



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 21 JULY 2021 at 6:30 pm

P R E S E N T:

Councillor Kaur Saini (Chair)
Councillor Pantling (Vice Chair)

Councillor Joshi

Councillor Dr Moore

* * * * *

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Ali, O'Donnell and Rahman

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 17 March 2021 be confirmed as a correct record.

4. MEMBERSHIP OF THE AUDIT & RISK COMMITTEE 2021/22

Members were asked to note the membership of the Committee for 2021/22 as:

Councillor Kaur Saini (Chair)
Councillor Pantling (Vice-Chair)
Councillor Ali
Councillor Joshi
Councillor Dr. Moore
Councillor O'Donnell
Councillor Rahman

One unfilled non-Group vacancy

RESOLVED:

That the membership of the Committee for 2021/22 be noted.

5. DATES OF MEETINGS OF THE AUDIT AND RISK COMMITTEE 2021/22

Members were asked to note the meeting dates of the Committee for the 2021/22 municipal year as:

21 July 2021
29 September 2021
24 November 2021
16 March 2022

Meetings were scheduled to take place at 5.30pm (or 6.30pm if Members training /briefings are arranged before the main meeting).

RESOLVED:

That the meeting dates of the Committee for 2021/22 be noted.

6. TERMS OF REFERENCE

Members were asked to note the Terms of Reference for the Committee, a copy of which was circulated with the agenda.

RESOLVED:

That the Terms of Reference of the Committee as circulated be noted.

7. REGULATION OF INVESTIGATORY POWERS ACT 2000: BI-ANNUAL PERFORMANCE REPORT JANUARY 2021 - JUNE 2021

The City Barrister and Head of Standards submitted a report, which advised on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1st January 2021 to 30th June 2021.

Colin Sharpe, Deputy Director of Finance presented the report. It was noted that the Council had applied for 0 (nil) Directed Surveillance Authorisations and 0 (nil) Communications Data Authorisations in the period, but that it was important from a governance perspective to make Members of the Committee aware of the current position of the authority.

RESOLVED:

1. That the report be received and noted.

8. NATIONAL FRAUD INITIATIVE 2021/2022 UPDATE REPORT

The Deputy Director of Finance submitted a report for noting which provided information for the Audit and Risk Committee on the National Fraud Initiative (NFI) exercises currently underway.

Stuart Limb, Corporate Investigations Manager presented the report, and the

following points were highlighted:

- The NFI had been carried out every two years since 1996.
- A summary of matches was highlighted at para 4.5 in the report.
- The authority participated in two data matching exercises: one with other authorities, and the other with data matching internally.
- The matches were then allocated on the secure online portal to key contacts around the authority to check those matches to ensure there was no fraud or error in the systems.
- 14698 matches came to the authority 29th January 2021. So far over 5,000 had been checked and validated for fraud or error, so were progressing really well.
- It was stressed that not every match had to be checked on the exercise, but was checked on a risk-based level, with the highest risk first.
- The NFI provided an invaluable impartial data-matching exercise that the authority had to participate in. It matched numerous data sets across the authorities, for example, tenancies, data claims, blue badge, with other authorities across the country to check there was no duplication.

In response to questions from Members the following points were made:

- In matches undertaken by 23rd June 2021, the table listed two errors having been identified. It was reported that at the time of writing the report, the NFI website was showing two overpayments, since which the errors had been clarified with the service area and explained away as no fraudulent overpayments which had been returned to £0.
- The exercise had undoubtedly demonstrated its value over the years to detect and reduce fraud. Whilst not having identified major fraud and errors, it had been useful, particularly in London boroughs where the population was quite transient and crossed borders easily, to covers millions of pounds of matches.
- The reverse was if nothing was found during the exercise, it gave an assurance the level of fraud and error was quite low.

The Chair thanked the Officer for the report.

RESOLVED:

1. That the report be received and its contents noted.

9. COUNTER FRAUD REPORT 2020

The Deputy Director of Finance submitted a report for noting which provided information on the work carried out by the Corporate Investigations Team for the period 1st April 2020 to 31st March 2021.

Stuart Limb, Corporate Investigations Manager presented the report, and the following points were highlighted:

- The report explained there had been a huge change in emphasis on work

undertaken by the Team for the previous financial year because of Covid-19 pandemic.

- A lot of work had shifted from reactive and investigatory to proactive. The Team had worked intensively with colleagues in Revenues and Customer Support and the wider Finance Division, to put procedures, declarations and a robust application process in place for the business support grants. A lot of work undertaken over the past year had been on verification and checking rather than criminal investigations.
- Collectively over 15,000 applications had been received by the authority in total for various funding schemes devised by the Government.
- The services of external companies were employed to provide bank verification checks.
- The authority also subscribed to the National Fraud Initiative and the National Anti-Fraud Network, which sent anti-fraud alerts such as fraud trends or phishing, to prevent payments being made in error to suspicious applications.
- Combined loss avoidance and income generated savings was at £959,000.

Members were impressed with the work undertaken. In response to Members' questions, the following information was noted:

- Fraud discovered by the authority was shared on the NFI secure website, and information was also fed back to the anti-national fraud network, as did colleagues at County Hall. Also new suspicions of fraud were also shared with the NFI network, to assist other local authorities and was a real valuable tool to find out what was happening outside of the city.
- An official contract was held with a credit reference agency to undertake bank verification checks based on information shared securely with them supplied by the applicants and provided the authority with a level of assurance that bank statements did match an applicant.
- With reference to the combined loss avoidance and income generated savings of nearly £1million, if turned on its head, it would mean there would be inaccurate or incomplete applications received across the different areas, for example, a tenancy fraud. It would be difficult to place a numerical value on tenancy fraud, so it was agreed with the Director of Finance a notional figure average of a tenancy was 10 years, and based on that figure, when tenancy fraud was committed the notional value attributed was 10 years at an average rent of approximately £37k.
- Where there was direct theft or fraud of Council Tax, the financial value would be attributed to the exact penny. There were schemes open to the authority such as the New Homes Bonus, whereby the authority was credited for bringing back into circulation empty properties. The Team would look at the empty properties every year on the Council Tax Register which would then be checked to see if they were in fact empty. Evidence found would be passed by to Revenues and Benefits to decide on whether the property should be classed as empty or not. As a direct result the Council received approximately £7k per property and an increase in funding, and was a real income generator of the authority. The service was also provided to other local authorities in the area.

The Chair thanked the Officer for the report.

RESOLVED:

1. That the report be received and its contents noted.

10. EXTERNAL AUDIT PLAN - YEAR ENDING 31 MARCH 2021

The External Auditor Grant Thornton submitted for noting the External Audit Plan for year ending 31 March 2021, which provided an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

The document was presented by Grant Patterson, External Auditor. Points highlighted in the document were:

- Key matters were highlighted where Covid-19 continued to feature heavily on the Council's agenda and finances.
- The volume and nature of accounting for additional grants and packages had impacted on the Council's work over the course of the pandemic and how they were reported.
- Significant risks as deemed by external auditors were listed in the report. There were two presumed risks: firstly, improper revenue recognition and secondly, management override of controls. For the latter, external auditors' proposed response to address this would be to focus on subjective areas of the accounts, including estimates where management could circumvent normal controls to achieve a certain outcome.
- With regards to the first risk, external auditors had rebutted this risk, but would still undertake a significant level of work on the Council revenue streams.
- Valuation of net pension fund liability was listed as a significant risk and had previously been raised in the progress report at Audit & Risk Committee in March 2021.
- It was recognised that the risk of valuation of land and buildings had had significant work undertaken by both the external auditor and Council, and associated recommendations were kept open.
- The risk of Operating Expenses highlighted the focus on the need for completeness of non-pay expenses.
- Other matters provided a summary of the external auditor's responsibilities, included the requirement for them to read the Council's Narrative Report and Annual Governance Statement to check they were consistent with the financial statements, on which they would give an opinion.
- All external audit work was driven by materiality, levels of which were lower than the financial year ending 2020. Any changes on materiality would be reported back to the Audit & Risk Committee as part of the external auditor's findings report.
- Whilst no longer giving a value for money conclusion as in previous years, external auditors were now required to ensure there were proper arrangements for improving economy, efficiency and effectiveness, financial sustainability and governance.

- There were risks of significant weakness in the funding levels beyond 2021/22, which were uncertain.
- The increase in audit fees for the year were set out for transparency in the report.
- The Council also commissioned the external auditor to undertake other work, and were standard pieces of work around housing benefits, teachers' pensions and housing capital receipts returns.
- One matter brought to the attention of the Committee was a member of the audit team based at Birmingham had a close family member who worked at the Council, and the individual had not worked on any audit work for the Council, and independence had not been impacted.

In response to Members' questions, the following responses were given:

- With regards to Council Dwellings valuation, the valuation needed to be improved, and would be picked up as part of the year end process and was not a material change in the accounts and there were processes in place moving forward.
- To reassure Members with regards to the Council pension fund liability, audit was looking at the net pension liability that the Council had to pay over 40-50 years moving forward, and there were many complex assumptions behind that. External Audit were confident that an audit review of how the estimate was put together would be undertaken. The Government had set out statutory overrides that allowed the Council to smooth out any ups and downs in terms of valuations in any one year. The contribution rate the Council has to pay is reviewed every three years and reflected in the budget strategy.
- Progress on Fixed Penalty Notices processes had not been formally followed up and would be included in the audit finding report.
- With regards to the cost of additional work on VfM under the new NAO Code of Practice, it was too soon to comment but was not expected to increase significantly. The Ministry of Housing, Communities and Local Government had made £15million available to address the Redmond Report and the increased audit scrutiny.

The Chair thanked the External Auditor for the report.

RESOLVED:

1. That the report be received and its contents noted.

11. DRAFT STATUTORY STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2020/21

The Chief Operating Officer submitted a report to the Committee which provided an opportunity for the Committee to consider the Council's Draft Annual Statement for Accounts for 2020/21, before being brought back to the Committee for formal approval.

Amy Oliver, Head of Finance, presented the report, and drew Members' attention to the following:

- The statutory accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.
- The accounts were produced consistently to the Outturn Report, but did show a very different presentation as the Outturn Report was produced in line with the authority's budget. However, the financial position in the Statement of Accounts included Premises, Plant and Equipment, and Pensions Liability which would not usually be seen in the Outturn Report, as it did not directly impact on the Council Tax or Business Rate payer.
- In addition, the Annual Governance statement for approval was produced in line with the accordance with Local Code of Corporate Governance CIPFA guide, which showed all controls were in place.
- Draft accounts did not need to be published until the 1st August as there was an extension for 2021, but were published to the original deadline of May 2021, which worked well for audit.
- The front part of the Statement of Accounts was a narrative report which summarised the financial position of the Council and the impact of Covid-19 on the accounts in the year.
- The draft also included core financial statements, and explanatory notes to the accounts.
- There is a material item of expenditure note. Usually reported as 0 (Nil) return, but due to Covid-19 the income for the authority had changed, for example, leisure centre and car parking income had significantly reduced. Also, the collection of rent and council tax had not been as high as budgeted for. Some of the income loss had been replaced by government grants which had been included in the accounts, which compared differently when looking at other year on year financial statements.
- Usable and unusable reserves had increased significantly, mainly due to timing of financial years. For example, business rates and council tax deficits had increased through the impact of Covid-19 which would impact the Collection Fund in 2021/22, however, the Government had provided some compensation in advance in 2020/21. This had been transferred to earmarked reserves.
- The pension deficit had risen to £903million at March 2021 in and was a figure based on an estimate of benefits likely to be paid out by the pension fund over the next 40-50 years. The tri-annual review would look at the employer's and employees' contribution rates and work out how much they need to be to recover that deficit over the longer term. £903million was a large number but statutory overrides meant it did not directly affect the financial position of the authority, and would be monitored to see how changes to the employer's rate would impact on the financial strategy going forward.
- Other key notes which usually gained attention from external stakeholders were No. 31 Members' Allowances, and No. 32 Officers' Remuneration which were drawn to the attention of the Committee for noting.
- Under Housing Revenue Account, it was highlighted that funds were ringfenced and could not be used to finance the General Fund.
- The Collection Fund Account was listed as a ring-fenced account that represented the Council's role in collection of Council Tax and Non-

Domestic Rates, what was collected in year, what was paid out to precepting authorities, for example, Fire and Police as well as to the Council's own General Fund.

- The Annual Governance Statement was included in the report, which set out the Council's visions, controls in place, and significant risks identified during the year, such as the impact of Covid-19.

The Committee was asked that with what they had read if they considered there was significant risk within their understanding of the Council and were asked to provide comment.

The Officers were congratulated on providing the training before the meeting, which had assisted Members and had reduced questions that might have arisen.

Members were offered further training and discussion on the Accounts should they wish.

RESOLVED:

1. That the Draft Statutory Statement of Accounts for 2020-2021 be noted.
2. That the Draft Annual Governance Statement for 2020-2021 be noted.

12. REPORT OF THE AUDIT AND RISK COMMITTEE TO COUNCIL COVERING THE MUNICIPAL YEARS 2019/20 AND 2020/21

The Deputy Director of Finance submitted a report for approval to the Audit and Risk Committee for presenting to Council, which set out the Committee's achievements over the Municipal Years 2019/20 and 2020/21.

Colin Sharpe, Deputy Director of Finance presented the report and it was noted that the Committee's Terms of Reference approved by Council required that an annual report be compiled. National guidance produced by CIPFA also considered it best practice for the Committee to demonstrate its effectiveness and significant contribution to good governance of the Council in an annual report.

It was noted that the report unusually covered two years due to Covid-19 restrictions which had delayed the 2019/20 report (previously approved by the Committee) being taken to Council.

The conclusion the report noted the Committee had fulfilled all of the requirements of its Terms of Reference and the good practice guidance issued by CIPFA.

The Chair thanked the officer for the report and recommended the report be taken to Full Council for approval.

RESOLVED:

1. That the report of the Audit and Risk Committee covering the Municipal Years 2019/20 and 2020/21 be approved and submitted to Council.

13. PROGRESS AGAINST INTERNAL AUDIT PLANS

The Head of Internal Audit Service (HoIAS) submitted a report for noting to the Audit and Risk Committee which provided a summary of progress against the 2020/21 and 2021/22 Internal Audit Plans, information on resources used to progress the plans, and summary of information on high importance recommendations and progress with implementing them.

Neil Jones, HoIAS, presented the routine report, outlined the main headlines and provided an overview on progress and plans for closing off the 2020/21 year and starting 2021/22. Points highlighted were:

- The Committee had duties under the Council's Constitution to monitor performance and receive summaries against the Internal Audit Plan.
- Assurance levels were given as to whether material risks were being managed.
- It was noted that remote working continued for the Internal Audit Service (IAS).
- Appendix 1 to the report provided a summary of Internal Audit progress against planned audits. Items in bold font highlighted a change of status from when previously reported.
- A meeting would be held with the Deputy Director of Finance in August to re-evaluate progress and prioritise audits not yet started and close off some audits. Tables at paragraph 9 to the report provided a summary position of progress, and resources used of just over 90 days.
- Appendix 2 to the report provided a summary position of high importance recommendations. It was noted that anything in bold font depicted a change in status from when last reported in March 2021.
- There was one high-importance additional recommendation and three closures for the period, summarised at Paragraph 12 to the report.

In response to Members' questions, the following responses were given:

- Requests for the postponement of an audit could be for a number of reasons, especially during the Covid-19 pandemic as management focussed on other urgent matters. Other reasons could include a position change in terms of new systems or developments coming in.
- The Deputy Director of Finance noted that during the pandemic the plan was relaxed, but from here on any requests for a postponement would be looked at critically in terms of risk and would need to be fully explained. The Deputy Director of Finance was also mindful of the need for Internal Audit to conduct a certain amount of audit across the authority to produce the internal audit opinion, so that the Chief Operating Officer and Deputy Director of Finance could be satisfied that on the whole audit and governance arrangements were robust.

- In terms of an external auditor's viewpoint, if the internal audit function wasn't progressing its plan and was being put back in terms of other priorities, it would trigger alarm bells from an external auditor's point of view, questioning internal controls and governance arrangements, and would likely factor into the Value for Money consideration as part of the governance narrative.

The Chair thanked the Officer for the report.

RESOLVED:

1. That the contents of the routine update report be noted.

14. INTERNAL AUDIT SERVICE - ANNUAL REPORT 2020-21

The Internal Auditor submitted an annual report to the Audit and Risk Committee which reported on internal audit work conducted during 2020/21. The report also contained information on the internal audit function's conformance to professional standards and provided an insight into its effectiveness.

Neil Jones, HoIAS presented the report and highlighted the following information:

- The end of year report completed the cycle of audit work undertaken and was required under the Public Sector Internal Audit Standards (PSIAS).
- There were specific requirements to be incorporated into the report, the most important being an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment.
- Annex 1 to the report explained that to form an opinion it used a combination of factors and evidence, including internal audit work summarised in Annex 2.
- Despite the impact of Covid-19 internal audit still managed to undertake sufficient audit and control environment work and observe governance.
- It was reported the Council's overall control environment remained adequate and effective.
- There was some shift from assurance audits to reactive and advisory work around Covid-19 and grant certifications.
- Any partial assurance ratings would continue to be followed up and remain in the Committee's domain until the HoIAS was satisfied enough action had been taken to mitigate risk.
- A key audit undertaken each year on IT controls was postponed due to significant pressure on City IT staff, but Internal Audit were able to provide assurance on remote working arrangements and that key IT risks associated to the pandemic had been actioned.
- Also due to the pandemic, no maintained schools were audited.
- Paragraphs 20-26 reflected performance over the year which on the whole was reasonable given the unique circumstances, such as redeployment, some longer-term Covid-19 absences and the extreme pressures and demands on city management.

- The HoIAS considered there was a sufficient range and amount of work undertaken, but that was the lowest it could go before affecting the audit opinion.
- On a positive note, audit staff in the city and county remained interchangeable, with a lot of synergy gained, especially through auditing grants, and an increase in collaboration and information sharing, and high satisfaction rate of audit work undertaken.
- Internal Audit work was self-assessed for conformance to the PSIAS and Quality Assurance and Improvement Programme (QAIP) and both had come through positive.

The Chair thanked the Officer for the report, and the recommendations in the report were noted.

RESOLVED:

That the Audit and Risk Committee:

1. Received and approved the contents of the Annual Report and Opinion.
2. Noted that for the year ended 31 March 2021, the HoIAS had reported that the Council's control environment overall remained adequate and effective.
3. Noted that the individual assignment opinions expressed together with any significant matters arising from internal audit work had been given due consideration when developing and reviewing the Authority's Annual Governance Statement for 2020-21.
4. Noted the outcomes of the HoIAS self-assessment against the PSIAS and QAIP.

15. FURTHER UPDATE ON DEVELOPMENTS IN LOCAL (EXTERNAL) AUDIT ARRANGEMENTS

The Internal Auditor submitted a report which provided the Audit and Risk committee with a further update on developments in local (external) audit arrangements that were associated with the Committee's responsibilities.

Neil Jones, HoIAS presented the report and noted the following:

- The report was the fourth brought to Committee, the timeline of which was highlighted in paragraphs 4-6 in the report and included information on the transparency of local audit reporting otherwise known as the Redmond Review.
- The report noted that in May 2021, the Government published an update containing its plans for further implementing the Redmond recommendations.
- Most importantly was the Government's proposal that the system leadership for local audit leadership for external audit would be best placed with the yet to be established Audit, Reporting and Governance Authority (ARGA) which would replace the Financial Reporting Council (FRC) rather than a new arms-length body that Redmond recommended.

- The Government foresaw further safeguards, and redistribution of responsibilities were proposed, but the arrangements for procurement and contract management for local audit would remain with the Public Sector Audit Appointments Ltd (PSAA) with commercial support from MHCLG.
- There would be public consultation on the proposals before the Government's summer recess.
- There were two further MHCLG consultations outlined in paragraph 13 to the report, the outcomes of which were awaited.
- The Government's proposals had been mostly welcomed by stakeholders, but views on available skills, capacity on costs of local audit remained guarded.
- The next round of procurement for external audits commencing from financial year 2023/24 were now beginning to be planned. The City Council had previously opted for the PSAA-led procurement. As part of its planning the PSAA had been consulting on its prospectus, and it was PSAA's view that the market would remain relatively unstable and difficult to predict for some time.
- The prospectus included plans to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20 ratio. There was some nervousness in local government in that whilst quality was clearly important, costs must not be excessive. Consultation on the prospectus closed on 8th July and the Deputy Director of Finance had provided comment.
- Since the report was compiled, on the 14th July, the Public Accounts Committee (PAC) launched a report titled, 'Local auditor reporting on local government in England'. The report was scathing of the Government saying that:
 - Whitehall's oversight of external local government audit has become "increasingly complacent" and that the proposed solution involves treating public audit as "an afterthought".
 - Less than half of local authority audits met the deadline for completion in 2019-20.
 - The local audit market is "now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits".
- The PAC had questioned whether the "pressing" need for new system leadership in local public audit, identified in the Redmond Review, would actually be met by Government's proposal for a future ARGA which would not be set up until 2023 at the earliest, i.e. more than four years since an oversight body was proposed by Redmond. The PAC considered it was unclear whether ARGA would actually fully address the current failings in the market for auditing local authorities, and in the meantime, Government had not provided credible detail on addressing the urgent problems that could not wait for ARGA.
- The PAC had asked the Government to write and explain the accountability and governance arrangements of the new organisation, and how its performance would be monitored and evaluated. It had also recommended that Government should ensure that PSAA's next procurement exercise supported a new fee regime for local government audit, which was

appropriately funded, and which brought fees into line with the costs of the work.

- It was unlikely that responses would have been received from Government back in time to report to the September 2021 Audit and Risk Committee, so would be reported at the November 2021 meeting.

In response to Members' questions, the following points were made:

- A worry for Members was the changes to the ratio between quality and costs of 50:50 to 80:20 which had raised some questions. An area meeting was coming up with the Chief Executive of the PSAA and the Deputy Director of Finance would raise some questions. The local government media attention was frequent around these arrangements, and was not likely to cease until the PSAA came up with final proposals for procurement.
- The Deputy Director of finance believed the 80:20 split was problematic and only putting 20% against costs risked them getting out of hand, as it was accepted that the scale of fees for audit work was currently too low and fees for additional work had been added in recent years.
- The next meeting of the finance officers from the Leicestershire councils and districts, police and fire would have a full discussion on the PSAA proposals in the consultation. All were concerned and noted there were similar issues for the NHS. All audit firms were experiencing difficulties in recruiting and retaining the necessary staff, and about half of the 2021 audits were not going to meet deadlines.
- The External Auditor noted the challenge was in trying to make the role of public sector audit attractive, to make it a career.
- Parliament had already gone into summer recess. Members were not filled with confidence with the public consultation that had been launched, or that officers would be able to present their comments as part of the consultation.

The Chair thanked the Officer for the report and input from the Committee and Officers.

RESOLVED:

1. That the report be received and its contents noted.

16. AUDIT & RISK COMMITTEE WORKPLAN

The Deputy Director of Finance submitted a report which outlined the business to be brought to the Committee for the forthcoming Municipal Year 2021/22.

Committee Members were advised that they could request additional reports of training sessions if felt necessary.

RESOLVED:

- That the report be noted.

17. ANY OTHER URGENT BUSINESS

There being no other items of urgent business, the meeting closed at 7.59pm.