



# **Annual Report to Full Council**

## **Corporate Governance and Audit Committee**

**2021/22**

# Annual Report of the Corporate Governance and Audit Committee 2021/22

## Foreword by Councillor Paul Wray - Chair

I am delighted to introduce the annual report of Corporate Governance and Audit Committee, summarising the contribution the committee made during the 2021/22 Municipal Year to the achievement of good governance, effective internal control and strong public financial management within the Council.

All Members of the committee bring a balanced, independent and objective approach to business of the committee and I thank them for the contributions they have made. The committee has provided robust challenge and meaningful review of the Council's arrangements for risk, governance and audit, and in particular has:

- Overseen the production of the Annual Governance Statement;
- Reviewed and approved the Council's statutory accounts subject to completion of the external audit;
- Received regular updates and formal reports from the Council's External Auditor;
- Received and reviewed regular Counter Fraud Update Reports;
- Received and reviewed in detail assurance reports on the key aspects of the Council's internal control arrangements, including risk management, information governance and performance management, providing robust challenge to our arrangements and monitoring for areas in need of improvement; and
- Provided oversight to the Council's internal audit function, receiving the annual report and opinion alongside regular updates on progress against the internal audit plan, including follow up in relation to limited assurance reviews.

The committee continues to work hard with officers to understand and strengthen governance arrangements across the Council, and to ensure that risks are escalated appropriately.

During the year the committee has built upon the cycle of internal control approach to officer reporting introduced in the 20/21 municipal year, with a continued focus on ensuring that governance arrangements are robust and that there is appropriate democratic oversight.

The committee continues to adopt a varied work programme, continuing to receive annual assurance reports to provide routine oversight of arrangements, but taking a flexible and agile approach, adapting to emerging issues and concerns.

**ADD SIGNATURE**

Chair Corporate Governance and Audit Committee

## 1. INTRODUCTION

This annual report to full council demonstrates the importance the Council places on the authority's governance arrangements.

The Chartered Institute for Public Finance and Accountancy (CIPFA) describes the overall aim of good governance as:

'to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities'

*CIPFA Delivering Good Governance in Local Government Framework 2016 Edition (the Good Governance Framework)*

Good governance is ultimately the responsibility of Full Council as the governing body of Leeds City Council. This report provides assurance as to the way in which Corporate Governance and Audit Committee has discharged its role to support Full Council in this responsibility. In addition, the report underpins the Annual Governance Statement, which is approved by the committee, and is provided to all Members.

In particular, the report on the work of the Council's Corporate Governance and Audit Committee demonstrates how the committee has:

- Fulfilled its terms of reference;
- Complied with national guidance relating to audit committees;
- Contributed to strengthening risk management, internal control and governance arrangements.

## 2. COMMITTEE INFORMATION

### **Role of Corporate Governance and Audit Committee**

The audit committee is appointed by Council to support the discharge of its functions in relation to good governance by providing a high-level focus on audit, assurance and reporting.

CIPFA defines the purpose of an audit committee as follows:

1. 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.
2. 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 annual governance processes.

*Audit Committees – Practical Guidance for Local Authorities and Police (2018)*

The Terms of Reference for the Corporate Governance and Audit Committee are reviewed regularly against current regulations, CIPFA position statement and guidance for audit committees and best practice in comparable authorities.

The core functions of the committee, reflected in its Terms of Reference, are to:

- Consider the Council's arrangements relating to the Accounts;
- Consider the Council's arrangements relating to external audit requirements;
- Review the adequacy of policies and practices to ensure compliance with statutory and other guidance;
- Review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management);
- Consider the Council's arrangements relating to internal audit requirements.

## **Membership**

The committee has seen a significant change in membership for the 2021/22 municipal year, with 4 elected members new to the committee along with the independent member appointed for the final meeting of the previous year.

For the 2021/22 municipal year there were nine elected members and one non-voting independent member appointed to the committee:

- Councillor Kamila Maqsood (Labour) (Chair)
- Councillor Gohar Almass (Labour)
- Councillor Jonathan Bentley (Liberal Democrat)
- Councillor Mike Foster (Conservative)
- Councillor Pauleen Grahame (Labour)
- Councillor Peter Harrand (Conservative)
- Councillor John Illingworth (Labour)
- Councillor Jackie Shemilt (Conservative)
- Councillor Paul Truswell (Labour)
- Linda Wild (Independent Member)

## **Independence of the committee.**

As a Council appointed committee, Corporate Governance and Audit Committee is appointed in accordance with the requirements for proportionality but, in line with CIPFA guidance and best practice, strives for political neutrality.

Linda Wild was appointed by Council in February 2021 as a non-voting Independent Member to the committee. The introduction of an independent member to the committee has enhanced the independence of the committee as it discharges its functions. In addition, the professional audit experience and knowledge of its independent member, give depth and insight to the robust challenge the committee provides in considering the assurances received.

## **Knowledge and Skills Framework**

Members bring with them a range of knowledge and skills from their working life and elected representative roles to the work of the committee. The skills and knowledge of the committee are further complemented by those of the Independent Member, who has brought with her a wealth of knowledge and experience in an audit setting and applies this knowledge, skill and experience to Leeds City Council.

A programme of development has been undertaken during the year to ensure that new members of the committee have the necessary knowledge and skills to discharge the functions of the committee. In view of the significant change in membership an introductory session was provided on the role and functions of the audit committee prior to the first meeting of the Municipal Year.

Further briefings have been provided to the committee to ensure that all Members remain up to date and informed to enable fulfilment of the committee's role.

As in previous years, the Chief Finance Officer provided training to the committee in preparation for their examination of the Accounts. The committee also participated in workshops around counter fraud, and risk management.

The External Auditor routinely provides briefing notes providing sector updates and presented an in depth briefing in relation to the role of external audit in Local Government, the Redmond Review of local authority financial reporting and external audit, and the external audit requirements arising from the new Value for Money arrangements.

The committee looks forward to participating in further development opportunities over the 2022/23 municipal year, particularly the e-learning sessions on Information Management and Governance.

## **Operation of the committee**

The committee has met on seven occasions during the year with meeting dates structured around the receipt of annual assurance reports, external and internal audit reporting cycles, and the statutory requirements for production of the Accounts and Annual Governance Statement.

This frequency of meetings ensures the committee can fulfil its responsibilities in an efficient and effective way and has been benchmarked<sup>1</sup> against the CIPFA recommended practice and arrangements in other local authorities.

Following the easing of social distancing restrictions, arrangements were made to return to a full programme of in person meetings in the 2021/22 municipal year, ensuring that all meetings were covid safe and following government guidance. Live streamed webcasts of each meeting allowed members of the press and public to continue accessing meetings remotely. The reintroduction of work from home guidance at the time of the December meeting led to arrangements being made for a remote consultative meeting, with notes and recommendations received and formally approved by committee at the next in person meeting in February 2022.

The committee is supported by several officers who attend regularly and bring expertise in relation to corporate governance, internal audit, finance, legal compliance, risk and resilience and information governance.

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<sup>1</sup> Benchmarking took place during the 2018/19 municipal year.

### **3. COMMITTEE BUSINESS**

The work undertaken by the committee to support their approval of the Annual Governance Statement and Accounts, and in furtherance of the core functions of audit committees identified by CIPFA, is summarised in this section. (A complete list of the reports considered by the committee can be found at the end of this report.)

#### **The Accounts and Annual Governance Statement**

Council has delegated to the committee the authority to approve the Council's Annual Governance Statement and the audited Statement of Accounts on behalf of the Council.

The committee considered the interim Annual Governance Statement in July 2021 prior to its publication for the formal period of public consultation, and went on to approve the Council's Annual Governance Statement for 2020/21 in November 2021 following receipt of the Head of Audit's Opinion.

As a result of consideration of the Annual Governance Statement the Committee requested a review of the Corporate Governance Code and Framework. Following receipt of a report in March 2022, the committee approved a new Local Code of Corporate Governance, reflecting the seven principles of good governance set out in CIPFA Good Governance Framework. The committee noted that a Corporate Governance Framework which articulates the arrangements in place to meet the principles and commitments set out in the Code, will be received together with an assurance map prior to approval of the Annual Governance Statement for 2022.

The committee considered the draft Statement of Accounts in July 2021 prior to the period of public deposit. Further consideration followed in February 2022, and the committee approved the Audited Statement of Accounts and management representation letter, subject to no material adjustments arising from remaining external audit work. Should any material adjustment arise a further, final version of the statement of accounts will be presented to the committee for approval prior to publication.

During consideration of the accounts the committee sought assurance from officers on matters including the Council's MRP Annuity method for paying debt and received confirmation that the method is recognised in statutory guidance and in line with the majority of authorities. Members also sought and received assurance that an identified valuation error could not be replicated elsewhere.

#### **External Audit**

The committee plays a significant role in overseeing the Council's relationship with its external auditors, and takes an active role in reviewing the external audit plan, progress reports and annual report setting out the findings of the Value for money Review.

Grant Thornton is the Council's current appointed auditor, and will continue to audit the 2021/22 accounts, after which the appointment will come to an end. Following consideration of other options, the committee concluded that participation in the national audit appointment scheme for appointing the external auditor from 2023/24<sup>2</sup> would produce better outcomes for the council. On the committee's recommendation, the Council has accepted the invitation to opt in to the appointment scheme.

In June 2021 the committee received the formal Annual Audit Letter from Grant Thornton setting out an unqualified opinion on the Council's financial statements for 2019/20 and an 'except for' opinion on the council's arrangements to secure value for money for 2019/20 identifying that the council's level of general fund reserves had been insufficient

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<sup>2</sup> The body currently designated to undertake this role is PSAA (Public Sector Audit Appointments Limited)

to manage the financial impact of an event on the scale of the covid pandemic without taking unplanned short-term measures. The committee received assurance from the Chief Officer Financial Services that an analysis of budget risks and the requirement to achieve a sustainable budget forms part of the Council's Medium-Term Financial Strategy, and that it is recognised that the council needs to build up its reserves, but that this must be done in balance with the need to deliver front line services.

In preparation for the audit of the 2020/21 accounts, the committee responded to the Grant Thornton Risk Assessment Enquiries, which informs the audit risk assessment. This contributed to effective two-way communication between the committee and the external auditors, and also allowed the committee to identify the potential need for further training, such as counter fraud training.

During the year, the committee has received regular reports and verbal updates from the external auditor setting out progress against the external audit plan for the 2020/21 accounts, including receipt of the interim ISA 260 report in February 2022 based on which the committee was able to approve the accounts subject to successful completion of the audit. It is anticipated that the final audit report, incorporating the Value for Money review, will be received in July 2022.

It is anticipated that the committee will formally receive the external audit plan for the 2021/22 accounts in September 2022. The committee looks forward to continuing to work with the external auditors; considering the responses of management to audit recommendations and ensuring that appropriate actions are agreed and implemented.

## **Internal Control**

The committee has responsibility for monitoring the effectiveness of the Council's system of internal control and management of corporate risks.

Through robust consideration of annual assurance reports<sup>3</sup> in relation to a wide range of internal controls the committee has obtained assurance that relevant systems and processes are documented and defined; clearly communicated; effectively embedded; meaningfully monitored; and reviewed and refined. For example, the committee

- Received assurance in relation to progress made embedding the Council's social value arrangements;
- Received assurance through the reporting of the LGA Peer Review of the council's procurement function;
- Received assurance in relation to management and control mechanisms supporting the successful delivery of Integrated Digital Services;
- Noted the work being undertaken by Scrutiny Board (Strategy and Resources) in relation to the customer contact centre and communicated the Committee's concerns to the Chair of the Board.

In addition to the receipt of regular update, and routine assurance reports, the committee seeks assurance in relation to significant matters relating to governance, audit and risk. Reports have been received providing assurance in relation to:

- Climate Emergency Governance & Controls - allowing the committee to raise questions and receive further assurance around the levels of government funding available and the arrangements underpinning the Council's progress toward net zero emissions by 2030.

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<sup>3</sup> Detailed in Appendix A

- Procurement Review Update Report - giving details on the action plan and progress made in relation to the council's P2P (procure to pay) review and recommendations made from the LGA Peer Review. Members noted the review's intention to ensure efficient and effective P2P processes to deliver compliant procurement activity and value for money in relation to external spend.
- Public Service Network (PSN) compliance including the Council's Access project – the committee monitored progress against the action plan, noting how the formation of the Cyber Team resulted in the council making a successful PSN submission during the year.

## **Internal Audit**

The committee works closely with the internal audit function, both overseeing the independence and effectiveness of the service, and receiving assurance from the service as to the adequacy and effectiveness of the Council's internal control environment.

The committee were pleased to receive the external independent review of the Internal Audit Service, undertaken by Glasgow City Council, providing assurance that the service conforms with the requirements of the Public Sector Internal Audit Standards (PSIAS).

The committee has received and considered regular reports from the Head of Audit throughout the year providing updates on progress against the 2020/21 Internal Audit Plan, together with information relating to the wider work of the Internal Audit section.

The committee are advised of the outcomes of every internal audit review, with greater depth, and follow up reviews, provided in relation to reviews resulting in limited assurance.

During the course of the 2021/22 municipal year the committee has considered two reviews identifying limited assurance overall:

- No Recourse to Public Funds - the purpose of this review was to ensure that only families with identified needs are assessed as requiring support and that payments are made in line with legislation and guidance. Limited assurance was provided on the control environment as a result of issues identified with the accuracy of some payments. Management have responded positively by agreeing all recommendations and a follow up audit will be completed.
- Data Protection Impact Assessments – the objective was to provide assurance that there are appropriate controls in place to ensure DPIAs are completed where required. Limited assurance was provided on the control environment due to weaknesses identified in relation to DPIAs not being progressed appropriately, not being signed off and insufficient monitoring to ensure this is being completed. Management have agreed to all recommendations and a follow up audit will be completed.

In addition to regular audit updates, the committee now receives focussed bi-annual update reports in relation to anti-fraud and corruption controls. During the year, these reports have presented details on both proactive and reactive work undertaken by the service. Following receipt and consideration of the November update report the committee:

- Endorsed the Counter Fraud and Corruption Strategy and Response Plan;
- Endorsed the Whistleblowing Policy
- Endorsed the role of a Counter Fraud and Corruption Champion to which Cllr Maqsood has been nominated.

The committee also receives a wide range of assurance in relation to the soundness of the council's arrangements through the reporting of Internal Audit work in addition to the formal reviews undertaken, for example

- work to support the Council's Covid-19 response, providing assurance that internal controls are in place and good governance is adhered to (e.g. in relation to self-isolation payments and volunteer expenses.)
- work supporting the core business transformation programme, providing expertise in data analytics in addition to challenge and advice in relation to relevant systems and processes.

In November 2021, the committee received and considered the Internal Audit Annual Report and noted a satisfactory overall opinion for 2020/21. The committee was satisfied that the work undertaken to support the opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

The committee reviewed and agreed the annual risk based audit plan for the 2022/23 year in March 2022.

#### **4. LOOKING FORWARD**

The committee has approved the work programme for the 2022/23 municipal year setting out the receipt of regular update reports and annual assurance reports.

Through the continuing receipt of regular reports Corporate Governance and Audit Committee will provide the usual level of robust challenge to corporate governance and audit practice and procedure across the authority to ensure that our arrangements are up to date and fit for purpose, communicated, embedded and routinely complied with.

In addition to the routine business the committee have requested specialised assurance reports in relation to:

- the governance arrangements for implementation of Best City Ambition and review of strategic framework – allowing the committee to consider assurance that governance arrangements underpinning the implementation of the Best City Ambition, ensure that the Council is focussed on delivering its strategic plan; and
- the Council's estate management arrangements - providing assurance to the committee on governance arrangements to manage, maintain and make best use of council land and buildings.

The work programme will be the subject of regular review, and the committee will remain flexible in its approach, to accommodate additional items within its remit as they emerge. As in the last municipal year, the committee will request and consider reports in relation to relevant matters which come to our attention during the year.

<b>CORPORATE GOVERNANCE AND AUDIT COMMITTEE ACTIVITY – 2021/22</b>	<b>June 2021</b>	<b>July 2021</b>	<b>Sept 2021</b>	<b>Nov 2021</b>	<b>Dec 2021</b>	<b>Feb 2022</b>	<b>Mar 2022</b>
<b>Statutory business</b>							
Statement of accounts		Draft					
Annual Governance Statement		Interim		Approval			
Internal Audit Annual Report and Opinion							
Approval of Audited Statement of Accounts and Grant Thornton Audit Report							
Annual Audit Letter and External Audit Plan (planned June 2021)	Annual Audit Letter	External Audit Plan					
<b>Annual operational and specialist assurance reports</b>							
Annual Decision Making Statement of Internal Control							
Annual Procurement Assurance Report							
Annual assurance report on employment policies and procedures and employee conduct							
Annual assurance report on corporate risk management arrangements							
Annual Assurance Report on Planning Decision Making and Enforcement Arrangements							
Annual Business Continuity Report							
Annual assurance report on corporate performance management arrangements							
Annual Assurance Report on Customer Contact							
External audit – certification of housing benefit grant claims							
Annual financial management assurance report (incorporating capital)							
Annual treasury management assurance report			Governance				
Information governance annual assurance report							
Annual Assurance Report on Integrated Digital Services Controls							

<b>CORPORATE GOVERNANCE AND AUDIT COMMITTEE ACTIVITY – 2021/22</b>	<b>June 2021</b>	<b>July 2021</b>	<b>Sept 2021</b>	<b>Nov 2021</b>	<b>Dec 2021</b>	<b>Feb 2022</b>	<b>Mar 2022</b>
<b>Independent Assurance</b>							
Internal Audit Update Report							
Internal Audit Plan							
External audit progress report and sector update							
Counter Fraud Update Report							
<b>Additional reports received in accordance with terms of reference</b>							
PSN Certification – Update Report							
Report on Climate Emergency Governance and Controls							
External Audit Risk Assessment Enquiries 2020/21							
Procurement of External Auditor							
Procurement Review Update Report							
Public Sector Internal Audit Standards – External Quality Assessment							
Approval of Local Code of Corporate Governance							
Work Programme							