



Leicester
City Council

Minutes of the Meeting of the
AUDIT AND RISK COMMITTEE

Held: TUESDAY, 29 SEPTEMBER 2015 at 5:30 pm

P R E S E N T:

Cllr Westley (Chair)

Councillor Alfonso

Councillor Hunter

Councillor Singh Johal

* * * * *

27. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Patel (Chair) and Councillor Malik (Vice-Chair).

28. ELECTION OF CHAIR

RESOLVED:

That in the absence of the Chair and Vice-Chair, in accordance with Council Procedure Rule 41c, Councillor Westley be appointed as Chair for the meeting.

29. 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 made.

30. MINUTES OF THE PREVIOUS MEETING

The Committee received the minutes of the meeting held on 12th August 2015.

AGREED:

that the minutes of the previous meeting of the Audit and Risk Committee held on 12th August 2015 be confirmed as a correct record.

31. ANNUAL GOVERNANCE REPORT 2014-15 AND LETTER OF REPRESENTATION

Officers from KPMG, the External Auditors, presented a report to those charged with governance (ISA 260). The report summarised the key findings arising from the audit of Leicester City Council's financial statements for the year ended 31st March 2015, the Auditor's assessment of the Council's arrangements to secure value for money (VFM) in its use of resources, and the requirement for Members to authorise the Director of Finance to sign the letter of representation to KPMG from the Council in connection with the audit of the Council's financial statements.

Members' attention was drawn to the headlines in the report at Section two, and the anticipated unqualified audit opinion on the accounts. The external auditors had identified a number of adjustments and asked that an amendment to the report be noted on page 12, Section two, Audit Adjustments, to read "Two investments totalling £20 million had been reclassified from 'Cash and cash equivalents' to 'Short term investments'", it was noted that the change did not affect the asset position.

The external auditors asked the Committee to note page 21, Section four with reference to the OFSTED report in March 2015, and the additional work required to ensure the Council was undertaking the 24 recommendations addressed to it. External auditors concluded it was too early to say whether the Council had addressed the recommendations, though they were satisfied that an appropriate timetable was in place. Therefore, the external auditors provided a qualified 'except for' Value for Money conclusion in respect of that issue.

The external auditors referred to the recommendation and management response at Appendix 1, page 22 in the report, regarding amendments of a presentational nature. Management accepted the recommendation to ensure the 2015-16 accounts closedown timetable included a robust quality review of the notes, and a plan of work to deliver the objective was in place.

No new recommendations were identified, but Members' attention was drawn to the previous year's year outstanding recommendations at Appendix 2, page 23 of the report:

1. Publish the names of members who failed to return related party declarations. The Chair of the Audit and Risk Committee may wish to consider what further actions are available.

It was reported that there was one declaration outstanding. The Chair expressed support for the recommendation to publish the names of members who failed to return related party declarations.

2. Produce a report on non-routine journals raised by finance staff, and provide evidence that journals were authorised by a senior member of the finance team.

Officers informed the meeting the recommendation would be included in the specification of needs from the Council's future finance system, for which a procurement exercise was currently underway.

The external auditors concluded the Council had satisfactory processes in place for the production of the accounts, and officers had dealt with audit queries in a professional, timely manner. They acknowledged that amended accounts were received, and all that remained was for the external auditors to receive a signed management representation letter. It was agreed the Chair and Director of Finance would sign the letter at the end of the meeting.

The Chair thanked the External Auditors for the report.

RESOLVED:

that:

1. the Audit and Risk Committee note the annual governance report (ISA 260) for the 2014-15 audit and letter of representation submitted by the Director of Finance;
2. the audit adjustment amendment at page 12, Section two to £20 million be noted;
3. the qualified 'except for' Value for Money conclusion given following the OFSTED report in March 2015, and the additional work required by the authority through its Improvement Plan be noted;
4. the names of members who failed to return related party declarations be published, in accordance with the External Auditor's recommendation.

32. THE STATEMENT OF ACCOUNTS 2014-15

The Director of Finance presented the statement of accounts to the Audit and Risk Committee, which presented the City Council's financial performance for the financial year 2014-15, in line with the Accounts and Audit (England) Regulations 2011. The regulations also required the Audit & Risk Committee to approve a letter of management representation. As noted on the agenda, supporting information containing details of the final accounts and briefing note had been distributed to Members, published on the Council's website and was available at the meeting.

Members were updated with details of minor amendments following consideration of the draft statement of accounts at the Audit and Risk Committee meeting on 12th August 2015. Members were informed the accounts had been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.

Members were recommended to note the External Auditors' ISA 260 report to those charged with governance and approve the letter of representation as previously presented, and adopt the audited accounts for the year ended 31st March 2015.

Members were asked to note there had been no substantial changes in the accounting standards or the Council's accounting policies during the 2014-15 financial year, although some clarifications had been made surrounding the Council's policy on accounting for schools' assets.

Members were asked to note one adjustment at the suggestion of Council officers, that a sum of £34million had been moved to the 'Budget Strategy – Managed Reserves Fund', leaving the General Fund balance at £15million, which was the minimum prudent level as determined by the Director of Finance.

Officers reported there was an amendment to the Comprehensive Income and Expenditure Statement (CIES) which related to the value of land and buildings assets in respect of schools and leisure centres. Finance officers had worked closely with the Council's valuer to prepare revaluation estimates, which resulted in an uplift in asset value of the Council's schools and leisure centres totalling £76million. The 2015-16 and future programmes of asset valuations would be planned to ensure no further adjustments were required outside of the normal process.

Members were asked to note a change made by Government with regards to social housing rents, which would have an impact on the Council's budget position going forward, but did not affect the current position presented in the accounts.

In response to questions, Members were informed that schools transferring to academy status under legislation would have an impact on the Council's assets. The school and school site would cease to be shown on the Council's balance sheet although the Council may retain the ultimate legal title. Each individual school transfer would be looked at on a case-by-case basis, and some schools might have other services on site. Councillors asked that the Director of Finance provide further information on the transfers of Ellesmere School and New College to academy status, as there were separate projects on each school site.

The Chair thanked officers for the report.

RESOLVED:

that:

1. the Audit and Risk Committee note the auditors' ISA 260 Report to those charged with Governance and the recommendations contained within it;
2. adopt the audited accounts for the year ended 31st March 2015;
3. approve the letter of representation submitted by the Director of Finance;
4. the Director of Finance provide for Members further information on the transfers of Ellesmere School and New College to academy status, which had separate projects on

each site.

33. ANNUAL GOVERNANCE STATEMENT 2014-15

The Director of Finance submitted a report which sought the approval of the Audit and Risk Committee for the Council's Annual Governance Statement 2014-15, which the Council was required to publish as part of its financial accounts reporting. The Committee was recommended to approve the Council's Annual Governance Statement 2014-15.

The Committee was informed the statement should assure the people of Leicester that the Council operated in accordance with the law and had due regard to proper standards of behaviour and that it safeguarded the public purse.

Officers reported that the Annual Governance Statement and the supporting Director's Certification were produced with the involvement and contribution of all directors, and prepared in accordance with the Council's governance framework. Members' attention was drawn to items in Appendix A, page 53-57 identified as areas of significant risk and action taken in response to items raised in the Annual Governance Statement for 2013-14. An additional item (page 58) in response to the recent OFSTED investigation and a summary of action being taken had been included in the statement.

The Chair thanked the officer for the report.

RESOLVED:

that the Council's Annual Governance Statement for 2014-15 be approved.

34. ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE TO COUNCIL FOR THE MUNICIPAL YEAR 2014-15

The Director of Finance submitted a report for submission to Council setting out what the Audit and Risk Committee had achieved over the municipal year 2014-15. The Committee noted there was not specific requirement for such a report, but it was considered best practice for the Committee to be able to demonstrate its effectiveness in overseeing the City Council's control environment, and this was reflected in the Committee's terms of reference. The report covered the municipal year rather than the financial year so as to align with members' terms of office. The Audit and Risk committee was recommended to approve the report for submission to Council.

The meeting was advised that the Committee's terms of reference had been reviewed and updated prior to the beginning of the municipal year 2014-15, and the Committee had noted them at its meeting on 15 April 2014. A further update of the terms of reference was noted by the Committee at its final meeting of the municipal year on 31 March 2015.

It was reported the Committee was well established and had continued to make

an important contribution to the effectiveness of the City Council's internal control and corporate governance frameworks, and was a central component of the Council's system of internal audit. It was also noted that during the municipal year for 2014-15 the Committee had met on seven occasions, all of which were properly constituted and quorate.

The Chair thanked the officer for the report.

RESOLVED:

that:

1. the Annual Report of the Audit & Risk Committee to Council for the Municipal Year 2014-15 be approved and presented to Council;
2. Council be recommended to receive the report.

35. INTERNAL AUDIT ANNUAL REPORT FOR THE FINANCIAL YEAR 2014-15 INCLUDING THE INTERNAL AUDIT OPINION

The Director of Finance submitted a report that fulfilled the requirements of the Public Sector Internal Audit Standards (PSIAS) in producing the Internal Audit Annual Report and Opinion. The Audit and Risk Committee was recommended to receive the report and consider:

1. whether Internal Audit had met the Committee's expectations of the service during the financial year 2014-15;
2. Internal Audit's opinion on the Council's system of internal audit control in 2014-15; and
3. the Internal Audit Strategy for 2015-16.

The report provided the Committee with an overall view of Internal Audit work planned and completed in 2014-15, Internal Audit performance and a statement on conformance with the PSIAS, Internal Audit's annual opinion for 2014-15 on the adequacy and effectiveness of the Council's framework of governance, risk management and control, Internal Audit service developments in 2014-15, and the Internal Audit strategy and service development plans for 2015-16.

The Committee were informed the report identified the work carried out by the Internal Audit service, and included information on reports issued, the main influences on the level and standard of performance of Internal Audit during 2014-15, and the key priorities for the service in 2015-16.

The Internal Audit Manager stated it was the opinion of the Head of Internal Audit and Risk Management that the Council's framework of governance, risk management and internal control was adequate and effective.

Members' attention was drawn to Appendix A of the report (page 2), and the summary and extent of coverage and overall conclusion of audit work. It was reported that significant work had also been undertaken for the Leicester and Leicestershire Enterprise Partnership (LLEP), and though counted as one audit was a major piece of work. It was reported that Internal Audit issued client

satisfaction survey questionnaires, and the results demonstrated that Internal Audit continued to have a very high level of satisfaction amongst client management.

The Committee was asked to note that a requirement of conformance with PSIAS was an assessment against all of the Standards was undertaken. It was noted that overall there was a high degree of conformance with the Standards, but there were a few specific actions, updates or improvements to be made, and detail on improvements would be brought to a future meeting.

Appendix A, Section 7 referred to the joint working protocol between Internal Audit and KPMG, and there was no requirement to change the protocol. The Committee was informed that Internal Audit had a constructive working relationship with KPMG, to enable it to avoid duplication, avoid unnecessary additional external audit work and continued to support the Audit and Risk Committee in its responsibilities for both functions. The external auditor requested Appendix A, Section 7.1, line three be amended to read "2014-15 was the *third* financial year to fall within this arrangement".

Attention was drawn to the objectives and strategy for 2015-16, with particular reference to the financial pressures that faced the Council, and the importance of Internal Audit's role in supporting the Council.

The Chair thanked the officer for the report.

RESOLVED:

that the Audit and Risk Committee:

1. confirm Internal Audit had met the Committee's expectations of the service during the financial year 2014-15;
2. confirm Internal Audit's opinion on the Council's system of internal control in 2014-15;
3. confirm the Internal Audit Strategy for 2015-16;
4. agree the amendment in Appendix A, Section 7.1, line three to read "2014-15 was the *third* financial year to fall within this arrangement".

36. 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 (RMIS) team's activities. The Audit and Risk Committee was recommended to receive the report and note its contents.

Key elements of the report were highlighted, and the Strategic Risk Register and Operational Risk Registers as at 31 July 2015 were presented. It was noted that the submission of the Divisional risk registers to RMIS was 100%. Also attached to the report was a summary report of successful and repudiated claims against the Council received in the current financial year. Members were asked to note there was a downward trend in the number of claims received. The Committee was informed that since the last report to Committee, the

Council had had two cases go to Court; these were successfully defended, which allowed £36,410 and £15,000 respectively to be returned to the Council's reserves. In the first case the judge praised the Council's Highways Inspector for the clarity and content of his evidence.

Members were told that detailed analysis of the ALARM/CIPFA risk management benchmarking data was undertaken. ALARM reported that "public sector organisations have more mature arrangements to manage risk now than in 2010, despite reduced budgets (and teams) combined with ever more complex and emerging risks", which was promising given financial pressures. The Head of Internal Audit and Risk Management would continue to discuss with relevant managers and directors any issues and potential impacts they may have on the Council.

In response to a question from Members, the Director of Finance reported that over the past nine months, individual risk registers had received more scrutiny and peer discussion to ensure each register's risk scoring was correct. The risk register in Children's Services did not highlight the risk in the service at that time, and there was an unfortunate period between an officer leaving and a replacement interim officer commencing their role, when no-one updated the relevant risk register. The lesson had been learnt and 'nil' or 'same' return registers were now not accepted.

The Director of Finance added, strategic directors should share information with the Executive on areas of high risk. Members were also told that risk management training was part of essential core skills for those charged with completing risk assessments, and the Head of Internal Audit and Risk Management gave regular updates to the Senior Management Team to ISO standard, and challenge on risk registers by teams was encouraged.

The Chair thanked officers for the report.

RESOLVED:

that the Audit and Risk Committee note the report.

37. CLOSE OF MEETING

The meeting closed at 6.45pm.