



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 20 NOVEMBER 2019 at 5:30 pm

P R E S E N T:

Councillor Pantling (Chair)
Councillor O'Donnell (Vice-Chair)

Councillor Joshi
Councillor Kaur Saini

Councillor Dr Moore
Councillor Rahman

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13. APOLOGIES FOR ABSENCE

There were no apologies for absence.

14. DECLARATIONS OF INTEREST

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

Councillor Rahman declared that she was a Governor for the Madani Schools Federation.

15. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 18 September 2019 be confirmed as a correct record.

16. PROPOSED CHANGES TO THE CONTRACT PROCEDURE RULES

The City Barrister submitted a report on Proposed Changes to the Contract Procedure Rules (CPR).

Neil Bayliss, Head of Procurement, presented the report. He noted that the CPRs were required by law to be reviewed every five years. It was noted that 2020 would be five years since the current CPR were adopted. It was noted the report was coming to the committee as required by the constitution before

going to Full Council.

The Head of Procurement noted that it had been proposed to change the CPR to reflect legislation and mitigate any change that may arise as a result of Brexit. It was noted that whilst the proposed changes were minimal, they were aimed at increasing flexibility and efficiency, and making rules more user-friendly. It was acknowledged that there may be further changes before the report went to Full Council.

Councillor Dr Moore noted the large increase from £1,000 to £10,000 for the threshold for Direct Award and Purchase Order. Councillor Dr Moore asked if the process would be monitored.

The Head of Procurement noted all Purchase Orders would go through the audit system. Along with this there would be retrospective monitoring, to ensure that orders just under the £10,000 threshold to the same supplier were not being put through on a regular basis to bypass the CPR's.

Councillor Dr Moore asked what measures were in place to encourage the use of local suppliers.

The Head of Procurement responded that whilst there was an expectation to make use of local suppliers, it was difficult to enforce in practice. However, it would be stated in the CPR that local suppliers were the preferred option and should be considered where appropriate.

Deputy Director of Finance Colin Sharpe noted that whilst Direct Purchase Orders of up to £10,000 were allowed, quotes could still be sought.

The Head of Procurement further explained that raising the threshold below which a limited number of quotes could be sought should enable the Council to make greater use of local suppliers for lower value purchases.

Councillor Dr Moore requested a report be submitted to the Committee to ensure that rules were followed on small contracts.

Councillor Dr Moore sought clarification on what a Teckal Company was.

The Deputy Director of Finance clarified that in essence a Teckal Company was a Local Authority owned and controlled company that conducts at least 80% of its business with the Local Authority or Authorities that own it.

Councillor Dr Moore enquired whether this would apply to the Council's local housing company, Housing Leicester. It was confirmed that this is intended to be the case.

RESOLVED:

- 1) That the Committee consider the changes to CPR and make any comments to officers and/or Full Council; and
- 2) That a report be submitted to the Committee in due course on

the implementation of the new CPRs.

17. COUNTER-FRAUD UPDATE REPORT 2019-20

Corporate Investigations Manager Stuart Limb submitted a report, which provided a mid-year update on counter-fraud activities for the period April 2019 to September 2019.

In discussing the report, Councillor Joshi sought further information on how business rate debts were collected from companies that had gone bankrupt and re-opened similar businesses under a different name/ownership.

The Corporate Investigations Manager explained that in such situations, known as 'phoenixing', debt was pursued, and investigations were made when it was suspected that asset-stripping for fraud or tax-evasion had taken place. However, this was often very difficult to prove, and hence debt may not be collected.

Councillor Rahman enquired as to the proportion of Right to Buy (RTB) applications that were subject to background checks and how many of these raised concerns.

The Corporate Investigations Manager reported that all RTB applications were subject to background checks, including credit checks. He further reported that fewer than 10% of these raised concerns. Where there was concern, for example around the source of funds, further investigation was undertaken. Where sufficient doubts were identified, the RTB application would be refused.

RESOLVED:

That the contents of the report be noted.

18. DEVELOPMENTS IN AUDIT AND GOVERNANCE

Neil Jones of Leicestershire County Council submitted a report to inform the Committee about current and planned developments in audit (mostly external audit) and governance associated with the Committee's responsibilities.

Attention was drawn to the Redmond review, which was aimed at examining the existing purpose, scope and quality of statutory audits of local authorities, and it was noted that a number of findings and criticisms had been raised from it. It was noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) was preparing a comprehensive response to the review and that Neil Jones had responded in his role as Head of Audit.

Neil Jones noted that he would need to review with members of the Committee and Officers as to how audit arrangements were supported.

It was noted that proposals on value for money were aimed at being more relevant to each individual authority rather than a binary yes or no answer.

It was noted that there could be overlap between this review and the Independent Review of the Financial Reporting Council, the Statutory Audit Market Study and the Independent Review into the Quality and Effectiveness of Audit.

The report examined the Ministry of Housing, Communities and Local Government (MHCLG) looking at the accountability framework and examining whether the government was providing adequate oversight. It noted that the MHCLG:

- Was not yet providing effective leadership of the governance system.
- Did not know why some local authorities were raising concerns that external audit was not meeting their needs.
- Lacked reliable information on key governance risks, or relied on weak sources of information, meaning it had no way of pinpointing the at-risk councils.
- Monitoring was not focussed on long-term risks to council finances and therefore to services.
- Had a complete lack of transparency over both its informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The report also laid out the CIPFA Financial Management Code which looked at developments in government and local authority financial sustainability.

Councillor Dr Moore enquired as to whether members' fitness to be on the Committee would be under examination and emphasised the heavy expectation of members to be knowledgeable on complex issues, further noting how members were appointed to the committee. Councillor Dr Moore further suggested that prospective members be able to observe and shadow meetings, suggesting that if members were fully briefed and motivated then they would be able to be more active on the committee.

Councillor Bajaj supported Councillor Dr Moore's views, noting that the committee usually had some changes in membership each year, and as such elected members shadowing meetings was a good idea.

Councillor O'Donnell added that any changes to the Committee should be gradual as the financial year does not align with the municipal year. He also stressed the importance of building relationships within the Committee as it helped with smooth and effective running.

Neil Jones referred to views expressed in Appendix 2 of the report, noting that he considered the arrangements of the Committee to be more recently much improved and that the level of engagement was much better. He further reported that the Chair would be meeting with the External Auditor on the issue.

Nicola Coombe of Grant Thornton noted that there was recognition that the Audit Committee should be more accountable and praised members' self-

awareness and understanding of the seriousness of the Committee.

RESOLVED:

That the contents of the report be noted.

19. PRIVATE SESSION

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).

Internal Audit Update Report

20. PROGRESS AGAINST THE 2018-19 AND 2019-20 INTERNAL AUDIT PLANS

Bharat Mistry, Internal Audit Manager, submitted a report, which provided:

- A summary of progress against the 2018-19 and 2019-20 Internal Audit Plans.
- Information on resources used to progress the plans.
- Summary information on high importance recommendations and progress with implementing them.

With regard to progress against the plans it was noted that of the originally planned 13 themes, only two remained work in progress as of 30 September 2019 with reports having been issued for the two others.

With regards to the resources used it was reported that progress was being made to catch up on earlier shortfalls.

The internal audit team would continue to monitor progress.

Regarding schools, it was noted that on-site visits were made to schools and a number of recommendations had been made. Responses from the schools had been positive and many of the recommendations had been closed.

Councillor Dr Moore drew attention to Special Educational Needs and Disabilities (SEND) funding, noting that it can only be seen to be used appropriately if progress is shown, and a lack of progress could show that funds were not being used properly.

Bharat Mistry noted that the SEND review was part of a bigger audit. He noted that from the information available that audit had identified that quality checks of provision were absent and there was not enough scrutiny. This had been agreed to be followed up as one of their recommendations.

In response to Councillor Dr Moore's suggestion that the system was coming in at a late stage and relying on the skills of staff, Bharat Mistry noted that the review had identified a quality check not in place and that the auditors were taking the issue seriously and that more scrutiny would be given on the next update.

Councillor Dr Moore suggested interviewing staff in order to hold them responsible, as it was easy to record inaccurate information in a placement review as it relied on the skill and honesty of staff.

Bharat Mistry confirmed that this had been picked up on the central review.

In response to a query about how OFSTED were used, Bharat Mistry acknowledged that they were sometimes referred to, however, in this case, it was clear that checks were not being done so no further communication was necessary.

Neil Jones referred back to his report and noted that part of it was about following actions through to make sure they had been implemented. He further noted that this was an example of how the Committee had moved on and that the Committee had the power to call officers to account if needed. He acknowledged that this was in the early stages but said that it was positive to see implementation happening.

Bharat Mistry reported that he had been conducting follow-ups and officers and schools were engaging.

RESOLVED:

That the contents of the report be noted.

21. ANY OTHER URGENT BUSINESS

The Chair advised that the following item had been accepted as a Matter of Urgency for the following reason:

The Audit Progress Report and Sector Update needed to be considered at the meeting, in order to enable the external auditor to ensure that they are meeting their responsibilities.

22. AUDIT PROGRESS AND SECTOR UPDATE

Nicola Coombe of Grant Thornton presented a report on the Audit Progress Report and Sector Update.

It was reported that it was very early in the audit process and that once clarification work had been undertaken a report would be compiled and a more detailed audit plan would be presented at the meeting in March 2020.

Attention was drawn to the teachers' pension return for 2018/19, noting this was close to completion. Also, it was also noted that work was currently underway on the housing benefit subsidy claims, for which an extension had been requested from DWP due to the complexities around the audit.

Grant Thornton stated there would be a continued focus on the valuation of the Leicester City Council property and the net pension liability, as seen in previous years.

There was a focus on the valuation of the Leicester City Council Property Fund and Net Pension Liability.

The risks surrounding value for money were being considered and will again look at financial resilience and the OFSTED opinion along with other key areas.

It was noted the consultation on the Code of Audit Practice would no longer be a conclusion, but a narrative annual report decoupled from the financial statements opinion.

It was reported that Grant Thornton had an audience with the Redmond Review where they discussed simplifying the statutory accounts, development of the code of audit practice, the nature of the value for money opinion and the deadline for completing audits

Other audits were still ongoing.

RESOLVED:

That the contents of the report be noted.

23. CLOSE OF MEETING

The meeting closed at 6.35pm

