



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 29 SEPTEMBER 2021 at 5:30 pm

P R E S E N T:

Councillor Kaur Saini (Chair)
Pantling (Vice Chair)

Councillor Ali

Councillor Joshi

In Attendance

Councillor O'Donnell

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18. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Dr. Moore and O'Donnell. Councillor O'Donnell, however, joined the meeting remotely but could not be recorded as present under the Local Government Act 1972 which requires Members to be present in the room where the meeting was being held.

19. DECLARATIONS OF INTEREST

There were no declarations of interest made.

20. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 21 July 2021 be confirmed as a correct record.

21. STATUTORY STATEMENT OF ACCOUNTS & ANNUAL GOVERNANCE STATEMENT 2020/21

The Chief Operating Officer (in her capacity as the s151 officer) submitted a report to the Audit and Risk Committee which sought approval for the Council's Annual Governance Statement and Statutory Statement of Accounts for 2020/21 as required under the Accounts and Audit (England) Regulations

2015. The report also provided the Committee with an update from the External Auditor, which detailed their audit work and recommendations.

Ben Matthews, Senior Accountant (Capital and Projects) presented the report.

Members were reminded that the draft Statement of Accounts and Annual Governance Statement were presented at the previous meeting of the Committee on 21 July 2021. Members were informed the Statutory Statement of Accounts with minor adjustments, the Annual Governance Statement 2020/21 and Letter of Representation were recommended to be approved by the Committee.

The following key points were brought to Members' attention:

- The Statement of Accounts Audit was all but completed. There were three adjustments to put through, but it was important to note the changes would not affect the Council's useable reserve balances.
 - The impairment of two assets that should not have been held on the balance sheet, namely, St Margaret's Bus Station and Waterside Primary Project.
 - The updating of some Housing Revenue Account asset values.
 - A future adjustment to the accounts as a result of late changes to the pension fund report following an update in asset valuations. Information was still awaited and the change had not been made to the accounts presented.
- Due to the fact the changes would not have any effect on the useable reserve balances, officers were seeking delegated authority to the Section151 officer to approve the changes.
- There were no changes to the Annual Governance Statement since the presentation of the draft report.

Grant Patterson (Grant Thornton LLP UK, External Auditors) presented the draft ISA 260 report, and draft audit findings.

Members noted that:

- Thanks were expressed to the Deputy Director of Finance, Head of Finance and Team for their assistance and support to the External Auditor.
- Audit adjustments were detailed in Appendix C to the report, none of which affected the bottom-line figure of the financial statements.
- External Audit were proposing an unqualified opinion on the Council's financial statements.
- In terms of Value for Money (VFM), External Audit were not in a position to finalise the VFM conclusion. In line with the National Audit Office's revised deadline due to the pandemic, the Annual Audit Report could be issued within three months of the audit opinion, and was expected to be finalised by December 2021.
- As part of the overall conclusion the report contained a narrative statement and annual governance statement as other information, and there were no matters to raise.

- In terms of detailed work, most of the audit work was substantially complete, and outstanding works were RAG rated.
- In terms of valuation of land and buildings, some queries had been returned back to the valuer, and information was expected back within a few days, but was not expected to be material.
- The IAS19 valuation report was received and the Council's accounts required amendment, but there were no matters of concern.
- Work was to be completed on the Expenditure and Funding Analysis. The issue being looked at nationally was whether councils had been putting enough money aside for commitments entered into. External Audit were not anticipating any issue with the Council but statements needed to be finalised.
- A query in relation to infrastructure had been closed.
- A query regarding disclosure of accounting standards was being looked at under IFRS16, but would not come into effect until 2022/23.
- As an update for members, it was noted the Council would not have access to the Whole of Government Accounting pack until December, and External Auditors would not be able to confirm the audit closed, but could submit the audit opinion.
- Materiality for the financial statements was £15.25million (1.5% of the Council's gross operating expenses), and was capped at that level.
- Performance materiality had been reduced from 75% to 65%.
- IT audit specialists had looked at the Council's IT general controls, mainly around i-Trent, Civica, Unit-4 and Active Directory. Areas for improvement had been found and management contacted. The review had been very detailed.
- In terms of fraud in revenue recognition and expenditure, following evaluation and sampling, the risk had been rebutted and there were no significant risks to draw to the attention of the Committee.
- The report highlighted accounting for Covid grants. External Auditors had sampled those grants as part of overall grants testing procedures and were satisfied with the Council's revenue recognition.
- Valuation of land and buildings continued to be a focus of audit work, mainly around year-end balance and evaluations, and use of expert valuer. It was noted the internal valuer had not physically inspected some of the buildings, therefore auditors had paid more attention to impairment and/or obsolescence. Recommendations made last year had been undertaken, and the Council had looked to increase its own quality assurance processes this year.
- Identified to date was St Margaret's Bus Station has been demolished prior to period end and was not picked up as part of the close-down process. Officers had recognised this as part of the audit query and amended the balance. An overstated balance of £2.5m was recorded in the draft financial statements since corrected, which related to the Waterside Primary Project which had been discontinued.
- On the Council's fixed asset register there were 880 assets with a gross book value of £35.8m, but fully depreciated with a net book value of £nil. It was recommended the Council review those assets and take action as appropriate if no longer in use, for example depreciated IT equipment,

vehicles which could have been disposed of already or be of minimal value. It would be a time-consuming project to undertake, and it was suggested it occur over 2021/22.

- Work was complete on the valuation of council dwellings. There was a gap towards the year end between list of properties and new build, but the Council had taken on board the recommendation from external audit last year and action had been taken to address the gap. There was a small number of additions at £1.9million and was not material for the statements.
- With regards to the valuation of net pension fund liability, it represented a significant estimate in the financial statements. New IAS19 valuation reports were expected and the Council's pension disclosures might need to be updated because of material differences between the original valuation and updated one.
- Work had been undertaken on the Council's operating expenditure. Sample payments had been tested, and there were no matters to report.
- New issues and risks were presented in the report. It was noted that the though implementation of IFRS16 would come in on 1 April 2022, auditors had asked the Council to include disclosure on their 2020/21 statements.
- Auditors had looked at general IT controls in place. Some room for improvement had been found, primarily around access rights assigned to system users, identity and removal of access rights, and segregation of duties.
- In matters in relation to related parties, with the Leicestershire County Cricket Club loan, it was noted that more information than required could be disclosed in financial statements, and this had been flagged with officers.
- It was noted there was slight change in emphasis to Practice Note 10, whilst looking at cash flow, there was now a broader recognition that service provision was a key function, the focus of which was services would transfer to other bodies if the Council was unable or not required to provide them.
- There were no issues of going concern to report.
- The Whole of Government Accounts would not be available from Government until December 2021 so could not be certified.
- Financial sustainability was a focus of external audit under the new Code which required a more detailed account and commentary to Council. It was reported there were no significant weaknesses in the Council's financial sustainability.
- As previously reported, a staff member of Grant Thornton's PSA team in Birmingham, with a close family member at Leicester City Council, had been excluded from the audit to avoid any perception of conflict.
- Previous year recommendations had been addressed apart from the valuation process as noted earlier.
- Appended to the report was the Management Letter of Representation, which set out how management had provided required information.
- It was noted that fees had not changed for the audit and provision of non-audit services.

In response to Members' questions, the following information was provided:

- Members were confident officers were looking after the City's purse. In

picking up on the valuation of assets process at the time of writing the report, two errors had been identified from the work done to date. Members asked for assurance that, whilst they were approving the financial statements, there was no cause for concern. Members were informed that while the full recommendation had not been completed, the authority had put in a lot of controls and processes in place which had made the asset valuation process a lot smoother. Officers also offered assurance to the Committee that nothing impacted the funds of the Council available for spending and were purely accounting arrangements. There was continued progress and work with the Estates and Building Services Team had improved the process further.

In summing up Amy Oliver, Head of Finance, reminded the Committee they were being asked to approve the Statutory Statement of Accounts, Annual Governance Statement, and Letter of Representation which would be signed off by the Committee as well as the Section 151 Officer.

Officers reiterated that some of the changes made on the accounts were only affecting unusable reserves and not funding available to the Council. It was also noted that the IAS19 pension entry of £32million was a large number but was not affecting the funds to the Council and was an accounting entry.

It was further noted that officers continued to work on recommendations with regards to valuations and IT, and there continued to be conversations with IT and external audit.

The Chair and Members thanked officers for the in-depth report, the time given to the Committee, training, support and questions.

RESOLVED:

That the Audit & Risk Committee:

1. note the auditor's ISA 260 Report to those charged with Governance and the recommendations contained within it;
2. approve the Statement of Accounts for 2020/21;
3. approve the Annual Governance Statement 2020/21;
4. approve the letter of representation submitted by the Chief Operating Officer (S151);
5. delegate authority to approve minor amendments to the Annual Accounts and Annual Governance Statement to the Chief Operating Officer (S151), subject to a report to the Committee at the next meeting;
6. delegate authority to the Chief Operating Officer (S151) to make the IAS 19 adjustments as detailed in the report.

22. PROCUREMENT ANNUAL REPORT 2020/21

The City Barrister and Head of Standards submitted a report to the Audit and Risk Committee on the Council's Contract Procedure Rules as required annually. The purpose of the report was to inform the Committee of the activity of the procurement function of the Council over 2020/21 financial year (which

comprised three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) and evidence compliance with the requirements of the Contract Procedure Rules.

Neil Bayliss, Head of Procurement, presented the report as required under the Council's Constitution and Contract Procedure Rules, and brought to Members' attention key aspects of the report as follows:

- There had been no impact from Brexit on procurement in terms of processes. Rules and contract procedures were not affected. However, supply difficulties were starting to be seen, for example, fuel and building materials.
- There were two changes to contract procedure rules to be brought to the attention of Members:
 - A minor change under Rule 16.6 to reflect the change in management structure following the appointment of the Director of Finance to Chief Operating Officer, and the responsibility for IT now sat with the Director of Delivery, communications and Political Governance;
 - Amendment to the wording of Rule 32 (Reserved Contracts) as outlined in the report, which talked about reserved contracts below a threshold and could only be used for Services contracts. The change had been introduced to help procurement services work with and award contracts to local businesses and voluntary and community sector organisations.
- The report gave an overview of key statistics in terms of contracts awarded as a procurement function of the Council, in total 185 contracts were awarded, and the variety of procurement activity was significant.
- It was important to note the Council's procurement function played an important role to the Covid-19 pandemic, the most significant part being procurement of PPE equipment.
- The summary of waivers highlighted a significant reduction in the number of waivers. There had been an increase in value largely down to one significant value of construction works which was needed to ensure the Council met grant funding timescales and to assist with carbon reduction in council houses.

The Chair thanked the officer for the report.

RESOLVED:

1. That the Committee note the contents of the report and make any comments to the City Barrister and Head of Standards.

23. PROGRESS AGAINST INTERNAL AUDIT PLANS

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

Neil Jones, Head of Internal Audit Service (HoIAS), presented the report and highlighted the following information:

- Under the Council's Constitution the Committee had a duty to monitor performance against the Internal Audit Plan and the receive summaries of Internal Audit reports and the main issues arising.
- It was noted that the Internal Audit Service continued to work remotely and continued to experience service pressures. Nevertheless, things were progressing and had improved over the past few weeks.
- Appendix 1 to the report provided a rolling picture against audits completed, in progress or due to start. Anything in bold font noted a change in status since it was last reported to Committee. A further five audits had been completed since the writing of the report, and some audits had moved from 'planning' to 'work in progress' stage.
- Information was summarised at paragraph 9 in the report and showed 221 days of resources had been provided.
- The implementation of high important recommendations was reported on in detail at Appendix 2 to the report, and anything in bold font depicted a change from when it was last reported to Committee in July 2021.
- Further updates had been received on two audits' recommendations: Government Procurement Cards; and Social Value within Procurement.

The Chair thanked Neil and officers for the report.

RESOLVED:

1. That the Committee note the contents of the update report.

24. AUDIT & RISK COMMITTEE WORKPLAN

The Committee workplan was noted.

The Deputy Director of Finance noted the number of reports planned to be presented at the November meeting was particularly large. A view would be taken at the agenda items and timings for the next meeting.

25. ANY OTHER URGENT BUSINESS

There being no items of urgent business the meeting closed at 6.31pm.