



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 13 JUNE 2018 at 5:30 pm

P R E S E N T :

Councillor Riyait (Chair)

Councillor Alfonso
Councillor Bajaj

Councillor Dr Chowdhury
Councillor Dr Moore

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1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Westley.

Councillor Dr Moore gave apologies that she would need to leave the meeting at 7pm to attend another meeting.

2. DECLARATIONS OF INTEREST

Members were asked to declare any interests they may have in the business on the agenda.

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING HELD 21ST MARCH 2018

Progress on actions:

Referring to minute item 49 Procurement Plan 2018-19, the Chair asked that a report on social value, apprenticeships, living wage etc be provided to a future meeting of the committee. Officers confirmed that this would be included in the next procurement update and had been timetabled.

RESOLVED:

That the minutes of the meeting held on 21st March 2018 be confirmed as a correct record.

4. MEMBERSHIP OF THE AUDIT & RISK COMMITTEE 2018/19

Members were asked to note the membership of the committee for 2018/19 as follows:

Councillor Riyait (Chair)
Councillor Westley (Vice-Chair)
Councillor Alfonso
Councillor Bajaj
Councillor Dr Chowdhury
Councillor Dr Moore

1 Labour group place unallocated
1 non-group places unallocated

RESOLVED:

That the membership of the committee for 2018/19 be noted.

5. DATES OF MEETINGS OF THE AUDIT & RISK COMMITTEE 2018/19

Members were asked to note the meeting dates of the committee for the 2018/19 municipal year as follows:

13th June 2018
25th July 2018
12th September 2018
27th November 2018
6th March 2019

All to commence at 5.30pm.

Councillor Alfonso joined the meeting.

RESOLVED:

That the dates of meetings of the committee for 2018/19 be noted.

The Chair agreed to a change in the running order of the published agenda as KPMG had indicated they would be late arriving.

6. EXTERNAL AUDITORS ANNUAL AUDIT FEES LETTER 2018/19

The incoming External Auditor Grant Thornton submitted the Annual Audit Letter which summarised the audit work to be undertaken and proposed fee for the 2018/19 financial year at Leicester City Council.

It was noted that Grant Thornton's fee would be £113,000; this was a considerable reduction, however, although the scope of the audit would remain the same there was a risk that fee could increase depending on the amount of audit work undertaken i.e. EU PIE.

RESOLVED:

That the Annual Audit Letter be noted.

7. THE COUNCIL'S DRAFT ANNUAL GOVERNANCE STATEMENT 2017-18

The Director of Finance submitted a report of the Council's Draft Annual Governance Statement for the financial year 2017/18 to provide an opportunity for the committee to comment before being brought to July's committee for formal approval.

Members were reminded that the format of the statement was mostly prescribed by the principles of the Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives' framework "Delivering Good Governance in Local Government".

Members noted that overall from this year's work it was concluded that controls were operationally sound and areas of significant risk for action identified in the draft report were noted.

Concern was expressed over the potential effect of merging the role of adults and children's social care functions at Strategic Director level and whether there was any increased risk associated with that, in particular progress against the Ofsted review. The Director of Finance reassured members that although all organisational reviews brought some risk this situation related to an appointment across two existing departments to build on work already done and not to integrate fundamental work lower down in the organisational structure.

John Cornett from KPMG joined the meeting.

Members of the committee asked that the Strategic Director Social Care & Education be invited to a future meeting to provide an update on the governance aspects of the joint role and how the Ofsted journey was being managed.

RESOLVED:

1. That the contents of the draft Annual Governance Statement 2017/18 be noted,
2. That the Strategic Director Social Care & Education be invited to a future meeting to provide an update on the governance aspects of the joint role and how the Ofsted journey was being managed.

8. THE DRAFT STATUTORY STATEMENT OF ACCOUNTS 2017/18

The Director of Finance submitted a report on the Draft Statutory Statement of Accounts 2017/18 to enable the committee to comment and input to the final document that would be brought to July meeting for approval.

It was noted that the statutory deadline had been met with the draft statement of accounts published on 25 May 2018.

Members' attention was drawn to the general fund balance noting the £15m,

this was the same level detailed in budget reports. It was noted overall usable reserves had increased in year. The main reason for the increase was a result of HRA capital receipts received from HRA right to buy's. Earmarked Reserves relating to the General Fund had reduced in the year as forecast.

Members were advised of a minor error in the HRA figure with netted off income and full details of the changes would be brought to July committee.

Members asked if past issues regarding Related Party Transactions disclosure had been resolved. Officer's explained that there continued to be an issue and non-completion was mentioned in the audit report as it was not good practice. A letter had been sent to a member that had persistently failed to comply and a response was awaited, although formal sanctions for failing to comply were very limited.

The Chair commented that it was important to show good governance and to follow procedures.

Members noted that the pension fund deficit had reduced by £21m and there were no significant concerns with the total deficit figure or the year on year change which was an actuarial figure taken at a point in time. The estimated deficit was taken into account in assessing future years' contributions.

Members queried the ongoing budget pressures and were informed that a balanced budget had been set for 2018/19 with a relatively manageable shortfall forecast 2019/20 growing into 2020/21 and the higher than expected reserves at the end of 2017/18 had reduced the gap in 2019/20. The forecast for 2020/21 still showed a significant gap and there were uncertainties over local government funding in this year.

Members asked what steps were being taken to generate revenue for the council and the Director of Finance advised that a piece of work was being done to explore entrepreneurial councils as well as continuing to collect debt owed.

Members noted that in relation to debt recovery the write off amount equated to less than 1% of what the council had collected. The Council's Constitution allowed the Director of Finance to write off up to £2k, amounts above that had to be discussed with the City Barrister who had authority to write off – sometimes it was uneconomical to pursue.

Members asked for details of the number of properties in the city where the full amount of council tax was paid compared to the number paying a nil/reduced amount and what that would equate to if all paid the full amount.

Members satisfied with the report set out and the Chair thanked officers for their work.

RESOLVED:

1. That the contents of the Draft Statement of Account 2017/18 be noted,

2. That details of the number of properties in the city paying full council tax and nil/reduced council tax be provided to Members of the committee.

9. EXTERNAL AUDIT PLAN 2017/18

The External Auditor submitted a report setting out their financial statements audit work (including the Annual Governance Statement) for the Leicester City Council and the approach to value for money work 2017/18.

John Cornett, Director of KPMG, introduced the report and drew Members' attention to the significant risks and other areas of audit focus which included a change to the audit process as the council had been designated an EU PIE (as discussed at previous meetings – relating to traded debt).

The following points were made:

- Materiality for planning purposes was set at £12million for the Authority's accounts – 1% of gross expenditure,
- A requirement to complete additional testing had been identified for the payroll system. This was mainly due to lack of access to the old system and further controls testing required on the new. Along with concerns over super user access in the new system.
- Financial resilience of all councils was identified as a Value for Money significant risk as a result of reductions in central government funding and other pressures. The General Fund stood at £15m which was the minimum balance recommended. At previous year end there was £172m in earmarked reserves and this year the authority planned reductions in earmarked reserves as it made investments in transforming services.
- The scale audit fee for 2017/18 was £146,603 however fee variations were likely in respect of the new payroll system and the enhanced audit requirements for an EU PIE.

With regard to the risk around the new payroll system, Members were informed that KPMG were confident to meet the deadline and be able to report to next audit committee however any issues arising from testing would change that and achievement of the deadline would then be at risk which would have to be discussed with the Director of Finance.

Assurance was offered to Members that the Super User access had been for a short period of time, as soon as it was identified access rights were removed and a full report completed of changes made on the system by those users. This had been fully reviewed and no concerns were raised.

The Chair thanked the External Auditor and Officers for the update.

RESOLVED:

That the contents of the report be noted.

10. INTERNAL AUDIT SERVICE - PEER REVIEW OUTCOME

The Head of Internal Audit & Assurance Service submitted a report to inform Members of the outcomes of a peer review conducted at Leicestershire County Council's Internal Audit Service.

Members were reminded of the process undertaken to delegate the internal audit function from the City Council to the County Council in 2017.

It was noted that some areas had been suggested for improvement during self-assessment of conformance by LCCIAS and Veritau Ltd had been commissioned to independently validate that self-assessment; an action plan to improve the areas suggested would be followed over the next year.

The overall opinion was that Leicestershire County Council (Internal Audit Service) generally conforms to the Public Sector Internal Audit Standards – generally conforms being the top rating.

RESOLVED:

That the contents of the report be noted.

11. INTERNAL AUDIT SERVICE ANNUAL PLAN 2018-19

The Head of Internal Audit & Assurance Service submitted the (draft) Internal Audit Service Annual Plan 2018/19 to provide Members with an indication of internal audit work planned to be conducted during 2018/19 and to provide the opportunity to review and comment on the plan.

The Chair commented that the plan seemed very comprehensive and he invited questions from Members of the committee.

During discussion the following comments were made by the Head of Internal Audit & Assurance Service:

- The council as a big organisation was robust and had a good financial standing. Although there was a lot of synergy between the County and City council systems, there were systems that the County IAS had not audited before.
- In terms of resourcing the internal audit team, some vacancies had been carried for a time and those were now being recruited to whilst gaining a better understanding of what staffing model was required for the future.

The Chair thanked the Head of Internal Audit & Assurance Service for the report and asked that progress against the plan be regularly monitored.

RESOLVED:

That the (draft) Internal Audit Service Annual Plan 2018/19 be approved.

12. ANNUAL TIMETABLE OF REPORTS FOR THE AUDIT & RISK COMMITTEE

The Director of Finance submitted a report outlining the business coming forward to the committee for the 2018/19 financial year.

It was noted that there would be five meetings this year, due to the early close down of accounts.

Members requested two training/informal briefing sessions to be arranged before a meeting as follows:

- Risk management - understanding risk, how risks are assessed;
- Value for money – how the external audit opinion is arrived at and what it means.

Members of the committee were advised that they could request additional reports or training sessions as necessary.

RESOLVED:

That the contents of the report be noted.

13. PRIVATE SESSION

19.03 Councillor Moore left the meeting.

Into private session

RESOLVED:

That the press and public be excluded during consideration of the following report, in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because it involved the likely disclosure of “exempt” information, as defined in the Paragraph detailed below of Part 1 of Schedule 12A of the Act, and taking all circumstances into account, it was considered that the public interest in maintaining the information as exempt outweighed 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).

Appendix – Internal Audit Service 2017/18 Q4 Update

Appendix – Internal Audit Service Annual Report 2017/18

14. INTERNAL AUDIT SERVICE 2017/18 Q4 UPDATE

The Head of Internal Audit & Assurance Service submitted a report summarising the Internal Audit work completed to the end of the financial year 2017/18.

The Head of Internal Audit & Assurance Service outlined the report, providing an overview of the audit work completed.

It was noted that a new document brought information on what were classed as high importance recommendations and showed those that were referred to officers for action. The recommendations within that document would remain

within the committee domain to monitor until the Head of Internal Audit & Assurance Service was satisfied that the actions had been fully completed.

Members noted that in terms of implementation of the recommendations/actions the committee terms of reference gave power for officers to be called before the committee to explain should it be necessary.

RESOLVED:

That the contents of the report be noted.

15. INTERNAL AUDIT SERVICE ANNUAL REPORT 2017-18

The Head of Internal Audit & Assurance submitted the Internal Audit Annual report 2017/18 detailing the internal audit work conducted during 2017/18.

It was noted that the report contained information on the internal audit functions conformance to professional standards and its quality assurance framework and that it had been timed to fit in with the annual governance statement.

Members had no questions or comments to make on the report.

The Chair thanked the Head of Internal Audit & Assurance for the comprehensive report.

RESOLVED:

That the contents of the report be noted.

16. ANY OTHER URGENT BUSINESS

There being no further business the meeting closed at 19.18pm.