

Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 30 JULY 2014 at 5.30pm

P R E S E N T:

Councillor Westley – Chair
Councillor Dr. Moore – Vice-Chair

Councillor Alfonso
Councillor Desai

Councillor Dr. Chowdhury
Councillor Naylor

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1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Grant.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

The Chair announced there were several reports at the meeting that had only had minor amendments from the previous approved versions, and these had been highlighted as a summary of key points for the assistance of Members.

3. MINUTES OF THE PREVIOUS MEETING

Matters Arising

Minute Item 4 – Procedural Guidance and Recent Changes in Arrangements
for Cash Handling at the Council

A 'top 15' list of cash income generators for a sample week in May 2014 was circulated to Members for information following the previous meeting.

Minute Item 6 – Risk Management and Insurance Services Update Report

Officers and members commented on the Data Centre move on the 4-6 July 2014. It was reported there was no significant loss of service, and was a relatively smooth transfer.

RESOLVED:

that the minutes of the meeting of Audit and Risk Committee held on 25th June 2014 be confirmed as a correct record.

4. DRAFT STATUTORY STATEMENT OF ACCOUNTS FOR THE FINANCIAL YEAR 2013-14

The Chair agreed to hear the agenda out of order, and the following agenda item was heard next.

The Director of Finance submitted the Draft Statement of Accounts for the financial year ended 31st March 2014, prior to formal approval of the final Statement of Accounts at the Audit and Risk Committee on 29th September 2014, in accordance with the Accounts and Audit (England) Regulations 2011. The report was presented by the Director of Finance and the Principal Accountant. The draft accounts were appended to the report and were submitted for information only.

The Audit and Risk Committee was recommended to note the draft accounts for the year ended 31st March 2014 as submitted for audit.

Members were informed the accounts were made up of four core financial statements, which were:

1. Movement in reserves statement
2. Comprehensive income and expenditure statement
3. Balance sheet
4. Cash flow statement

The report for the draft Statement of Accounts confirmed they had been formally submitted to KPMG LLP for audit.

Members were asked to pass on questions to officers ahead of the Audit and Risk Committee meeting in September prior to the accounts being signed off.

Members agreed to set up a working party to discuss the draft accounts, comprising the following Councillors:

Councillor Alfonso
Councillor Desai
Councillor Dr. Moore
Councillor Naylor

It was agreed that, if requested, Finance Officers would provide Members with one-to-one discussions regarding the terminology used in the report before the Audit & Risk Committee meeting on 29th September 2014.

The Chair thanked officers for the report.

RESOLVED:

1. that the Draft Accounts for the year ended 31st March 2014, as

- submitted for audit, be noted.
2. the working party to feed back to Members of the Audit and Risk Committee via the Chair before the meeting on 29th September 2014.
 3. Finance Officers contact Committee Members to arrange one-to-one discussions regarding the terminology used in the report.

5. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

The External Auditor submitted a report with an overview of progress in delivering their responsibilities as external auditors. The report also highlighted the main technical issues which were currently having an impact in local government.

The report was presented by John Cornett, Director, KPMG LLP.

Members were informed that the planning process for the 2014-15 audit was complete, and the following were brought to Members attention:

- The interim audit work on the draft financial statements was substantially complete. The only matter brought to the Committee's attention was that there was no formal evidence of the monthly bank reconciliations, and the issue was raised with officers in March 2014, and the external auditors were confident action had been taken to address the issue.
- Funding transfer from the National Health Service to local authorities, and public health responsibilities. Members requested an update on the transfer of money, and on working in partnership with the health services and voluntary sector to make best use of the money.
- The auditing of the Council's accounts would commence on 11th August 2014, with an opinion audit deadline of 30th September 2014.
- Work on the value for money conclusion was complete, with no significant issues to report.
- National research by KPMG LLP and Shelter on the housing shortage was highlighted, and a link to the full report can be found in the document.

The Chair thanked the External Auditors for the report.

RESOLVED:

1. that the Audit and Risk Committee received the report and note its contents.
2. That the Director of Public Health be asked to bring an update to a future meeting of the Audit and Risk Committee on the transfer to the Council of the public health responsibilities and associated funding from the National Health Service.

6. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT IN 2013-14

The Director of Finance submitted a report that presented the findings of the

annual review of the effectiveness of the Council's system of internal audit for 2013-14. The report was presented by the Head of Internal Audit and Risk Management. The Audit and Risk Committee was recommended to accept the findings of the review and conclude that the Council had an effective system of internal audit upon which it (the Council) could place reliance.

It was reported Council's Finance Division included the Internal Audit Team, which carried out reviews of financial and management systems and sought to provide assurance to management on the effectiveness of their management controls. Recommendations were made to improve systems and procedures as and when appropriate, with the aim of reducing the Council's exposure to unacceptable levels of risk. Internal Audit was an integral part of the Council's overall system of internal control, which was the means by which the Council ensured that resources were used effectively and for their intended purposes.

It was further reported that a further fundamental component of the Council's system of internal audit was the Audit and Risk Committee, as the Committee had an essential role to play in providing independent assurance on the effectiveness of the Council's system of internal control as a contribution to the Council's governance arrangements as reported in the Annual Governance Statement.

The Head of Internal Audit and Risk Management drew Members' attention to key conclusions and sources of information upon which the conclusion was based. Also highlighted from the report was the contribution of the Audit and Risk Committee to the governance of the City Council.

The Committee received the report, and agreed the recommendations.

RESOLVED:

1. that the findings of the review be accepted.
2. the Committee concluded that the Council had an effective system of internal audit upon which the Council could place reliance.

7. INTERNAL AUDIT - 2ND QUARTER OPERATIONAL PLAN 2014-15

The Director of Finance submitted a report which presented to Committee the detailed operational audit plan for the second quarter of the financial year 2014-15 (July to September 2014), and was presented by the Audit Manager. The Audit and Risk Committee was asked to note the Internal Audit operational plan and the themes underlying the work intended, as itemised at the back of the report.

Members were pleased to note there was a planned audit to look at the inventory and assets of Museums, and asked that the condition of the assets and their safekeeping were also looked at. Members were informed that for insurance purposes an inventory needed to be kept, but insurance of items on loan to the museums were usually the responsibility of the owner. The Committee were reassured there were now better security and management

structures in place.

The Committee received the report, and agreed the recommendations.

RESOLVED:

1. that the Audit and Risk Committee note the Internal Audit operational plan for the second quarter of 2014-15.

8. ANNUAL REVIEW OF INTERNAL AUDIT CHARTER

The Director of Finance submitted a report which sought the Committee's approval of amendments to the Internal Audit Charter, and was presented by the Audit Manager. The Audit and Risk Committee were recommended to approve the revised Internal Audit Charter and agreed that it accurately reflected the terms of reference of the Internal Audit service.

Members were informed there were modest changes to the Charter to reflect requirements of the Public Sector Internal Audit Standards, the new external audit joint working protocol and the current status of the counter-fraud teams, and the changes were highlighted in the report. A report on the review of the Corporate Counter Fraud Team would be brought to a future Committee meeting, and there would be further reporting on the fraud process at the next meeting of the Audit and Risk Committee.

The Committee received the report, and agreed the recommendations.

RESOLVED:

1. that the Committee approve the revised Internal Audit Charter, and agree that it accurately reflected the terms of reference of the Internal Audit service.

9. PRIVATE SESSION

RESOLVED:

“that the press and public be excluded during consideration of the following reports in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because they involve the likely disclosure of 'exempt' information, as defined in the Paragraphs detailed below of Part 1 of Schedule 12A of the Act, and taking all the circumstances into account, it is considered that the public interest in maintaining the information as exempt outweighs the public interest in disclosing the information.”

Paragraph 3

Information relating to the financial or business affairs of any particular person (INCLUDING THE authority holding that information)

B1) OUTCOMES OF INTERNAL AUDIT WORK IN 2013-14

QUARTER 4 (JANUARY 2014 – MARCH 2014)

10. OUTCOMES OF INTERNAL AUDIT WORK IN 2013-14 QUARTER 4 (JANUARY 2014 - MARCH 2014)

The Director of Finance submitted a summary of Internal Audit work completed in the fourth quarter of the financial year 2013-14 (1st January 2014 to 31st March 2014), and which provided more detail on Internal Audit reports in which low assurance levels had been given and where there were material concerns. The Audit and Risk committee was recommended to receive the report and note the key issues identified. The report was presented by the Audit Manager.

The report concerned the strength of internal controls in the City Council's financial and management processes and included references to material weaknesses and areas thereby vulnerable to fraud, error or other irregularity, therefore it had been brought as a 'B' agenda item.

The Committee received the report.

RESOLVED:

1. that the report be received;
2. that the key issues identified be noted.

11. ANY OTHER URGENT BUSINESS

1. The Chair informed the meeting the Council had decided as an authority to withdraw from ESPO, which was now a joint committee of six member authorities, not including Leicester City Council. The meeting was informed that officers could still procure through ESPO, but overall the Council's procurement was strengthened.
2. The Committee Members requested a report to the Audit and Risk Committee meeting in December on the collection, handling and security of cash and security of officers in the Markets service.
3. Following a recent news article regarding the closure of the Police investigation into Housing fraud, the Committee Members requested a report from the Director of Housing on what were the weaknesses in procedures, what improvements to process and procedure had been made, and results of the improvements.

12. CLOSE OF MEETING

The meeting closed at 19.06pm.

Leicester City Council Audit & Risk Committee

Introduction to the Statement of
Accounts
July 2014

Agenda

- Structure & principles
- How the accounts differ from the Outturn
- Explanatory Foreword
- A brief explanation of double entry accounting
- Movement in Reserves Statement and Income & Expenditure Statement
- Balance Sheet
- Governance notes
- Questions and feedback

Structure & Principles

- Narrative foreword
- Core Statements (Balance Sheet, Income & Expenditure Statement (I&E), Movement in Reserves Statement (MIRS), Cashflow)
- Notes supporting the core statements
- Other notes – governance & disclosure
- International Financial Reporting Standards (IFRS) – what does this mean?
 - Full accounting position, like a company
 - All values shown per accounting standards
 - Accruals accounting, not cash

Structure & Principles

- What is accruals accounting?
 - Matching income and expenditure to time period when goods & services provided
 - Reflecting liabilities when they emerge, not when they happen
 - Reflecting assets only when confident of their existence

Structure & Principles

- IFRS tries to show the full extent of income, expenditure, assets and liabilities required for the user to have a materially correct understanding
- What is 'materiality'?
 - A judgement about what really matters for the accounts to be correct
 - Material by size or by importance
 - Materially correct means that errors would not affect the judgements you make based on the accounts

Structure & Principles

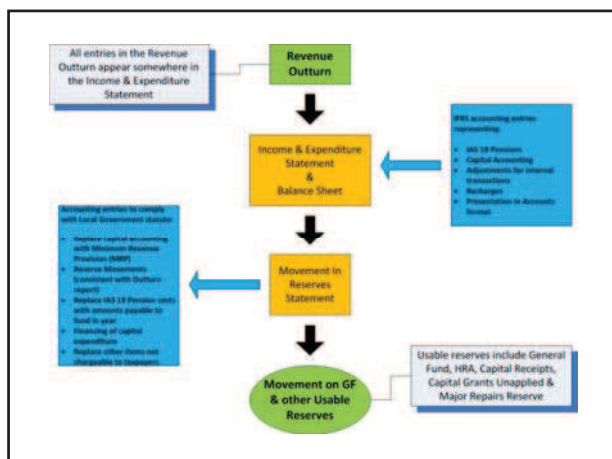
- The accounts are prepared on an IFRS basis but there are several departures under Local Authority legislation. The most significant are:
 - Capital
 - Pensions
 - Financial Instruments (e.g. investments)
 - Collection Fund

Structures & Principles

- Local government has specific rules on capital
- Capital funding is restricted
 - Ring-fenced capital funding including capital receipts – we can't use capital funding, or sell things, to fund ongoing operations
 - We must treat expenditure as capital if its ultimate purpose is capital even if it does not create an asset for the Council
- Minimum Revenue Provision (& voluntary set aside)

How the accounts differ from the Revenue & Capital Outturn

- Revenue
 - Outturn shows position against budget
 - Corollary in the accounts is the movement on the General Fund
 - Items not in Revenue Outturn
 - Impact of accounting for capital assets, grants, financing
 - IAS19 Pensions
 - Internal recharges to show total cost
 - No material impact on General Fund



How the accounts differ from the Revenue & Capital Outturn

- Capital Outturn focuses on spending by scheme, compared to budget and planned spend profile
- Accounts focus on the value of assets under accounting standards and revenue impact of changes in these values
 - Depreciation
 - Gain/loss on disposal
 - Impairment
 - Revaluation
- No link of comparable simplicity to Revenue Outturn & movement on General Fund

Explanatory Foreword

- Management's narrative explanation of key elements of the Statement of Accounts
- Aims to highlight the things members need to know about and give an overview of the financial position
- CIPFA keen that this section is promoted as useful to users - feedback welcome!

Introduction to Double Entry Accounting

- Every entry has two sides
- Every item is either
 - Asset (Dr): something we own or someone owes us
 - Expenditure (Dr): something we have spent
 - Income (Cr): something we have earned
 - Liability (Cr): something we owe someone
- Debit entries are positive, Credit entries are negative
 - Assets + Expenditure + Liabilities + Income = 0
 - Assets = Liabilities + Capital (liability to owner)

Introduction to Double Entry Accounting

- Double entry means that we illustrate (to the best of our knowledge) the real underlying financial position
 - Accruals
 - Provisions
 - Long term liabilities
 - Movements on asset values & consumption of economic benefits of assets
- Many public sectors still use cash accounting and this does not give the same level of assurance

MIRS and I&E Statement

- For a company, the I&E would be the key statement for users of the accounts
- For a Council, the I&E is more complex – the judgements within it are important, but final statement is more obtuse
- MIRS represents the ‘real’ bottom line impact for the Council (per statutory rules)
- Notes 7, 8, 23 & 24 support the MIRS

Comprehensive Income & Expenditure Statement

- Net Cost of Services £296m
- Oth Operating Expenditure
 - Precepts/levies
 - Gain/loss on disposal
- Financing & Investment
 - Interest paid/recvd
 - Surplus on trading
 - Pensions interest cost
- Taxation & Non-specific grants
 - CT & NNDR
 - Capital grants
 - Government grants
- Surplus on Provision of Services of £81.7m
- Other Comprehensive I&E - £94.3m

	2013/14	2012/13	2011/12
	£000	£000	£000
Cost of Services to the Public	13,670	(9,306)	4,774
Capital and Revenue Expenditure	40,087	41,702	31,658
Administration and Regulatory Services	30,054	(10,205)	20,772
Planning and Development Services	16,174	(15,424)	1,747
Education and Children's Services	617,000	(527,149)	89,851
Highways and Transport Services	12,200	(17,374)	5,174
Total Services (Excluding Other)	827,135	(627,361)	(227,974)
Other Financial Income	110,668	(148,642)	(6,000)
Other Financial Expenditure	(42,200)	(42,642)	(9,000)
Capital Grants	21,700	(20,000)	1,700
Government Grants	23,343	(17,000)	23,000
Cost of Reserves	28	(887,048)	298,889
Other Operating Expenditure	-	-	(10,000)
Financing and Investment Income and Expenditure	10	-	37,381
Surplus or Deficit on Disinvestment Operations	-	-	-
Taxation and Non-Specific Grants Income	11	(803,473)	-
Surplus or Deficit on Provision of Services	-	-	(81,741)
Provisions and Other Transfers Accounted for as an Equity Item - Authority does not control or determine separate activities	-	-	-
Total Expenditure - Surplus or Deficit (Including Disinvestment & Other Activities)	-	-	(81,741)
Surplus or Deficit on Realisation of Property, Plant and Equipment Assets	24	(43,275)	-
Surplus or Deficit on Realisation of Available-for-Sale Financial Assets	-	-	-
Reversal of the Net Deficit/Deficit/ Surplus	87	(100,000)	-
Other Comprehensive Income & Expenditure	-	-	94,284
Total Comprehensive Income & Expenditure	-	-	12,800

Movement in Reserves Statement

- £1.78m increase in General Fund
- General Fund Balance is £25.94m – consistent with Revenue Outturn report
- S151 officer has to have regard to this
- £1.7m net decrease in earmarked reserves
- £6.7m increase in HRA balance
- £8.9m increase in capital receipts reserve
- Capital Grants Unapplied – accounting treatment, not new resource!

	General Fund	Special Reserve	Reserve for Contingencies	Other Reserves	Capital Receipts Reserve	Capital Grants Reserve	Total	Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Movement in Reserves during 2013/14	(24,160)	(194,081)	(7,746)	(1,200)	(20,116)	-	(227,303)	(1,193,180)
Balance at 01/04/14	1,780	1,780	1,780	1,780	1,780	1,780	1,780	1,780
Balance at 31/03/14	1,780	1,780	1,780	1,780	1,780	1,780	1,780	1,780
Other Comprehensive Income and Expenditure	94,284	-	-	-	-	-	94,284	94,284
Provisions and Other Transfers Accounted for as an Equity Item - Authority does not control or determine separate activities	-	-	-	-	-	-	-	-
Net (Decrease)/Increase in Reserves	(22,380)	(194,081)	(7,746)	(1,200)	(20,116)	-	(227,503)	(1,193,180)
Balance at 01/04/14	1,780	1,780	1,780	1,780	1,780	1,780	1,780	1,780
Balance at 31/03/14	1,780	1,780	1,780	1,780	1,780	1,780	1,780	1,780

Balance Sheet

- Top half represents assets and liabilities – net assets of £1,180m
- Bottom half represents financing of these assets
- Increases in
 - Asset values £104m
 - Cash £44m
 - Pension liability £(163)m
 - PFI liability £(41)m
 - Usable Reserves £73m
 - Provisions £(5)m
- Decreases in
 - Overdraft £11m
 - Capital grants RIA £26m
 - Unusable reserves £86m

31st March 2012	31st March 2013	31st March 2014	Note
£000	£000	£000	
1,896,800	1,873,736	1,962,745	12
50,299	74,844	90,800	51
1,701	1,250	1,691	14
8,274	8,274	7,745	15
307	359	2,780	16
1,956,871	1,956,472	2,065,807	
50,106	154,365	116,159	17
16,775	4,312	19,259	20
3,806	3,423	2,853	18
49,919	50,814	53,436	18
50,536	41,305	40,445	19
176,136	210,464	217,252	
(81,208)	(20,744)	(18,201)	19
(16,853)	(3,611)	(3,510)	19
(120,223)	(119,456)	(125,254)	21
(6,755)	(4,600)	(5,053)	22
(182,844)	(157,222)	(143,018)	
(9,504)	(10,259)	(13,361)	15
(245,135)	(244,314)	(243,936)	15
(415,206)	(520,368)	(722,217)	15
(71,743)	(43,474)	(17,850)	36
(701,633)	(818,616)	(994,564)	
1,255,074	1,183,100	1,180,497	
184,293	207,487	280,687	23
1,068,581	985,613	899,810	24
1,255,074	1,183,100	1,180,497	

Governance notes

- Notes 3-6 set out estimations, judgements and events affecting the accounts
- Notes 22, 48 & 49 cover provisions and contingent assets & liabilities
- Notes 34, 35 & 45 – remuneration
- Note 39 – related parties
- Notes 46 & 47 – pensions

Any questions or feedback?

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