



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: TUESDAY, 9 APRIL 2013 at 5.00pm

P R E S E N T:

Councillor Westley – Chair

Councillor Dr Chowdhury Councillor Dr Moore
Councillor Grant

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66. APOLOGIES FOR ABSENCE

With agreement, the Chair heard the agenda items out of order.

An apology was received from Councillor Wann.

67. DECLARATIONS OF INTEREST

Councillor Westley declared an interest in relation to business on the agenda, as he had family members who were council tenants.

68. TRAINING SESSION PRIOR TO MAIN MEETING - RISKS TO LEICESTER CITY COUNCIL ARISING FROM CHANGES TO THE BENEFITS SYSTEM

A training session on risks to Leicester City Council arising from changes to the benefits system was delivered by Caroline Jackson, Head of Revenue and Benefits prior to the main meeting. Members asked that a copy of the presentation be circulated after the meeting.

Caroline informed Members she would seek answers to questions raised by Members and respond to them accordingly.

69. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

that the minutes of the meeting of the Audit and Risk Committee held on 7th February 2013, be agreed as a correct record.

70. VACANT PROPERTIES

Neil Gamble, Head of Estates and Asset Strategy, presented a report which provided the Committee with information on vacant surplus properties and their current status, and answered questions from Members.

Regarding section 3.2 in the report, Councillor Grant questioned the process of sale of properties, and whether the Council was receiving value for money from properties sold. He said Members had in the past received a report on properties for sale or those that had been sold, but there was no mechanism for Members to scrutinise sales. Neil responded that all property sales with a value in excess of £500,000, or that had not been openly marketed required an Executive Decision, and that all properties sold since 1st April 2011 were now listed on the Council's website. He said there were safeguards within the process to ensure that properties were sold at market value. Neil said the list of sales of property since 1st April 2011 could be brought to a future Committee meeting for Members' information.

Members asked why the old Post Office was to be sold and not used by the Administration given its proximity to the Town Hall. Neil said the building was surplus to requirements, and there were no current proposals to use other buildings in the area.

The Chair thanked Neil for the report.

RESOLVED:

1. that the report be noted.
2. that a report on sales of property since 1st April 2011 be brought to a future meeting.

71. ANNUAL REPORT - CERTIFICATION OF GRANTS AND RETURNS (GRANTS) 2011/12

The External Auditor presented a report that summarised the work of the auditor and findings from the Certification of Grants and Returns 2011/12. Members were asked to note the change of auditor appointment, with KPMG appointed as external auditor for 2012/13 onwards, with effect from 1 November 2012. Members were informed that some of the work was completed by the Audit Commission's Audit Practice, the Council's previous external auditor and their findings and recommendations were incorporated into the report.

It was reported that for 2011/12 two claims with a total value of £170million and four returns with a total of £121million were certified. It was reported the External Auditor issued unqualified certificates for four grants and returns, and two qualification letters were required: the results were in line with the results for 2010/11 where similar matters were identified. Minor adjustments were made to three of the Council's grants and returns, and the results were in line with the results for 2010/11 where minor amendments were required in relation to three grants and returns but had no significant impact upon the amounts

claimed.

It was reported the Council had good arrangements for preparing its grants and returns and supporting the External Auditor's certification work. The overall fee of £159,995 for the certification of grants and returns was greater than the original estimate of £136,000. The main cause of this was the work required on the Council's Housing Benefit Subsidy Claim, as 1,826 cases were tested, compared with the previous year's figure of 1,556 cases tested. The fee included £9,735 in respect of time spent responding to DWP queries regarding the 2010/11 claim.

Consideration was given to the remainder of the report, which covered the following areas:

- Summary of certification of work outcomes;
- Fees;
- Recommendations;
- Prior year recommendations.

Members asked to formally note they were interested in the prior year recommendations which were on-going, and asked that they be followed up, and information brought to a future meeting. They also asked that the formatting of the document be improved, with a larger font size.

RESOLVED:

1. that the report be noted.

72. POLICY FOR ENGAGEMENT OF EXTERNAL AUDITORS FOR NON-AUDIT WORK

The External Auditor presented a report on the policy for the engagement of the Council's external auditors for non-audit work. The policy was developed to safeguard the Council and would enable the engagement of KPMG for other non-audit work, whilst maintaining audit independence and objectivity.

The report defined the types of non-audit work and the associated approval process as follows:

- Statutory and audit-related work not requiring Audit and Risk Committee approval;
- Audit-related and advisory services requiring prior Audit and Risk Committee approval;
- Projects that are not permitted.

The report asked that the Audit and Risk Committee formally agree on an annual basis that it was satisfied with the structure, content and operation of the policy.

The report generated debate amongst Members, who asked for the report to be deferred until a future Committee meeting.

RESOLVED:

1. that the report be heard at the next Audit and Risk Committee meeting.

73. ANNUAL EXTERNAL AUDIT PLAN FOR THE PRESENT FINANCIAL YEAR 2012/13

The External Auditor presented a report that set out the audit plan for the external audit of the financial statements and the value for money conclusion for the 2012/13 financial year.

Members considered the report in detail, which covered the following areas:

- KPMG's audit approach
- Value for money audit approach
- Audit team, deliverables, timeline and fees.

It was reported that KPMG's audit approach was similar to that of the Audit Commission with four stages summarised in the report as follows:

- Planning
- Control evaluation
- Substantive procedures
- Completion

Members were asked to note the use of off-shore audit resources KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Members were assured that all IT data files were maintained on servers in the UK with restricted access

Members were also asked to note the audit fee included work on the Value for Money conclusion and audit of the Council's financial statements. The fee for 2012/13 represented a reduction of 40% compared with the 2011/12 fee, which was a significant reduction and would be a key challenge to achieve. KPMG would require information on agreed deadlines, but stated they would also need to be specific on information required from the Council.

The Chair thanked the External Auditor for the report.

RESOLVED:

1. that the report be received and approved.

74. RISK MANAGEMENT AND INSURANCE SERVICES UPDATE REPORT

The Director of Finance submitted a report which provided the Committee with the regular update on the work of the Council's Risk Management and Insurance Services team's activities. The Head of Internal Audit and Risk Management presented the report.

Members were impressed that a case that went to Court was successfully defended, which had allowed £750,000 to be released back to reserves, and showed the success of the CLEAR system analysis.

The Committee received the report.

RESOLVED:

1. that the report be noted.

75. INTERNAL AUDIT OPERATIONAL PLAN 2013/14

The Director of Finance submitted a report under Finance Procedure Rule 7.2.1., which presented to Committee the Internal Audit Operational Plan for the financial year 2013/14. Members were asked to note the draft plan had been submitted to the Audit and Risk Committee for consultation in February 2013. The Audit Manager, Internal Audit presented the report.

The Audit Plan was grouped into broad themes rather than listing individual audits, so as to allow flexibility but in a structure framework. Quarterly definitive lists would be brought to the Committee as part of the regular Internal Audit updates: these would show the specific audits planned alongside those completed. Members were informed of the included essential requirements of the Council's Internal Audit Plan as follows:

- Main financial systems;
- Contracts;
- Corporate governance;
- IT audit
- Children's Services establishments;
- EMAS (subject to the Council's continued accreditation).

The Committee received the report.

RESOLVED:

1. that the report be approved.

76. CORPORATE GOVERNANCE - ASSURANCE FRAMEWORK AND THE ANNUAL REVIEW OF THE COMMITTEE'S TERMS OF REFERENCE

The Director of Finance and the City Barrister & Head of Standards submitted a report which sought the Committee's approval of a codified structure for the corporate governance and assurance processes at the City Council. The Audit Manager, Internal Audit presented the report.

Members were informed the Assurance Framework, Local Code of Corporate Governance and the Committee's prescribed terms of reference had clear linkages and the Committee was asked to periodically review the documents to ensure they remained relevant and fit for purpose.

Members were asked to approve an addition to the terms of reference of the

Audit and Risk Committee, under 1.2 External Audit 'To approve any instances of non-audit work by the external auditors in accordance with the 'Policy for Engagement of External Auditors for Non-Audit Work' and report any such instances to the Council'.

The Chair queried the approval of the addition to the terms of reference as Agenda Item 7, Appendix D had not been approved. Members asked if there would be implications for the Council by not approving Agenda Item 7, Appendix D, or the terms of reference for the Audit and Risk Committee. Members were informed that by not approving the report or amendment to the terms of reference, it may prevent officers in the Council using KPMG with approval from the Audit and Risk Committee.

The Chair asked that the report be approved at 2.1 a) and 2.1 b), but recommendation 2.1 c) for the Committee Terms of Reference for the additional point at 1.2 External Audit, be brought to the next meeting of the Committee following advice from the Director of Finance and the City Barrister & Head of Standards.

RESOLVED:

1. that the Committee approve the updated Assurance Framework and agree that it shall form the basis on which the Council will compile its Annual Governance Statement for 2012/13.
2. that the Committee approve the revisions to the Local Code of Corporate Governance.
3. that the Committee approve the revisions to the Audit & Risk Committee Terms of Reference, except the additional point at 1.2 External Audit, which the Committee asked to be brought to the next meeting for discussion.

77. REVIEW OF THE INTERNAL AUDIT CHARTER AND THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Director of Finance submitted a report which presented to Committee the revised Internal Audit Charter, and the adoption of the Public Sector Internal Audit Standards as the recognised professional standards for the Internal Audit service for approval. The Audit Manager, Internal Audit presented the report.

The Audit Manager drew particular attention to the following:

- The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) had jointly issued a new set of professional standards, the UK Public Sector Internal Audit Standards, which came into effect on 1st April 2013.
- The Internal Audit Charter makes reference to the provision of investigations services to support management in fulfilling its responsibilities to prevent, detect and resolve fraud, corruption and other irregularities. Investigations are the responsibility of Internal Audit, the Corporate Counter-Fraud Team and the Revenues & Benefits Investigations Team,

though the latter two fraud teams' structure was under review. Members asked that information on the review be brought to a future meeting.

The Chair asked why final reports on audits and investigations requested by Members of the Audit and Risk Committee were treated in confidence. The Head of Internal Audit and Risk Management said that any such reports would have names removed and some would be treated as 'B' agenda items.

The Committee received the report.

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.
2. that the Committee approve the adoption of the Public Sector Internal Audit Standards as the recognised professional standards for the Internal Audit Service.
3. that information on the review of the Corporate Counter-Fraud Team and the Revenues & Benefits Investigations Team be brought to a future Committee meeting.

78. 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)

INTERNAL AUDIT – UPDATE ON AUDIT PLAN PROGRESS
AND OUTCOMES OF AUDIT WORK Appendix B1

79. INTERNAL AUDIT - UPDATE ON AUDIT PLAN PROGRESS AND OUTCOMES OF AUDIT WORK

The Director of Finance submitted a report on Internal Audit's work in fulfilment of its agreed operational plan for the financial year 2012/13, and a summary of Internal Audit work completed in January 2013. The Audit Manager, Internal Audit presented the report. 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 vulnerable to fraud, therefore it had been brought as a 'B' agenda item.

The report provided the Committee with an overview of:

- audit work planned
- audit work completed
- significant issues identified by audit work
- management progress in implementing agreed recommendations.

A summary of work completed to the end of January 2013 compared with the work planned, with explanations of significant variations and other factors affecting plan delivery was brought to the Committee's attention for approval. The Audit Manager stated there no audit reports to draw to the attention of the Committee on the grounds of failure by management to respond to recommendations made by Internal Audit. The Committee were made aware of one area where a low level of assurance had been given. It was reported that management had responded constructively and implementation of audit recommendations would be followed up in due course.

The Committee received the report.

RESOLVED:

1. that the report be received;
2. that the key issues identified be noted;
3. that the progress made in delivering the agreed internal audit plan be noted.

80. CLOSE OF MEETING

The meeting closed at 7.45pm.