0 PUBLIC CONTRACTS AND FAILURE TO PREVENT BRIBERY

10.1 Under the Public Contracts Regulations 2015 where a contracting authority has knowledge that a company or its representatives have been convicted of a corruption offence, they should be treated as ineligible (debarred) to participate in the tendering process. Companies cannot be permanently debarred, but instead will face a term of debarment, dependent on the case, that can be no longer than five years from the date of the conviction.

10.2 Public authorities are also obliged to bring debarment to an end when the company can satisfactorily demonstrate ‘self-cleaning’. This allows companies to recover eligibility to bid for public contracts following a debarment by demonstrating sufficient evidence of the following:

- payment of, or undertaking to pay, compensation in respect of any damage caused by the criminal offence or misconduct;
- clarification of the facts and circumstances of the offence in a comprehensive manner, for example by actively collaborating with the investigating authorities; and
- the introduction of concrete technical, organisational and personnel measures, which are appropriate to prevent further criminal offences or misconduct.

11.0 STAFF RESPONSIBILITIES

11.1 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its control. All appropriate staff are required to avoid activity that breaches this policy.

11.2 You must:

- ensure that you read, understand and comply with this policy
- raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

11.3 As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.
12.0 RAISING A CONCERN

12.1 We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

12.2 The Council is committed to ensuring that there is a safe, reliable, and confidential way of reporting suspicious activity and that staff know how they can raise concerns. There are multiple channels to help you raise concerns - please refer to the Whistleblowing policy. Preferably the disclosure will be made and resolved internally (e.g. to your head of department/on line reporting/telephone hotline).

12.3 Secondly, where internal disclosure proves inappropriate, concerns can be raised with the regulator (e.g. external auditor). Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

12.4 Concerns can be raised anonymously. In the event that an incident of bribery, corruption, or wrongdoing is reported, we will act as soon as possible to evaluate the situation. We have clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

12.5 Staff who refuse to accept or offer a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. We aim to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken. We are committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

12.6 If you have any questions about these procedures, please contact Internal Audit.

13.0 OTHER RELEVANT POLICIES

Members Code of Conduct
Employee Code of Conduct
Employee Gifts and Hospitality Policy
Anti-Money Laundering Policy
Whistleblowing Policy
Raising Concerns Policy
Anti-Fraud and Corruption Policy
Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 28th January 2019

Subject: Letter to the Secretary of State from Northamptonshire County Council Commissioners

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<td>If yes, name(s) of ward(s):</td>
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<td>Are there implications for equality and diversity and cohesion and integration?</td>
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<td>Is the decision eligible for call-in?</td>
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<td>Does the report contain confidential or exempt information?</td>
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<td>If relevant, access to information procedure rule number:</td>
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1. Purpose of this report

1.1 The purpose of this report is to bring to Members attention the governance interventions currently taking place at Northamptonshire County Council.

2. Background information

2.1 Following the publication of the external auditor’s (KPMG) “adverse” value for money opinion in relation to the 2015/16 and 2016/17 accounts of Northamptonshire County Council, and a Local Government Association peer review into the council’s financial planning and management, the Secretary of State for Housing, Communities and Local Government made arrangements for an inspection of Northamptonshire County Council’s compliance with its best value duty. The Secretary of State asked that the inspection should in particular consider the authority’s corporate governance and financial management systems.

2.2 The resulting report concluded that Northamptonshire County Council had failed to comply with its duty under Part I of the 1999 Act from the financial year 2013/14.

2.3 Following dialogue with interested parties the Secretary of State made Directions in relation to the appointment of Commissioners, including providing for them to perform certain functions and to have a role in overseeing other functions or actions which the Authority is to perform.

2.4 The Commissioners are accountable to the Secretary of State in that they have been nominated by him and can have their nomination withdrawn by him.
2.5 The Commissioners must report to the Secretary of State on the progress of the intervention and the specifics of their remit, which include:

- all functions associated with the governance and scrutiny of strategic decision making by the Authority;
- all functions associated with the strategic financial management of the Authority, including providing advice and challenge in the setting of annual budgets; scrutiny of all in-year amendments; and the power to amend budgets where necessary; and
- non-executive functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as the head of paid service, the monitoring officer and the chief financial officer (section 151 officer), and the designation of those persons as statutory officers.

2.6 The purpose of the exercise of these functions is to enable the Commissioners to bring the Authority’s finances under control and allow robust service delivery to local residents. However, the Secretary of State has also not ruled out the possibility that further functions might be brought under the control of the Commissioners. The Directions, therefore, also require the Authority to:

- refer to the Commissioners, together with any recommendation the Authority wishes to make, any matter where the Authority does not agree with any recommendation made to it by a statutory officer or does not comply with and implement any such recommendation within the period specified by the statutory officer in the recommendation;
- comply with and implement any decision or recommendation of the Commissioners following such a reference; and
- comply with and implement any decision or recommendation of the Commissioners following a reference to the Commissioners by any statutory officer of a matter where the Authority has not complied with or implemented a recommendation by the statutory officer within the period specified by the statutory officer in the recommendation and the Authority itself has not complied with the obligation set out above to refer the matter to the Commissioners.

2.7 The Secretary of State has requested the Commissioners to provide progress reports to him on a quarterly basis or at such other times as he might agree with the Commissioners.

3. Main issues

3.1 Attached, for Members consideration at Appendix 1 is the first report from the Commissioners to the Secretary of State.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 This is a factual report and no consultation or engagement has been undertaken in respect to it.
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 best council plan**

4.3.1 There are no specific implications for council policy in relation to this report.

4.4 **Resources and value for money**

4.4.1 There are no specific issues arising for the authority from this report relating to resources and value for money.

4.5 **Legal implications, access to information, and call-in**

4.5.1 There are no legal implications arising from this report and the matters are not executive functions and so are not subject to call in.

4.6 **Risk management**

4.6.1 There are no specific risk management issues arising for the authority from this report. Members will be aware of the two assurance reports received by the 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.

5. **Conclusions**

5.1 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. Receiving this report also enables committee Members to gain an understanding of contemporary governance issues within the local government sector.

6. **Recommendations**

6.1 Members are asked to note the content of this report.

7. **Background documents**

7.1 There are no background documents associated with this report.

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1 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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Dear Secretary of State

In May you invited us to become Commissioners for Northamptonshire County Council following your consideration of the independent inspector’s report from Max Caller. As your representatives you gave us specific responsibilities for finance, governance and scrutiny which we have listed at annex A.

When accepting this role we agreed to provide you with periodic progress updates, of which this is the first.

When we arrived it was clear that the authority had not had effective leadership for some considerable time – it lacked integrity and was operating without a corporate centre. It was failing to manage its activities in accordance with the established norms of a local authority. This was most pressingly reflected in its financial situation. In order to re-instate that integrity and re-establish the norms we would expect, we have taken as our priorities:

- The recovery of the financial position;
- The re-creation of a corporate centre; and
- Engagement with partners and residents.

We have made significant progress on all of these fronts.

**Recovery of the financial position**

While the Council was aware that it faced a challenging financial situation, it was not clear to members or officers just how challenging this was. When we arrived in May the 2017/18 draft accounts were reporting a balanced position for this year’s outturn, a general fund reserve of zero and earmarked reserves totalling £8.0m. The first budget monitoring report for the current year published on 12th June affirmed that the Council had set a balanced budget but had already identified a need for additional in-year savings of £8.0m. We had no confidence in any of these assertions. The external Auditor and the Best Value inspector had
previously cast doubt upon the culture within which financial information was prepared and the quality of the information produced. Our early identification of issues around opaque or absent underpinning data, and concern over the organisational form of the finance function within the Authority reinforced this view. We believed it to be imperative that a financial position be established that we, the Council, and indeed the public, could have confidence in and which would provide a sound basis for taking potentially difficult decisions. We sought one single version of the truth.

We therefore appointed the Chartered Institute of Public Finance and Accountancy (CIPFA) to:

- Provide a review of the Council’s finances and a realistic assessment of the Council’s true financial position; and
- Consider the financial management arrangements in place in the Council and identify how these could be improved.

The CIPFA report in confidential draft form is attached. It cannot be finalised until the completion of the external (KPMG) audit expected towards the end of September. We have, however, based many of our initial actions on the analysis that has emerged during the CIPFA review.

The CIPFA analysis exposed the financial position to be considerably worse than the Council had anticipated. It concluded that the potential deficit for 2018/19 would be in the range £60m to £70m. This was set out in the s114 notice consequently issued with our full support on 24 July.

There are essentially two elements to this position:

1. **Projected overspend 2018/19** - The Council will incur a £30m overspend against its budget this year 2018/19 in the absence of any corrective action. This results from a combination of shortfalls in budgeted transformation spend and budgeted savings.

We are implementing a series of measures to make substantial reductions in the overall level of expenditure aimed at restoring balance to this budget as soon as possible. These measures include:

- The Finance Director issuing, in agreement with us, a notice under s114 of the Local Government Act 1999 to immediately freeze all non-essential spending.
- The agreement of the Council, at successive Extraordinary Meetings of the Council in August, to the concept of ‘core services’ and the principle that funding will be allocated and savings made against a hierarchy of need within each service area on the basis of these ‘core services’.
• The requirement for all council service directors to identify in year savings along with plans to implement those savings in accordance with this new financial regime.

• The commissioning of an externally-sourced independent reviewer who will explore additional possibilities and provide challenge to these internally produced plans.

• The introduction of a two stage expenditure control system where all non-essential spend is challenged by finance officers. Only if the first stage is passed will it be escalated to Directors for consideration. All services and cost centres are subject to the expenditure control system. This is a direct response to the previous Chief Executive Approvals Panel failing to adequately constrain spend.

• The setting up of a transformation taskforce of officers drawn from within the Council’s strategic finance team, supported by officers from neighbouring councils and other external support. This is finance led, with input from service areas. It is undertaking a rigorous examination of the Council’s expenditure plans aimed at challenging and reducing spend, whilst maintaining the core services that the people of Northamptonshire need. Seventy percent of the Council’s expenditure is through external contracts for service delivery and these are being reviewed on the basis of the best opportunity for efficiency. There will be an undoubted requirement for contract rationalisation, re-negotiation and, in some cases, termination. This will be managed robustly, but with due regard to the need for the Council to keep partner agencies informed and involved in any potential consequences.

• The development of a stabilisation plan by end-September which will draw together the actions above. This will be rigorously managed and progress reported monthly to Northamptonshire’s Cabinet.

• The instigation of a review under the Department for Education’s Partners in Practice programme which has made recommendations in respect of finance and quality improvements. The Director of Childrens Services has accepted these recommendations and is implementing them; there will be some short term savings arising from organisational efficiencies, with more significant savings over a longer time frame that will also deliver better provision such as taking steps to make increased provision for looked after children locally, rather than outside the county. This is desirable both in terms of service cohesion and of cost. This will take some time to effect in full, but is being progressed at the earliest opportunity.

We are confident that the sum of these measures will deliver considerable savings. We are aware of the pressing need to quantify the value of the savings and to be clear on the timescale for delivering them. Whilst the difficulties in achieving precision in this will be evident, we intend to offer a year-end estimate to the Secretary of State at the end of September. This will be updated as work progresses.
2. **Unfunded deficit incurred 2017/18** - The external auditor has estimated a £35m unfunded deficit in the financial year 2017/18 (it is currently estimated because the auditor’s work is not yet completed). This is unprecedented in local government and we anticipate the external auditor will want to report fully on this and the subsequent inadequacy of the 2018/19 budget setting process when the audit is complete. As it stands, this significant legacy deficit must be carried forward into the 2018/19 financial year, and addressed within the year. Whilst we can, and will, take such action as is necessary to restore the Council’s finances to an ongoing operating balance, the requirement to find further savings to the extent necessary in order to neutralise this historic deficit represents an extraordinary challenge. Considered against the concomitant need to maintain the integrity of critical public service delivery, it is a challenge that is beyond being met in a single year. We are compelled to the view that the finding of an alternative mechanism for addressing this legacy will be unavoidable. Perhaps the most obvious mechanism would be that of requiring it to be reduced over a period of years, rather than in a single year, but in light of potential reorganisation of local government in Northamptonshire this option is not available. An alternative would be to use available capital receipts to meet the Council’s over-expenditure in 2018/19 and indeed in the previous year. We will consider making a capitalisation request to Government.

The current state of the Council’s finances calls into question the standard of financial management practice in the Council. There has been a preparedness to compromise generally accepted accounting principles if this will present the Council’s finances in a better light. This situation is as a result of a lack of credible leadership and direction over many years.

The external auditor’s Interim Report 2017/18, presented to the Council’s Audit Committee on 24 May stated ‘It is more important than ever that those charged with governance are able to make properly informed decisions based on clear and robust information. It is unclear how finance reports currently provided to Cabinet fulfil this function’. We agree with the external auditor and are improving the quality and transparency of the monthly budget monitoring reports. Our aim is that finance monitoring reports will become examples of good practice.

There are very significant weaknesses in the integrity of the financial processes and reporting following the implementation of a new resource system by Local Government Shared Services (LGSS), a shared service arrangement with Cambridgeshire County Council and Milton Keynes Council. The Council has been unable to assure us that the financial information in the system is accurate and reliable. We have instructed that an independent review is undertaken as a matter of urgency.

The Council’s strategic finance team has been positioned within LGSS. We have instructed that the team that works exclusively on Northamptonshire’s finances be transferred back to Northamptonshire with immediate effect. Democratic Services has also been transferred
back to the Council. This allows the Council to start to rebuild a corporate centre. There are no financial implications in either of these transfers. We will take the opportunity to review the effectiveness of other elements of LGSS in the light of the above review and continuing experience, and we are prepared to take further transfers of activity and staff as may be proved necessary back in house, for example Human Resources and strategic information and communications technology (ICT).

We have had no confidence in the Council’s current Medium Term Financial Plan (MTFP) for the reasons outlined above. Work is beginning as a matter of urgency on preparing a robust 2019/20 budget and rolling forward an effective MTFP. An updated MTFP will be presented to Cabinet in October.

Given the scale of the financial issues we have been dealing with we have procured additional and on-going independent financial support for the remainder of this financial year.

**Re-creation of the corporate centre**

It is well documented in the Caller report that the Council’s governance arrangements are weak. Sustained effort will be necessary to instil and consistently apply the principles of good governance in the work of the Council. In the first instance we are addressing the Council’s decision making structure and processes, which are cumbersome, long winded and lack focus. Putting these right enables the platform upon which to develop better behaviours and enhanced ethical standards.

Revisions to operating procedures for Council meetings will be adopted at our request and the introduction of radical changes to scrutiny arrangements are being proposed to the Council in September. The new scrutiny arrangements will ensure focus on the priority task of balancing the Council’s books. The basis for these changes are recommendations arising from a review undertaken by the Centre for Public Scrutiny, which we encouraged and in which we participated. This review produced a robust report that we have approved to the Council.

With new senior staff leadership, changes to operating procedures, changes to scrutiny arrangements - which will have their initial impact on improving the development of the 2019/20 budget, a rebuilding of corporate services and the reestablishment of management discipline, it is our firm belief that cultural changes are beginning.

**Engagement**

There has been intense interest in and concern over the difficulties the Council has precipitated and what the future of local services may be. We have regarded it as important
to engage with a wide constituency of interested parties (including residents, councillors, MPs, unions, staff, health, the voluntary sector and the Police and Crime Commissioner) in order to promote understanding of our role, our anticipated outcomes and, where necessary, to secure the buy-in of those partners who may be persuaded to turn positions of quite reasonable criticism into those of giving useful practical support.

Many of these meetings have provided the opportunity for anxious and frustrated partner organisations and residents to give voice to long standing concerns which they feel have been ignored by the Council in the past. There has been a common theme of wishing to apportion blame and seek redress for culpability in the Council’s failure. It is beyond our powers to take action in respect of this. It has been necessary, and we believe useful, however for us to listen to and understand these natural concerns. At the same time we can offer assurances about the changes that we intend will happen and which will restore the Council to a set of proper operating principles and behaviours which can continue into the potential new unitary organisations.

These sessions have been generally and genuinely welcomed. It will take some time for the very real anger felt in some quarters to dissipate, but we have established a route for concerns to be raised and addressed. This facility, together with the sincere efforts being made by the Council itself to become an engaged and active partner, is already bearing fruit. District councils, health commissioners and trusts and the Police and Crime Commissioner are all involved in a range of activities that will secure better use of resources and better outcomes for local people as a result of this engagement.

Community organisations, particularly those that have lost funding or have found demand for their services increasing as a result of the decisions made by the Council, face particular challenges. We have indicated to the Council that there is value in providing a portion of savings achieved as investment to the voluntary sector where it can be demonstrated that this investment will result in a lessening of demand for services.

**Council services**

Our priority as Commissioners is to ensure the actions taken provide for efficient, effective and sustainable services for the people of Northamptonshire.

The dysfunction which has characterised the Council for some time has resulted in some Council services lacking resilience. ‘Silo’ working has produced a lack of corporate understanding and of consistency in delivery. Core professional performance is generally good but the lack of corporate direction, grip and adherence to good management principles in significant parts of the organisation leaves the Council exposed to risk. This has led to critical observations by the Local Government Ombudsman, and to an abnormally high volume of complaints against the authority. Morale amongst staff, who have been long suffering, is poor and there are gaps in staffing which are having to be left unfilled or which
are filled by agency staff. Concerns over the future of employment opportunities resulting from the need to find financial savings and uncertainty over the staffing requirements of the potential new unitaries are limiting the Council's ability to retain and recruit.

All of these issues are being addressed by the Councils' senior managers, many of whom are new, but there are no simple answers. Active, engaged and capable leadership is paramount in carrying the Council through these difficulties and we have chosen to involve ourselves in senior appointments beyond the statutory posts (e.g. Director of Childrens Services and Director of Transformation) in order to ensure that the Council can attract, enthuse and appoint officers capable of offering this leadership.

We are encouraged that the Council has responded positively to the need to focus on the essential priority actions. Other reasonable ambitions for the area are held, but it is accepted that progress on the delivery of these is dependent upon the success of delivering the priorities.

**Statutory Officer Appointments**

We have appointed a new Chief Executive and are pleased to have attracted a candidate with considerable experience and a strong track record. We are advertising for a new Director of Finance (inc. s151) and expect to appoint in late-September.

**Other areas of activity**

Some areas that we have spent considerable time resolving have taken disproportionate effort because of previously poor and tense relationships. These include libraries provision and the transfer of the Fire and Rescue Service to the Police and Crime Commissioner. The catalyst for these poor relationships appears to be an arrogance and unwillingness to engage or compromise. These characteristics have become commonly associated with the Council but we have seen change beginning and we will be encouraging further change.

There has been a considerable level of media attention locally, nationally and internationally. We are conscious of the need to send clear and consistent messages and have actively participated in media engagement accordingly.

**Next Steps**

During the next stage of our work we will be:

- Focusing on embedding the changes that we have introduced to the financial organisation and planning regimes of the Council, leading to a significantly improved outturn for 2018/19 and the production of a budget for 2019/20;
• Ensuring that changes to the governance arrangements, particularly in respect of scrutiny, add value to that work and to the wider work and performance of the council;
• Focusing our engagement activity on preparations for the 2019/20 budget; and
• Ensuring that the Council’s arrangements for investigating complaints are fit for purpose.

Lastly, we would like to put on record our thanks particularly to partner organisations including CIPFA, the Local Government Association, East Midlands Councils, CfPS, neighbouring councils and officials within MHCLG who have offered both advice and support, all of which has been gratefully received.

Yours sincerely

Brian Roberts
Finance Commissioner

Tony McArdle
Lead Commissioner
**Annex A**

**Functions assigned to commissioners**

1. All functions associated with the governance and scrutiny of strategic decision making by the Authority;

2. All functions associated with the strategic financial management of the Authority, this includes:
   (a) providing advice and challenge to the Authority in the setting of annual budgets;
   (b) scrutiny of all in-year amendments to annual budgets; and
   (c) the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority’s ability to fulfil its best value duty

3. All non-executive functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as statutory officers, this includes:
   
   a) the functions of designating a person as a statutory officer and removing a person from a statutory office;
   
   b) the functions under section 112 of the Local Government Act 1972 of:
      
      i. appointing and determining the terms and conditions of employment of an officer of the Authority, insofar as those functions are exercised for the purpose of appointing a person as an officer of the Authority principally in order for that person to be designated as a statutory officer; and
      
      ii. dismissing any person who has been designated as a statutory officer from his or her position as an officer of the Authority.
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Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 28th January 2019

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

<table>
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<tr>
<th>Are specific electoral Wards affected?</th>
<th>❑ Yes</th>
<th>❑ No</th>
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<td>If relevant, name(s) of Ward(s):</td>
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| Are there implications for equality and diversity and cohesion and integration? | ❑ Yes | ❑ No |

| Is the decision eligible for Call-In? | ❑ Yes | ❑ No |

| Does the report contain confidential or exempt information? | ❑ Yes | ❑ No |
| If relevant, Access to Information Procedure Rule number: |       |      |
| Appendix number: | | |

1 Purpose of this report

1.1 The purpose of this report is to advise the Corporate Governance and Audit Committee 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 view of the role and function of audit committees.

1.2 Members are asked to review the guidance and identify any areas where further development of the arrangements operating at Leeds City Council might be required.

2 Background information

2.1 The Corporate Governance and Audit Committee has reviewed its arrangements against previous iterations of CIPFA audit committee guidance, with the most recent assessment taking place in 2007. It is therefore timely that a further self-assessment against the 2018 edition is undertaken.

2.2 The terms of reference of the committee were approved at the Annual Council meeting in May – these are attached at Appendix 1.
2.3 All Members have been provided with a complete copy of the guidance for reference with selected extracts referenced within this report. The guidance covers:

- The Core Functions of An Audit Committee
- Possible Wider Functions of An Audit Committee
- Independence and Accountability
- Membership and Effectiveness

3 Main issues

3.1 Since the last review undertaken by this committee the scope of CIPFA’s Position Statement for Local Authority Audit Committees has become more detailed. The current position statement is reproduced at Appendix 2 along with a ‘self-assessment’ drafted by officers for the committee’s consideration.

3.2 There are no significant areas of non-compliance identified in the core functions expected of audit committees or with the identified wider functions; where variances have been identified these are set out in bold text within the Appendix 2 – and further described below:

3.2.1 The absence of an Independent Person on the Committee. Officers have interpreted the role of the committee in approving the statement of accounts and any material amendment of the accounts recommended by the auditors as being a function relating to regulating and controlling the Council’s finance; as such under S102(3) of the Local Government Act 1972, co-opted members are not permitted on the committee. CIPFA have taken a more flexible view on this feeling that Independent Members could be accommodated but not be able to vote on finance matters.

3.2.2 The preparation of an Annual Report of the Committee to Council. This is not something which is currently in place. The Committee’s role in approving the Annual Governance Statement does result in the Annual Governance Statement being provided to all Members.

3.3 At Appendix 3 a Knowledge and Skills Framework is presented for Members’ consideration. Members bring with them a range of knowledge and skills from their working life and elected representative role to the work of the committee. Reports to the Corporate Governance and Audit Committee seek to provide sufficient background knowledge and information to enable Members to fulfil the individual and collective roles on the committee. The Appendix has been drawn from the CIPFA guidance. Members will recall that training is also provided on the Accounts to committee members and that the new External Auditor, Grant Thornton, is to provide training on Audit Committees to Members.

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1 Despite the authority purchasing the guidance, officers have considered it inappropriate to publish the whole of the guidance by way of this committee’s agenda pack.
3.4 Members are asked to consider the framework and consider whether, taken as a whole, any gaps exist in the committee’s collective knowledge or skills. Members are also asked to consider whether it might be beneficial for group whips to be provided with the Skills Matrix when considering appointments in advance of the Annual meeting.

4 Corporate Considerations

4.1 Consultation and engagement

4.1.1 This report seeks Members’ views on the content of recently published guidance from 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).

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 best council plan

4.3.1 There are no specific implications for council policy in relation to this report.

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 The report provides assurance to the Committee that arrangements are in place which meet the expectations of contained in CIPFA guidance.

5 Conclusions

5.1 Following a Self-Assessment exercise the core arrangements expected of local authorities in respect of Audit Committee roles and functions have been found to present at Leeds City Council. That said two areas have been identified for further consideration by the committee, these relate to the whether or not to widen the membership of the committee to include an Independent Member and the need to ensure the breadth of skills and experience of committee members is routinely kept under review.

6 Recommendations

6.1 Members are requested to consider the CIPFA guidance and whether any adjustments to the arrangements currently prevailing are required.
7 Background Documents

7.1 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 has been used as a basis for this report.

7.2 Whilst extracts of the document have been reproduced with the consent of CIPFA, the 2018 edition is not provided free of charge to authorities and attracts a fee of £250 per document.
Corporate Governance and Audit Committee

The Corporate Governance and Audit Committee is authorised to discharge the following functions\(^1\):

1. to consider the Council’s arrangements relating to accounts\(^2\) including:
   
   (a) the approval of the statement of accounts and any material amendment of the accounts recommended by the auditors;
   
   (b) the approval of the Annual Governance Statement\(^3\); and
   
   (c) with the exception of any matter, which may result in the accounts being qualified, responding to the Council’s auditors in respect of any matter where it is not considered appropriate to make the amendments recommended by the auditors.

2. to consider the Council’s arrangements relating to external audit requirements including:
   
   (a) agreement and review of the nature and scope of the annual audit plan,
   
   (b) the receipt of external audit reports so as to:
       
       (i) inform the operation of Council’s current or future audit arrangements; and
       
       (ii) provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council’s accounts.

3. to review the adequacy of policies and practices to ensure compliance with statutory and other guidance

4. to review the adequacy of the Council’s Corporate Governance arrangements (including matters such as internal control and risk management) and

5. to consider the Council’s arrangements relating to internal audit requirements including:
   
   (a) reviewing and approving the Internal Audit Charter;
   
   (b) reviewing and approving the risk-based plan and any additional significant work\(^4\);
   
   (c) considering the Annual Internal Audit Report
   
   (d) monitoring the performance of internal audit

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\(^1\) Functions” for these purposes shall be construed in a broad and inclusive fashion and shall include the doing of anything which is calculated to facilitate or is conducive or incidental to the discharge of any of the specified functions.

\(^2\) Item 45 Paragraph I Schedule 1 of Local Authorities (Functions and Responsibilities) (England) Regulations as amended.

\(^3\) The Annual Governance Statement is Leeds City Council’s Statement on Internal Control which is approved under Regulation 6(2) of the Accounts and Audit Regulations 2015/234.

\(^4\) As defined in the Internal Audit Charter
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CIPFA’s Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

Authorities and police audit committees should adopt a model that establishes the committee as independent and effective.

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<thead>
<tr>
<th>CIPFA Audit Committee Position Statement</th>
<th>Leeds City Council Position</th>
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<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
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<tr>
<td>• act as the principal non-executive, advisory function supporting those charged with governance</td>
<td>• This is set out in the Committee’s terms of reference which are approved by full Council</td>
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• in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation

• The committee is not a Scrutiny Committee.
• Article 9.2.1 precludes the following from being members of the Corporate Governance and Audit Committee:
  o Members of the Executive;
  o Political Group Leaders from the three largest groups; and
  o Whips from the three largest groups.

• The committee does not include an independent member this is because it is appointed by the Council under S102(1)(a) LGA 1972 to discharge functions of the Council. As such, the Council fixes the number of members and their terms of office - S102(2) LGA 1972.
With one of the functions of the committee being to regulate and control of the Council’s finance, under S102(3) as co-opted members are not permitted on this committee the arrangements at Leeds City Council are at variance with the CIPFA position statement.
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<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
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<tr>
<td>▪ have clear rights of access to other</td>
<td>▪ In place. The committee regularly makes referrals of this nature and has access to all officers of the council.</td>
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<td>committees/functions, for example,</td>
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<td>scrutiny and service committees,</td>
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<td>corporate risk management boards and</td>
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<td>other strategic groups</td>
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<td>▪ be directly accountable to the</td>
<td>▪ The committee is appointed by full council and is accountable to full council for the discharge of the committee’s functions.</td>
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<td>authority's governing body or the</td>
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<td>PCC and chief constable.</td>
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<td>The core functions of an audit</td>
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<td>committee are to:</td>
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<td>▪ be satisfied that the authority's</td>
<td>▪ The committee approves the Annual Governance Statement with that statement being informed by assurance statements received during the year as set out in the committee’s work programme.</td>
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<td>assurance statements, including the</td>
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<td>annual governance statement, properly</td>
<td></td>
</tr>
<tr>
<td>reflect the risk environment and any</td>
<td></td>
</tr>
<tr>
<td>actions required to improve it, and</td>
<td></td>
</tr>
<tr>
<td>demonstrate how governance supports</td>
<td></td>
</tr>
<tr>
<td>the achievement of the authority's</td>
<td></td>
</tr>
<tr>
<td>objectives</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>▪ in relation to the authority's</td>
<td></td>
</tr>
<tr>
<td>internal audit functions:</td>
<td></td>
</tr>
<tr>
<td>o - oversee its independence,</td>
<td>▪ Function 5 of the Committee’s Terms of Reference includes oversight and support of all aspects of Internal Audit’s role.</td>
</tr>
<tr>
<td>objectivity, performance and</td>
<td></td>
</tr>
<tr>
<td>professionalism</td>
<td>▪ An Internal Audit Update report is provided to each meeting of the Committee.</td>
</tr>
<tr>
<td>o - support the effectiveness of the</td>
<td></td>
</tr>
<tr>
<td>internal audit process</td>
<td></td>
</tr>
<tr>
<td>o - promote the effective use of</td>
<td></td>
</tr>
<tr>
<td>internal audit within the assurance</td>
<td></td>
</tr>
<tr>
<td>framework</td>
<td></td>
</tr>
<tr>
<td>CIPFA Audit Committee Position Statement</td>
<td>Leeds City Council Position</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
</tr>
<tr>
<td>- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations</td>
<td>- The Committee’s work programme includes receipt of an annual assurance report on risk and performance management.</td>
</tr>
</tbody>
</table>
| - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption | - A number of Assurance Reports are received by the committee during the year to inform the Annual Governance Statement, these include:  
  - Treasury Management  
  - Financial Management  
  - Decision Making  
  - Risk Management  
  - Performance Management  
  - HR Policies and Procedures and officer conduct  
  - Complaints and Compliments  
  - Information Governance  
  - Procurement  
- The Standards and Conduct Committee has been appointed to provide oversight on Member’s conduct and receives an Annual report which is also considered by Full Council. |
| - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control | - External Audit Reports are routinely presented to the Committee. A protocol is in place (in Part 5 of the Constitution) relating to the Co-ordination of External Audit and Inspection reports.  
  - This provides for, upon receipt of the final report and agreed action plan the Director of Resources and Housing to arrange for the report to be presented at the next appropriate meeting of the Corporate Governance and Audit Committee, to consider the governance implications of the report. The Committee may choose to refer particular issues to other appropriate committees for further detailed consideration.  
  - In relation to reports from inspection agencies the Corporate Governance and Audit Committee may decide to consider the governance and audit aspects of any inspection report, in line with their terms of reference. |
<table>
<thead>
<tr>
<th>CIPFA Audit Committee Position Statement</th>
<th>Leeds City Council Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
</tr>
<tr>
<td>• support effective relationships</td>
<td>• These arrangements are in</td>
</tr>
<tr>
<td>between external audit and</td>
<td>place with Internal Audit</td>
</tr>
<tr>
<td>internal audit, inspection</td>
<td>attending all meetings of</td>
</tr>
<tr>
<td>agencies and other relevant</td>
<td>the committee and External</td>
</tr>
<tr>
<td>bodies, and encourage the active</td>
<td>Audit attending where</td>
</tr>
<tr>
<td>promotion of the value of the audit</td>
<td>presenting reports.</td>
</tr>
<tr>
<td>process.</td>
<td></td>
</tr>
<tr>
<td>• review the financial statements,</td>
<td>• These arrangements are in</td>
</tr>
<tr>
<td>external auditor's opinion and</td>
<td>place and are reflected in</td>
</tr>
<tr>
<td>reports to members, and monitor</td>
<td>the Committee's work</td>
</tr>
<tr>
<td>management action in response to the</td>
<td>programme.</td>
</tr>
<tr>
<td>issues raised by external audit.</td>
<td></td>
</tr>
<tr>
<td>• considering governance, risk or</td>
<td>• These arrangements are in</td>
</tr>
<tr>
<td>control matters at the request of</td>
<td>place.</td>
</tr>
<tr>
<td>other committees or statutory officers</td>
<td></td>
</tr>
<tr>
<td>• working with local standards and</td>
<td>• The Standards and Conduct</td>
</tr>
<tr>
<td>ethics committees to support ethical</td>
<td>Committee’s Annual Report</td>
</tr>
<tr>
<td>values</td>
<td>and the assurance report to</td>
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<td></td>
<td>the committee on Officer</td>
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<tr>
<td></td>
<td>conduct are reflected in</td>
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<tr>
<td></td>
<td>the Annual Governance</td>
</tr>
<tr>
<td></td>
<td>Statement</td>
</tr>
<tr>
<td>• reviewing and monitoring treasury</td>
<td>• This is a specific assurance</td>
</tr>
<tr>
<td>management arrangements in accordance</td>
<td>report received by the</td>
</tr>
<tr>
<td>with Treasury Management in the Public</td>
<td>committee.</td>
</tr>
<tr>
<td>Services: Code of Practice and</td>
<td></td>
</tr>
<tr>
<td>Cross-Sectoral Guidance Notes</td>
<td></td>
</tr>
<tr>
<td>(CIPFA, 2017)</td>
<td></td>
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<tr>
<td>• providing oversight of other</td>
<td>• The Annual Governance</td>
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<tr>
<td>public reports, such as the annual</td>
<td>Statement is approved by</td>
</tr>
<tr>
<td>report.</td>
<td>the Committee.</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>CIPFA Audit Committee Position Statement</td>
<td>Leeds City Council Position</td>
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<tr>
<td>------------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
</tr>
<tr>
<td><strong>Good audit committees are characterised by:</strong></td>
<td></td>
</tr>
<tr>
<td>▪ a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise</td>
<td>▪ The committee is appointed by the Council under S102(1)(a) LGA 1972 to discharge functions of the Council. Full Council fixes the number of members and their terms of office – proportionately and in line with S102(2) LGA 1972.</td>
</tr>
<tr>
<td>▪ a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives</td>
<td>▪ This is demonstrated by the active engagement of members at Corporate Governance and Audit Committee meetings.</td>
</tr>
<tr>
<td>▪ a strong independently minded chair - displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:</td>
<td>▪ These characteristics are demonstrated by the Chair at Corporate Governance and Audit Committee meetings.</td>
</tr>
<tr>
<td>- promoting apolitical open discussion</td>
<td></td>
</tr>
<tr>
<td>- managing meetings to cover all business and encouraging a candid approach from all participants</td>
<td></td>
</tr>
<tr>
<td>- an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime</td>
<td></td>
</tr>
<tr>
<td>CIPFA Audit Committee Position Statement</td>
<td>Leeds City Council Position</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>The committee should:</strong></td>
<td><strong>Officer Commentary</strong></td>
</tr>
<tr>
<td>- unbiased attitudes - treating auditors, the executive and management fairly</td>
<td>- This is demonstrated by the active engagement of members at Corporate Governance and Audit Committee meetings.</td>
</tr>
<tr>
<td>- the ability to challenge the executive and senior managers when required.</td>
<td></td>
</tr>
<tr>
<td><strong>To discharge its responsibilities effectively the committee should:</strong></td>
<td></td>
</tr>
<tr>
<td>- meet regularly - at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public</td>
<td>- The committee has for a number of years operated with a work programme consisting of 4 meetings per year, in 2018-19 the committee is scheduled to meet on 5 occasions.</td>
</tr>
<tr>
<td>- be able to meet privately and separately with the external auditor and with the head of internal audit</td>
<td>- These arrangements are in place</td>
</tr>
</tbody>
</table>
| - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required | - The following officers routinely attend meetings of the Committee:  
  o The Deputy Section 151 Officer  
  o The Deputy Monitoring Officer  
  o The Head of Internal Audit |
<p>| - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters | - These arrangements are in place |</p>
<table>
<thead>
<tr>
<th>CIPFA Audit Committee Position Statement</th>
<th>Leeds City Council Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>The committee should:</td>
<td>Officer Commentary</td>
</tr>
<tr>
<td>• report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.</td>
<td>• The committee fulfills the role of the committee charged with Governance.</td>
</tr>
<tr>
<td></td>
<td>• Assessments of the committee’s role and function are undertaken against the CIPFA position statement on Audit Committees.</td>
</tr>
<tr>
<td></td>
<td>• The Annual Governance Statement is agreed by the Committee on behalf of the authority. <strong>However no additional annual report is prepared by the committee on how it has discharged its responsibilities.</strong></td>
</tr>
</tbody>
</table>
This page is intentionally left blank
Members bring with them a range of knowledge and skills from their working life and elected representative role to the work of the committee. Reports to the Corporate Governance and Audit Committee seek to provide sufficient background knowledge and information to enable Members to fulfill the individual and collective roles on the committee.

### CORE AREAS OF KNOWLEDGE

<table>
<thead>
<tr>
<th>Knowledge area</th>
<th>Details of core knowledge required</th>
</tr>
</thead>
</table>
| **Organisational Knowledge**         | - An overview of the governance structures of the authority and decision-making processes  
                                         - Knowledge of the organisational objectives and major functions of the authority  
                                         - An understanding of the audit committee’s role and place within the governance structures. Familiarity with the committee’s terms of reference and accountability arrangements  
                                         - Knowledge of the purpose and role of the audit committee  
                                         - Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS  
                                         - Knowledge of the local code of governance  
                                         - An awareness of the key principles of the PSIAS and the LGAN  
                                         - Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled  
                                         - Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them  
                                         - Understanding of good financial management principles  
                                         - Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) |
| External audit                              | Knowledge of the role and functions of the external auditor and who currently undertakes this role |
|                                         | Knowledge of the key reports and assurances that external audit will provide                       |
|                                         | Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken      |
| Risk management                          | Understanding of the principles of risk management, including linkage to good governance and decision making |
|                                         | Knowledge of the risk management policy and strategy of the organization                           |
|                                         | Understanding of risk governance arrangements, including the role of members and of the audit committee |
| Counter fraud                            | An understanding of the main areas of fraud and corruption risk to which the organisation is exposed |
|                                         | Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) |
|                                         | Knowledge of the organisation's arrangements for tackling fraud                                     |
| Values of good governance                | Knowledge of the Seven Principles of Public Life                                                  |
|                                         | Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff |
|                                         | Knowledge of the whistleblowing arrangements in the authority                                      |
| Treasury management                      | Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: |
|                                         | - regulatory requirements                                                                          |
|                                         | - treasury risks                                                                                  |
|                                         | - the organisation's treasury management strategy                                                |
|                                         | - the organisation's policies and procedures in relation to treasury management                    |
Report of City Solicitor

Report to Corporate Governance and Audit Committee

Date: 28th January 2019

Subject: Work Programme

<table>
<thead>
<tr>
<th>Are specific electoral Wards affected?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>If relevant, name(s) of Ward(s):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Are there implications for equality and diversity and cohesion and integration?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Is the decision eligible for Call-In?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Does the report contain confidential or exempt information?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>If relevant, Access to Information Procedure Rule number:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appendix number:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Purpose of this report

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

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 and agree the work programme at Appendix 1.
## CORPORTIVE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Description</th>
<th>Responsible Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>22nd March 2019</td>
<td>Internal Audit Plan</td>
<td>To receive a report seeking views on the Internal Audit Plan for 2018/19</td>
<td>Sonya McDonald Head of Internal Audit</td>
</tr>
<tr>
<td></td>
<td>Internal Audit Update Report</td>
<td>To receive an update report on Internal Audit’s work.</td>
<td>Sonya McDonald Head of Internal Audit</td>
</tr>
<tr>
<td></td>
<td>Annual Business Continuity Report</td>
<td>To receive the annual assurance report concerning the Council's Business Continuity arrangements.</td>
<td>Mariana Pexton (Chief Officer Strategy and Improvement)</td>
</tr>
<tr>
<td></td>
<td>Annual Assurance Report on the Procurement, Policies and Practices</td>
<td>To receive the annual assurance report concerning Procurement, Policies and Practices</td>
<td>Doug Meeson Chief Officer (Financial Services)</td>
</tr>
<tr>
<td></td>
<td>Annual Financial Management Report (Incorporating Capital)</td>
<td>To receive the annual assurance report concerning Financial Planning and Management Arrangements at the Council</td>
<td>Richard Ellis (Head of Finance)</td>
</tr>
<tr>
<td></td>
<td>Treasury Management Annual Report</td>
<td>To receive the annually Treasury Management Report providing assurance on the processes used by the department</td>
<td>Doug Meeson Chief Officer (Financial Services)</td>
</tr>
<tr>
<td></td>
<td>Information Governance Annual Report</td>
<td>To receive an annual Assurance report on the Council’s Information Governance arrangements.</td>
<td>Louise Whitworth, Chief Head of Information Management and Governance</td>
</tr>
<tr>
<td>TBC June 2019</td>
<td></td>
<td></td>
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<td>--------------------------------------------------------------------------------</td>
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<td></td>
</tr>
</tbody>
</table>
| 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
Head of Internal Audit                                                |
| Annual Risk Management Report                                                 | To receive an annual assurance report on the Council’s Risk 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                              | Chief Officer (Financial Services)                                  |