

Corporate Governance and Audit Committee

Monday, 30th July, 2018

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

16 Appeals Against Refusal of Inspection of Documents

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

17 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.

18 Late Items

Although there were no formal late items, the Chair did accept the inclusion of supplementary information in respect of Agenda Item No. 9 - Approval of the Audited Statement of Accounts and KPMG Audit Report. Members were informed that the KPMG External Audit ISA206 Report (Leeds City Council 2017/18) had only been received in the last few days and it was important that the report be considered in conjunction with the Audited Statement of Accounts (Minute No.25 refers)

19 Declaration of Disclosable Pecuniary and Other Interests'

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

20 Apologies for Absence

There were no apologies for absence.

21 Minutes of the Previous Meeting

RESOLVED – That the minutes of the previous meeting held on 26th June 2018 were accepted as a true and correct record.

22 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 June;

1. With reference to Minute No. 7 (ii) it was confirmed that the concerns of this committee were conveyed to the new Chair of the Member Management Committee and at that committee's meeting on the 29th June a cross party Member Working group was established to progress matters relating to GDPR. It was further confirmed that policies and procedures relating to Members under GDPR had now been published on the Council's website
2. With reference to Minute No. 7 (iii) – information regarding Social Value in procurement was provided to Members on the 29th June;
3. With reference Minute No. 8 – further information from the Children and Families Directorate was circulated on the 16th July. Additional information was requested as a result of a Member query and was circulated on the 16th July. A request to have a further report back to the Committee is included in the work programme item later on this agenda.
4. Further to Minute No. 8 it was reported that the Chair wrote to Councillor B Anderson requesting that his Scrutiny Board's consider looking into the use of RIPA to tackle environmental action issues. It was reported that the Principal Scrutiny Adviser had confirmed that the Board intend to incorporate this into their inquiries into waste management later in the year.
5. With reference to Minute No. 9 Members were informed that the response from the Chief Officer to the resolutions of this Committee had been circulated to all Members on 16th July. Further clarification was being sought in relation to the Committee's observations in relation to an ethical landlord policy.
6. Referring to Minute No. 10 it was reported that the additional requested information relating to disciplinary investigations had been circulated to all Members on the 13th July. It was also confirmed that circulation of the Chief Executive's response to the Chair's letter setting out the Committee's concerns regarding register of interest return rates from officers in high risk posts had been circulated to all Members on the 18th July. No returns were now outstanding.
7. With reference to Minute No. 11 – it was confirmed that the information requested under resolution 2 (alignment of the budget to the Best Council Plan) was circulated to all Members on the 3rd July.
8. With reference to Minute No. 13 – it was reported that the information requested by the Committee relating to the full scheme cost PFI

programmes was circulated to Members on the 13th July and that training had been offered to Members on the accounts.

9. In response to a query relating to Minute No. 8 resolution (iii) the Head of Governance and Scrutiny Support confirmed that Directors had given an undertaking to add further narrative to the 28 day notice of an intention of taking a Key Decision and that this would be also reinforced in training.

The Chair informed Members that he had raised with officers the fact that new Members were not receiving notices relating to Key Decisions and that assurances had been received that that oversight had been rectified.

23 Information Management and Governance - Update on Public Services Network (PSN) Submission

The Director of Resources and Housing submitted a report which provided an update on the current position on cyber assurance and compliance, specifically compliance to the PSN Assurance Standard.

The Head of Information Management & Governance reported on discussions with the Cabinet Office on the 27th July concerning the Leeds City Council application for Public Service Network (PCN) re-certification. The Committee were advised that following significant work undertaken to meet the more stringent compliance control arrangements required under PSN, and whilst some unresolved issues remained, the authority had now been granted a PSN certificate.

Following questions from Members it was confirmed that the Cabinet Office were now confident that the work plans that officers had in place and the resources which were now deployed, were sufficient to address the outstanding concerns relating to network/segmentation/authentication and use of 300 Access 2003 databases; in relation to which further interim security measures had already been implemented.

In congratulating the team in taking the necessary steps to achieve Recertification, Members requested that further details of the most recent ICT audit and reapplication process be circulated to all Members.

The Head of Information Management & Governance confirmed the requested information would be circulated to Members.

RESOLVED –

- (i) To note and welcome the assurances provided around PSN compliance

- (ii) That the Head of Information Management & Governance circulate the following documentation to all Members of the Committee:
- Original ICT Audit outcome
 - Report/Application for PSN Certification to Cabinet Office
 - Correspondence from the Cabinet officer to confirm PSN certification was now in place

24 KPMG IT Audit Findings 2017/18

The Chief Officer - Financial Services submitted a report which set out details of the results of KPMG's audit work in 2017/18 in respect of IT controls.

The Chair introduced and welcomed to the meeting Tim Cutler (Partner) and Richard Lee (Senior Audit Manager) who were representing KPMG.

Addressing the report Mr Cutler confirmed to Members that the purpose of their audit was to ensure the integrity of the data extracted from those systems for the accounts and that this could be relied upon for the Accounts

Members noted the recommendations that emerged from this year's audit relating to Change Management and User Administration and sought reassurance that the issues identified could not have led to a fraud by way of unauthorised payments. KPMG confirmed that, having reviewed the transactions made, they were satisfied with the explanations provided by management and that there was no indication that any fraud had taken place.

Referring to the prior year recommendations concerning password policy compliance (dating back to September 2016) Members noted that Officers conceded that, if it had been known at the time that the council's revised password policy would not be adopted until April 2018, actions may have been taken earlier to progress the recommendations. It was clarified that the recommendations related to alignment with the previous password policy and that the password structures for FMS and SAP were in line with national good practice. The Committee noted that recommendations that were made previously had now either been implemented or were in progress, however the Committee remained concerned about the wider issue of password policy compliance and whether users were required to change passwords regularly. Whilst acknowledging that further work was scheduled to be undertaken by Internal Audit during the year, the Committee resolved to request a report on this issue from the Chief Digital and Information Officer to a future meeting of the committee.

Members also requested that officers keep the Committee apprised on the progress in implementing the External Audit Recommendations made in the report.

RESOLVED –

- (i) To receive KPMG's IT Audit Report and to note the conclusions and recommendations arising from their 2017/18 audit work
- (ii) That the Chief Digital and Information Officer be requested to prepare a further report on the wider issues of password policy and compliance to a future meeting of this Committee
- (iii) That further updates on the implementation of the External Audit Recommendations be brought back to Committee

25 Approval of the Audited Statement of Accounts and KPMG Audit Report

The Chief Officer - Financial Services submitted a report which sought approval of the Council's final audited Statement of Accounts and to also consider any material amendments identified by the Council or recommended by the auditors.

In presenting their report KPMG responded to Members concerns about the late circulation of their ISA260 report and the limited time Members had had to read the conclusions from their audit work.

KPMG and Officers offered their apologies for the late circulation of their audit report (on the 27th July) and by way of explanation indicated that this was due to a small number of audit issues which remained to be resolved when the agenda was distributed to Members.

Members were advised that some changes had been made to the draft Accounts and that these had been included in the revised Accounts document previously circulated to Members;

- An increase of £1m in the business rates appeals provision for the Collection Fund as a whole to reflect an updated position received from the Valuation office in respect of likely Business Rate Appeals, of which £500k will ultimately fall on the Council;
- Adjustments to non-spendable capital reserves following the valuation of a number of individual assets by way of an increase of Property, Plant and Equipment on the balance sheet by £8.3m
- An increase of £52.8m in the value of assets held at depreciated replacement cost to reflect increases in building costs between the council's revaluation date of 1st April 2017 and 31st March 2018.

Officers also updated the Committee on a further adjustment, to increase the value of council dwelling assets. Members were informed that the previously reported provisional figure of £21.6m needed now to be reflected as £52.7m in the Accounts, following additional work undertaken since the draft ISA260 report had been made available to Members.

By way of context the representative from KPMG confirmed that the adjustments to asset values stemmed from national guidance to auditors in late June and early July concerning valuations of property, plant and equipment. Members were advised that recommendations had been made and accepted by management concerning the timing of valuation work for future years.

Members also received assurances from KPMG in relation to the valuation of Pension Assets and Liabilities and on the methodology employed, and scope for, the Value for Money judgement provided in their ISA260 report.

In considering the resolution of the Committee at paragraph 6.2, given the late provision of the ISA260 report and the adjustments reported verbally to the Committee, the Chair sought further reassurance from KPMG as to the veracity of the Accounts and whether the proposed changes were correct – Mr Cutler remarked that all asset valuations are by their nature estimates, and confirmed that the changes proposed reflected the latest available information and were required to update the previously assumed estimates.

(Prior to the conclusion of this item Members resolved under paragraphs 10.4.3 and 10.4.5 to exclude the press and public to receive information in respect to the joint protective claim made against Barclays Bank concerning loans provided by the Bank at a time when Barclays have admitted previously manipulating LIBOR).

RESOLVED -

- (i) To receive the report of the Council's external auditors on the 2017/18 accounts and to note its findings.
- (ii) To approve the final audited 2017/18 Statement of Accounts and to request the Chair to acknowledge the approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
- (iii) On the basis of the assurances received, the Chair be authorised to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.
- (iv) To note KPMG's VFM conclusion included within their final audit report.
- (v) To note that there is an outstanding objection to the 2016/17 accounts which is still under consideration by KPMG, and which may result in a delay in the completion of the overall 2017/18 audit.
- (vi) That in respect of (v) above, a verbal update be provided at the next meeting
- (vii) To note the update provided by the Chief Officer - Financial Services in respect of the Council's joint protective claim and the Committee asked to be kept up to date as to progress as appropriate.

26 Internal Audit Annual Report and Opinion 2017-18

The Chief Officer - Financial Services submitted a report which drew to the attention of the Committee the annual internal audit opinion and basis of the internal audit assurance for 2017/18.

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

In considering the report Members reviewed and sought further assurance and updates on Audits of:

- Arrangements for the Deprivation of Liberty Safeguards;
- Application of Contract Procedure Rules in outsourcing of work to sub-contractors and applicable sanctions for officers through the Disciplinary Procedures for non-compliance;
- Arrangements in place to ensure for appropriate training will be in place for staff engaging workers to prevent incorrect payments being made off payroll;
- Reporting arrangements for Fraud and Corruption concerns including to the Committee;

Assurance was also provided that Internal Audit did not have any limitations placed on their work during the year and that where audits were being undertaken focus was given to where key controls could be strengthened (and digitised) and unnecessary processes removed altogether.

A discussion ensued in relation to the frequency of the external review of Internal Audit against the Public Sector Internal Audit Standards.

The Head of Internal Audit confirmed that the standards require that this be undertaken no less than every 5 years (with the last undertaken in Leeds in 2016).

Members requested that an options paper be brought to a future meeting of Committee for further consideration of the method and frequency of such reviews.

RESOLVED –

- (i) To receive the Annual Internal Audit Report and Opinion for 2017/18 and note the opinion given. In particular:

- that on the basis of the audit work undertaken during the 2017/18 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating effectively in practice
 - a satisfactory overall opinion was provided for 2017/18, based on the audit work detailed within the submitted report
 - that the work undertaken to support the opinion had been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing
- (ii) To note that there have been no limitations in scope and nothing had arisen to compromise the independence of Internal Audit during the reporting period.
- (iii) That options for the frequency and method of Internal Audit External Assessment against the Public Sector Internal Audit Standards be brought for discussion at a future meeting of the Committee

27 Annual Governance Statement

The Head of Governance and Scrutiny Support submitted a report of the City Solicitor which sought approval of the Annual Governance Statement (AGS).

Members noted the need for the Statement to be updated as a result of discussions at the meeting to reflect the positive announcement concerning the recent PSN Certification and also at paragraph 3.84 to reflect the receipt of and the conclusions contained in Paragraph 3.43 of the KPMG ISA260 report.

RESOLVED – That subject to the inclusion of the above, the Annual Governance Statement be approved

28 Work Programme 2018/19

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

Members agreed the following additional items be added to the Work Programme:

- A report from Chief Officer Resources and Strategy from Children's Services to provide an update to committee on Delegated Decision arrangements in Children's Services following concerns raised by the committee in June (November 2018)
- To receive an assurance from the Chief Digital Information Officer that the ICT Annual Audit Outcomes/Action Plans in relation to the

requirements of PSN are progressing (November 2018) and that a further update be provided (March 2019)

- A report from the Chief Digital Information Officer which sets out details of the Council's Password Policies and arrangements to ensure compliance.(November 2018)
- A report from the Chief Officer (Financial Services) which provides details of progress on the implementation of the External Audit Recommendations (November 2018)

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

29 Date and Time of Next Meeting

RESOLVED – To note that the next meeting will take place on Friday, 23rd November 2018 at 10.00am in the Civic Hall, Leeds.