



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 28 SEPTEMBER 2022 at 5:30 pm

P R E S E N T:

Councillor Kaur Saini (Chair)
Councillor Dr Moore (Vice Chair)

Councillor Cassidy
Councillor Pantling

Councillor Valand
Councillor Whittle

Mr Bipon Bhakri – Independent Member

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14. APOLOGIES FOR ABSENCE

The Chair welcomed those present and led introductions.

There were no apologies for absence from Members.

15. DECLARATIONS OF INTEREST

Members were asked to declare any interest they might have in the business to be discussed.

There were no declarations of interest made.

16. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 20 July 2022 be confirmed as a correct record.

17. FINANCIAL UPDATE REPORT

The Deputy Director of Finance submitted a report to the Audit and Risk Committee which provided an update on the progress of the statement of accounts and external audit for 2020/21 and 2021/22, and the decision of the Monitoring Officer to appoint Bipon Bhakri as an Independent Member of the Committee.

The Committee was recommended to note the contents of the report including the progress of the external audit, and to support Mr Bapon Bhakri in his role as the Independent Member.

The Chair welcomed Mr Bhakri (Independent Member) to the meeting. Members agreed with the recommendation to support Mr Bhakri in his new role.

RESOLVED:

The Audit and Risk Committee welcomed Mr Bhakri to the meeting and resolved to support him in his role as the Independent Member.

The Head of Finance presented the report and Members noted the following points made:

- National issues around the valuation of infrastructure assets had delayed the closing of the 2020/21 accounts. However, the delay had no impact on the resources the Council had available and was an accounting adjustment.
- In addition, the Government had delayed issuing the 'Whole of Government Accounts' return further impacting on the 2020/21 accounts.
- Statements for 2021/22 would be impacted by the same issues, and it was not known when the accounts would be completed.

The External Auditor then presented the Leicester City Council audit progress report and sector update

- As a point of clarification, the external auditor confirmed there was now a signed opinion for the 2021 accounts. The annual auditors report had also been issued. It was also noted that the authority would fall under the Whole of Government accounts as it fell under the threshold required by Government.
- Apart from the valuation of infrastructure assets the External Auditors would be in a position to certify the audit closed.
- Members were reminded that initial planning for the 2021/22 audit was taken to the Audit and Risk Committee meeting in March 2022, with the audit plan being taken to the Committee in July 2022.
- External auditors confirmed the statutory publication of accounts for the Council had moved to the end of November. Overall external auditors were on track to hit that deadline apart from the matter of infrastructure assets.
- However, in terms of value for money there was one issue in that the Code of Audit Practice had not changed, and the Auditor's Annual Report should have been issued in September, but it was recognised that all auditor firms had to concentrate on completing statutory statement of accounts.
- With the report there was a value for money extension letter written from the external auditor with the deadline for the report being by 28 February 2023.
- With regards to the overall controlled environment, for journal entry controls there was a continuing issue around authorisation. The Council were aware of the risk, and there was additional testing to mitigate risk.

- In relation to infrastructure assets, they were accounted on the balance sheet as historic cost, but there was an issue that all councils were facing on derecognising components of infrastructure when replaced, which gave rise to potential material misstatement and possible disqualification of accounts. The government have considered the issue and are preparing to provide a statutory override to normalise the position across the country. External auditors would wait for the statutory override before issuing an audit opinion, expected in November 2022.
- External auditors had been reviewing information technology controls. There were elements of weakness, mainly around the general controls and the ability people had to have generic use of accounts, and administrative access to various systems. On Unit-4 (General Ledger) in particular, management had concluded staff did need those rights so was a risk to tolerate. External audit would audit around that. Appendix A to the report provided a management response to the IT audit.

Members were given the opportunity to ask questions, and the following responses were given:

- It was asked if the Government's deferred deadlines were affecting external auditor's work. It was responded that as a firm, audits were taking a little longer, and there were some clients that were struggling themselves, but there was a plan in place to deliver the majority of audits by end November 2022. The infrastructure asset was a challenge for all firms, but it was not believed there would be impact on delivering an audit opinion to the council.
- With response to the difficulties and challenges in the economic market and with regards to the value for money opinion for 2021/22, it was recognised there were challenges around salary, inflation and cost increases that would be impacting councils, and would be picked up as to how the council authority would respond to but recognised it was outside of the council's direct control.
- It was noted the statement of accounts were backwards looking as at the end of March 2022. A conversation would be had with the council as to how resilient they were to the changes in the economy. There was nothing to bring to the attention of Members, but the position would be monitored.
- Management response to the journal entry controls was referenced. It was asked what the risk appetite of the Council was in terms of accepting or mitigating risk, and what the detail of the volume or value was so that Members could understand the level of risk.
- Also the information technology controls were reference with the same question as to what the management response was to the risk.
- External auditors would interrogate their findings and provide a figure for the volume of journals going through the system to Members. With regards to risk appetite, a conversation had been had with finance, there were mitigating controls in place with a full test of journals on a monthly basis, where high risk journals were identified and pulled, with the rest put through risk categorisation and sampled to ensure they had been processed correctly. A report would be provided at a future meeting for Members.
- It was noted with regards to journals that information provided would be a very significant figure, as council tax transactions were also put through as

journals. It was noted that every month senior accountants had to review those journals and sign them off.

- With the IT there were system admin people that required full access to systems to resolve people's problems. The Chief Accountant would review to ensure that system admin people were not doing any transactional works.
- Now the independent member process had completed, the effectiveness of the Committee would now be looked at and reviewed.
- With regards to infrastructure assets in terms of the national picture, auditors were not comfortable with that but recognise it was a sector issue. Given the nature of those assets they were historic costs. It was recognised there was a de-recognition issue which required government intervention. External auditors were comfortable that the Highways department had all of the information available to the council to manage those assets.
- With regards to IT, it was noted there was a deficiency. Members were informed the council would always be managing risk, and if it was a big deficiency there was high potential for things to go wrong. The external auditor's perspective was it could not be ignored, but it was acknowledged that it could be tolerated with people requiring access to the systems with mitigations in place. The risks had not gone away, but Members had to be comfortable with the level of mitigation and control of the risk.
- The levelling up white paper was tabled at the February meeting, and it was asked if there was an update. External auditors informed Members that as a firm it had an active advisory team that led on local government, and the report contained comment on the proposals that had come out in February 2022. Since that time there had been significant change in the political landscape, and it was not known what the Government would propose with regards to the direction it would go policy wise.

The Chair thanked the officer for the report and noted its contents.

RESOLVED:

1. That the Audit and Risk Committee note the contents of the report.

18. PROCUREMENT ANNUAL REPORT 2021/22

The City Barrister & Head of Standards submitted a report, as required under the Council's Contract Procedure Rules, to the Audit and Risk Committee to inform them of the activity of the procurement function of the Council (which comprises three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

The Committee is recommended to note the contents of the report and make any comments to the City Barrister & Head of Standards.

The Deputy Director of Finance presented the report and made the following points:

- The report updated on what was required under Contract Procedure Rules.
- For information Members were asked to note the Public Contracts Regulations (PCR) thresholds updated in December 2021 were now inclusive of VAT, which had caused council internal procedures to be amended, and officers to be reminded of the new thresholds to take the VAT inclusive costs for checking.
- Attention was drawn to the Procurement Bill going through Parliament, to consolidate national procurement regulations following Brexit into UK legislation. Contracting authorities would now have to consider specific national priority outcomes alongside local priorities, including creating new businesses, new jobs and new skills, tackling climate change and reducing waste, and improving supplier diversity, innovation and resilience. It would also give the authority more scope to consider local priorities as well with the added flexibility it had to target procurement activity.
- More information would be required to be published on contacts and contract management as a result. There was now a page on the government website to which local authorities and government had to upload certain contracts, providing a central portal for upcoming procurement so that anyone could check the web page for information rather than going round individual councils, departments and websites.
- Members were asked to note the table at Point 3.7 in the report which listed the number of completed procurements.
- The Council's Open Data website had information on planned procurements for coming years and was kept up to date, with an ongoing exercise currently being undertaken to ensure that directors kept procurement information regularly updated.
- It was noted that normal procurement procedures were suspended during the pandemic with the Council using Exemptions to allow for PPE to be bought outside of normal procurement procedures at the start of the pandemic to respond to the situation. Various contracts had also been extended as they could not realistically be re-tendered or renewed during the pandemic. Internal audit had looked to ensure people were complying with procurement procedures.
- The council had been successful in getting three major capital schemes approved by government under levelling up. The Council were now required to procure the infrastructure works for the schemes.
- The Committee had previously discussed social value over recent years through the Council's processes, for example apprenticeships, benefit for the local community. There was more potential and discussion to be had, and the team had been asked to focus on how the council could embed social value in procurement.
- Also referenced was the living wage, and it was noted the Council was an operator under the Living Wage Foundation's Licence Agreement for its own staff, certain agency staff and some contracts, implementing the living wage where it could. It was acknowledged that it would like to implement the living wage in social care but costs were prohibitive. The Living Wage Foundation had announced a new living wage with an increase of 10%, which would be implemented from November 2022. The Local Government pay award currently on the table would largely deal with that, with two of the

- lowest grades still requiring a top up.
- Waivers at 3.18 in the report provided information on where departments had asked for usual rules to be waived, which was a proper governance procedure.

Members were then given the opportunity ask questions and the following responses were given:

- It was appreciated that procurement had gone tough times due to Covid, and clarity was sought that waivers were where existing contracts had been automatically extended for continuity reasons. Members asked under 'Reason for Waiver' what waivers came under the category of 'Other' which was showing as 33 for 2020/21. Members were informed that largely the reasons were Covid-related. As an example, the SALIX Decarbonisation scheme was noted, which was a government led scheme around carbon reduction energy efficiency measures. A lot of work had been undertaken in schools and other council buildings, such as more efficient heating, solar panels, double glazing and air source heat pumps. The government had wanted the schemes delivering quickly which in turn required procurement to be undertaken more quickly than usual.
- In addition, some of the schemes already had preferred suppliers, which allowed procurement to be addressed more quickly under the circumstances. Members asked how the authority compared with others. Officers would provide information to Members following the meeting.
- Members asked that in relation to the number of procurements as outlined at 3.7 compared to the table at 3.18 in the report, was the value a relatively small number compared to the value of procurements. The Director of Finance would look at the figures in more detail and provide a response to Members following the meeting.
- Members referenced the Procurement Bill, and recalled a strong point being made in years past when the procurement policy was being put together for the authority to favour local suppliers where it could. It was asked that when looking at bids from established local company against a start-up with no track record, were the authority going to put together a local policy for looking at the ratio of how it would prefer a new start-up to something that had a track record. The starting up of new businesses should not be discouraged, but there was an element of risk. The Deputy Director of Finance responded that it was relatively new legislation and there would need to be a process established. It was further noted it could also depend on the type of supplier and how critical it would be if they failed to deliver. The question would be taken back to officers for a response to Members.
- Members noted that improving supplier diversity was important under equal opportunities. What has been said in the past was people had not had the opportunity to get a foot on the ladder, but the new process would give those business an opportunity.
- It was questioned why, under Implications under Section Four in the report, it did not include environmental reporting through the Council's procurement processes on third party carbon emissions. The Deputy Director of Finance would take the question back to officers for a response in writing to Members.

Councillor Valand left the meeting at 18:28

The Chair noted the report and the comments that would be taken to officers for a written response to Members.

RESOLVED:

That:

1. The report be noted.
2. A written response on how the authority compared to others with regards to waivers be provided to Members.
3. Members to be provided with a written response on whether the value of waivers was a relatively small number compared to the number of the value of procurements.
4. The question on whether local policy would favour new start-ups compared to long established companies with a proven track record to be responded to in writing to Members.
5. Information was requested in writing by Members on how the Council's procurement processes were affected by third party carbon emissions.

19. ANNUAL INSURANCE REPORT 2022

The Deputy Director of Finance submitted a report to the Audit and Risk Committee which presented an overview of the Council's internal and external insurance arrangements and provided information on the claims received in recent years, and the results of the claims handling process.

The Committee was recommended to note the contents of the report, and the Council's approach to ensuring it was managing the financial risk associated with the claims.

The Financial Strategy and Insurance Manager presented the report and drew Members' attention to the following:

- A significant decision was how the authority purchased insurance. For most types of claim the first £200k was handled as an excess by the authority, the cost of which was managed internally.
- External insurance was held for catastrophic cases, such as a major fire in a building, or serious injury.
- An annual budget was held corporately which funded both the cost of external premiums and the amount paid out in deductibles.
- Schools and the Housing Revenue Account which had a statutory ring fence on it, paid for their own shares. Other departments insurance was held corporately and not in departmental section budgets.
- The budget setting process in February 2022 had reduced the corporate revenue budget by £0.5million, with a view to paying out less than budgeted due to good performance on claims.
- On balance over the past seven years claims had been coming in under budget, but could be volatile between years, therefore an insurance fund

was held as a corporate reserve on the balance sheet, but in practice managed as one fund. As of 2021 there was nearly £15million in that fund.

- An external actuarial valuation to find out how much should be held to cover claims to date was being undertaken and a report should be received shortly.
- The most significant external insurance was for property, liability and motor insurance, with a combined liability policy to cover staff and the public.
- Externally there had been quite a lot of cost increases, particularly for property insurance, with adverse weather events still concerning insurers.
- Other issues include an insurance provider withdrawing from the UK market post Brexit. In the future there would be a smaller market and less competition for providers that would make it difficult to get better rates.
- Claims information focussed on areas with a lot of claims, namely highways maintenance, motor claims, and housing services. It was not a criticism of those areas for having the most claims but was the type of area, for example, trips and falls on highways. It was noted that highways was very good at repudiating claims usually around 80% defence of claims, largely due to having a good system of highways maintenance.
- Amounts paid could be variable between years, simply depending on when bigger claims were submitted. Employer's liability claims tended to be of higher value but were fewer in number.

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

- The general approach to spreading risk across was with a £200k excess to keep costs low was applauded. It was asked if the authority had considered further reductions by combining with other authorities. It was reported that it would be very difficult to manage a joint policy between authorities due to legal reasons, with insurance being tied into another authority's risk management procedures which would involve giving up a lot of control. The Head of Internal Audit concurred with the response and gave an example of the Municipal Mutual Scheme in past years which had become insolvent and for which claims were still being made.
- Members reported that there were companies contacting tenants directly about disrepair. It was asked if it was having an effect on the number of claims being submitted to the authority. Officers reported the authority was seeing a pressure on the Housing Revenue budget. Further details would be sought from the Director of Housing and provided to Members.
- Members were informed that they along with officers were covered under the insurance scheme when carrying out official duties apart from fraud and criminal actions.
- Members stated that trips and bad falls could have a lasting effect, with resident claims being rejected because the height of the trip hazard being within limit. Further it was considered to be a moral issue, particularly when the elderly were involved, and that as a Council could it not show generosity, and even if it did not meet the full insurance claim, could there not be a small compensation amount given? Officers did recognise the situation. 80% of highways claims were being declined, but it did not mean that 80% of claims were fraudulent and not without injury or damage. It was

further noted that insurance claims, whether externally funded or not were part of the insurance policy and the authority could only settle those claims where the Council was legally liable.

- The table at 4.5.4 in the report was referenced, where 45% of the value of claims related to claims related to Employer's Liability and General Property. It was questioned what was driving some of those figures. Officers responded that it was general people who had a claim through work, where claims tended to be larger in value, for example, trips and slips at work, manual handling injuries, stress claims where people could show a medical injury for the stress.
- It was asked what prevention strategies were in place to prevent repeatable generic claims. It was responded that there were different types of claims, and, for example, there were Health and Safety measure in place through training, reviewing the individual circumstances of a claim. Also, the authority had been working with schools in particular who were part of the Council's policies, as there had been some incidents in schools.
- Detail on the types of motor claims was requested, and what preventatives were in place as the claims were an ongoing cost to the council. Officers responded that it had to be accepted to some extent that with such a large vehicle fleet there would occasions where the driver would be at fault having made a mistake, and there were preventative measures in place to minimise incidents, through training, policy and vehicle safety checks, and so on. It was uncertain that it would be realistic with 700+ vehicles being used most days of the year, that there would not be a number of claims, however it was noted that the vast majority of the authorities motor claims were low value.
- It was asked if the theme of the claims were being tracked and if any measures were being put in place. It was noted that the question would be put to fleet management to ask if they were doing enough to reduce motor claims, and a response provided to Members.
- Officers would also look at claims to see if there was a pattern within the employer's liability claims also, for example, claims with incidents in care facilities. Fuller data on incidents would be provided, ensuring that individuals were not identified.

The Chair noted the report and officers' responses to provide further information.

RESOLVED:

1. That the contents of the report be noted.
2. That the Director of Housing to be asked for information on additional pressures for the HRA budget from company claims for housing disrepairs.
3. That information on the tracking of claims and preventative measures would be put to fleet management for a written response to be provided to Members.
4. That Officers shall analyse employer's liability claims for patterns, with fuller anonymised details on the types of incidents to be provided to Members.

20. ANNUAL REPORT ON THE NATIONAL FRAUD INITIATIVE

The Deputy Director of Finance submitted a report to the Audit and Risk Committee the purpose of which was to provide an update on the National Fraud Initiative (NFI) exercises currently underway.

The Committee was recommended to note the contents of the report and make any comments it deemed appropriate.

Stuart Limb, Corporate Investigations Manager, presented the report, and Members noted the following information:

- The Authority took part in the NFI hosted by the Cabinet Office.
- Every two years in October the authority uploaded vast amounts of data along with other local authorities and public sector organisations throughout the country.
- In return matches were sent back to the Authority by secure portal in January.
- The current exercise was for 2020/21. The types of matches varied across different work areas and work streams. Each work area would be responsible for filtering through those matches, with high-risk cases being worked upon first, identifying any irregularities or errors.
- The statistics are brought to Committee for a timely update.
- 4.3 in the report gave examples of some of the matches the Authority looked through.
- The authority received 14,752 matches, with 8,336 matches checked, with just 2 errors identified, and 0 frauds that would be investigated, which was a success for the authority, with very low level of errors in the authority.
- On the overpayments identified, there had been a query placed with the Cabinet Office as it was believed their reporting figures were slightly inaccurate.
- Officers would start at the end of October to upload data to start the next exercise in January.

In response to Members questions, it was noted that:

- Each local authority would have a different level of matches returned based on the size of the authority which varied greatly, and no more or less fraud had been identified in Leicester, though there was a high level of assurance given there were low levels of fraud based on the matches.
- Members question the number of hours of officer time spent on checking matches and would the time have been better spent identifying underclaimed benefits and payments. Members were informed that the authority Revenues and Customer Support had ongoing work to improve benefit take up and improve welfare support. It was accepted there was a low level of savings for what was a significant piece of work, but the fact was the authority had no choice but to upload data every two years to the Cabinet Office, and most councils would say they spent a disproportionate amount of time on the NFI. The Cabinet Office had consulted recently on

- increasing the scope of NFI but had decided not to progress this currently.
- The Council had recently bought the Better Off Leicester tool on the website, the key aim of which was to allow people in the city to type in their circumstances and information to inform them of what benefits they could claim, including discretionary payments the Council could make.
 - Work was now starting in earnest on how the council could help with the cost of living crisis. For example, people were being encouraged to claim free school meals, which as a result would mean schools would receive more money.

RESOLVED:

That the report be noted.

21. PROGRESS AGAINST INTERNAL AUDIT PLANS 2021-22 AND 2022-23

The Head of Internal Audit & Assurance Service submitted a report to the Audit and Risk Committee which provided a summary of progress against the 2021-22 and 2022-23 Internal Audit Plans, including:

- i. Summary information on progress with implementing high importance recommendations
- ii. Summary of progress against the Internal Audit Plans
- iii. Commentary on the progress and resources used
- iv. An update on progressing improvements to internal audit arrangements following a meeting regarding the CIPFA research report, 'Internal audit: untapped potential'

The Committee was recommended to note the routine update report.

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

- The report took the opportunity to re-emphasise what was important for the committee, with how internal audit implemented important recommendations towards the front of the report, with paragraph 6 outlining the basis behind the designation of high important recommendations. Appendix 1 to the report introduced references to high importance recommendations.
- There were three new recommendations following audit of key ICT controls, with weaknesses around the IT disaster recovery processes. Recommendations had been accepted and a plan was being developed for those, and brief assurance had been given on progress being made on those by Internal Audit.
- Updates on recommendations were provided in bold font, with the most recent update on 5 September 2022. It was noted there had been a couple of extensions to deadlines for recommendations which were being monitored, one of which related to contract arrangements during Covid which had already been discussed.
- The report and the appendix identified the number of times high importance recommendations had been extended.

- Appendix 2 noted progress against plans up to 31st July 2022, and it was reported that many of the audits had moved on, the outcomes of which would be brought to the next meeting of Committee.
- Paragraph 13 in the report provided a summary of resources used in progressing work over the year, which had gone quite well with officers investing 303 days up to 31 July 2022.
- Paragraph 14 outlined a healthy staffing situation in terms of retention and recruitment. It was also noted there had been extensions to contracts, and the placement of a sponsored student from De Montfort University.
- The final part of report provided a short update from CIPFA about the role of internal audit in local authorities. Improvements had already begun to be implemented, but it was recognised that larger projects would require further discussions.

Members were given the opportunity to comment and ask questions. The following was noted:

1. In terms of social value, it was noted that internal audit had undertaken a piece of work on social value in procurement. Members asked if it would be possible to have sight of the report. Officers would confirm with the Monitoring Officer with regards to the sharing of a report that was not in the public domain with Audit and Risk Committee Members.
2. Members asked if the 303 days of internal audit input were within plan. The HoIAS reported that in terms of budget the aim was to provide 800 days a year, but there had been a reduction in the amount of audit input over the past couple of years due to Covid and vacancies within the team. For 2022/23 the number of days input was on track.
3. It was the role of the Committee to challenge, and the role of the HoIAS to help managers to understand and manage their own areas of risk in the control environment.

The Chair noted the contents of the report.

RESOLVED:

That:

1. The contents of the report be noted.
2. Officers to confirm with the Monitoring Officer whether an internal report on social value not in the public domain could be shared with Members of Audit and Risk Committee.

22. ANY OTHER URGENT BUSINESS

- a) The Chair informed the Committee that Angie Smith, the Democratic Support Officer, was leaving the authority. She thanked Angie for all her assistance and wished her all the very best in her future role.

There being no other items of urgent business, the meeting closed at 7:23pm.