



Leicester  
City Council

Minutes of the Meeting of the  
AUDIT AND RISK COMMITTEE

Held: THURSDAY, 28 SEPTEMBER 2017 at 5:30 pm

P R E S E N T :

Councillor Dawood (Chair)  
Councillor Westley (Vice Chair)

Councillor Alfonso  
Councillor Bajaj

Councillor Dr Chowdhury  
Councillor Dr Moore

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**19. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Hunter.

**20. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**21. MINUTES OF THE PREVIOUS MEETING**

RESOLVED:

That the minutes of the meeting of the Audit and Risk Committee held on 28 June 2017 be confirmed as a correct record.

**22. ANNUAL GOVERNANCE REPORT - ISO 260 REPORT TO THOSE CHARGED WITH GOVERNANCE**

Representatives of the External Auditor, KPMG, presented the Annual Governance Report, known as the ISO 260 Report to Those Charged with Governance. This included the key findings arising from the audit of Leicester City Council's financial statements for the year ended 31st March 2017, along with the Auditor's assessment of the Council's arrangements to secure value for money (VFM) in its use of resources.

Members also were advised of the requirement for them 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 were reminded that this report had been circulated separately to the agenda prior to the meeting.

John Cornett, Director at KPMG LLP (UK), introduced the report, explaining that KPMG intended to issue an unqualified opinion on the Council's financial statements for the year ended 31 March 2017.

Mr Cornett then made the following comments:

- The conclusion that the Council had proper arrangements in place to secure VFM did not mean that this had been achieved;
- The matters listed on the second page of the report as outstanding were normal at this stage;
- The report highlighted a significant audit risk due to significant changes in pension liability, due to the Triennial Valuation of the Local Government Pension Scheme;
- New rules had been introduced by the Chartered Institute of Public Finance and Accountancy (CIPFA) which gave auditors flexibility in how they presented income and expenditure statements. As those for 2016/17 therefore had been prepared in a new format, the income and expenditure statements from 2015/16 had been reorganised, to enable comparisons between that year and 2016/17 to be made;
- Draft financial statements for the year 2017/18 had been produced to a high standard. The help and support of the City Council's Finance team with this had been appreciated;
- A risk regarding the introduction of a new financial ledger was that the 2015 Council Audit Regulations now required the Council's accounts to be produced by the end of May each year and audited by the end of July. This change in dates could make it difficult to prepare the accounts in time for presentation to the Committee in the summer of 2018;
- Attention was drawn to the recommendation made to address that the authority did not perform a periodic check of users' access rights to systems in order to ensure that access privileges were appropriate;
- A qualified opinion had been given in the report's conclusion about VFM due to the findings of the inspection by the Office for Standards in Education (Ofsted) of Looked After Children services. However, in view of the improvements made in those services and the outcome of Ofsted's re-inspection earlier in 2017, this qualification could be lifted;
- In 2016/17 two Councillors did not return their annual related party declarations. One of these was no longer a Councillor and the other had not returned an annual statement for at least three years;

- Ongoing action plans were in place in relation to previous recommendations that had not yet been fully implemented;
- All non-audit work undertaken by the auditors for the Council had been declared;
- An additional fee would be payable to the auditors, due to further work required in relation to the CIES restatement and the triennial pension revaluation. The figure had not been agreed yet, but would be reported to the Committee when it had been determined; and
- All of the matters included in the report had been reported to the Committee during the year.

Members expressed concern that one Councillor continued to not return their annual related party declaration, as the making of this declaration was a statutory requirement. Officers confirmed that attempts to contact the Councillor concerned had been made using various communication methods, but no response had been received. Mr Cornett confirmed that, as failure to return the declaration was not prevalent across the Council, it did not impact on the value of the Council's accounts.

The Committee noted that processes for the periodic reconciliation of the total and individual balances in Housing leaseholder accounts were being developed and would continue to be improved, (prior year recommendation 2, "Leasehold accounts – housing", set out in Appendix 2 to the report, referred). It was anticipated that sufficient information should be available by the end of the current financial year to determine why different amounts were appearing in the total and individual balances.

In response to the prior year recommendation that when a user ceased employment access should be revoked from applications, networks and databases through which access to programs and data was possible, officers confirmed that the Council's information technology staff had identified 31 March 2018 as the date by which this would be fully implemented. (Recommendation 3, "Leavers – Access removal (Network)", set out in Appendix 2 of the report, referred.)

Members were reminded that a recommendation previously had been made that the Council's information technology password policy be changed, to require users to change their password after a specified number of days. (Prior year recommendation 4, "Passwords – Authentication (Network)", set out in Appendix 2 to the report, referred.) However, the Council felt that it operated a strong password system, in line with recommendations by CESG that passwords were made less secure by changing them frequently. It was recognised that the Council's policy could need updating so this would be followed up.

It was noted that, in response to prior year recommendation 6, "Journal Controls", (set out in Appendix 2 to the report), a workflow was being

introduced that would require every journal to be signed off. This would be implemented during the 2018/19 financial year, so would still be outstanding in the 2017/18 External Audit report.

The Committee welcomed the outcome of Ofsted's re-inspection of services for Looked After Children and noted that, although significant progress had been made in improving management arrangements for those services, further work was required. It was recognised that a risk was that progress would stop or be reversed.

**RESOLVED:**

- 1) That KPMG LLP (UK) be thanked for their work;
- 2) That the Chair write on behalf of the Audit and Risk Committee to the Councillor who continued to not return their annual related party declaration, giving that Councillor two weeks to respond;
- 3) That, if no response to the letter to be sent under resolution 2) above is received within the two week deadline, the Monitoring Officer be asked to look in to the matter and take appropriate action;
- 4) That the ISO 260 Report to Those Charged with Governance be received and noted;
- 5) That the unqualified opinion given by KPMG LLP (UK) on the Council's financial statements for the year ended 31 March 2017 be welcomed; and
- 6) That the Director of Finance be authorised to sign the letter of representation to KPMG from the Council in connection with the audit of the Council's financial statements.

**23. ANNUAL GOVERNANCE STATEMENT 2016-2017**

The Director of Finance submitted a report seeking approval of the Council's Annual Governance Statement for the financial year 2016 – 2017.

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".

The Committee queried whether any Members' travel expenses recently had been reduced due to them not using the cheapest form of travel available. Officers advised that they were unaware of this situation arising, but would enquire whether it had happened.

RESOLVED:

That the Annual Governance Statement 2016 – 2017 be approved as detailed within the report.

#### **24. STATUTORY STATEMENT OF ACCOUNTS 2016/17**

The Director of Finance submitted a report presenting the Council's audited Statement of Accounts for 2016/17, as required under the Accounts and Audit (England) Regulations 2015. These regulations also required those charged with governance, (in the Council's case, the Audit and Risk Committee), to approve a letter of management representation.

Members were reminded that draft management accounts had been presented to the Special Meeting of the Overview Select Committee held on 22 June 2017. Some amendments had been made to these during the audit period, but they were minor changes, being presentational errors or alternations to prior year figures to ensure they could be compared on a like-for-like basis. None of the changes resulted in a change to the overall level of balances. A briefing had been offered to Councillors to help them familiarise themselves with the accounts and to highlight the changes made.

Some Members suggested that higher pay rises for employees would have kept the Council's pay bill at its 2012/13 level. However, some Members suggested that the cumulative effect of pay rises over that period would have increased the Council's pay bill to more than its 2012/13 level. It was noted that the Council offered better rates of pay than some employers, through the Living Wage, but it was suggested that problems with staff retention could arise if concerns about pay levels were not addressed.

Members requested that consideration be given to how they could gain a level of understanding that would enable them to engage fully with the papers presented for consideration. John Cornett, Director at KPMG LLP (UK), (the Council's external auditors), explained that, as the acceptance of the accounts was a one-off activity each year, officers and external auditors aimed to build understanding and assurance during the year. Councillors were not expected to scrutinise each line of the accounts, but they needed to be able to recognise the Council from the information and accounts provided. It therefore was suggested that consideration could be given to this could be addressed in the future operation of the Committee.

It was suggested that more detailed information was needed on complaints received, as there could be significant variations in numbers received and procedures across Council services. For example, it could be expected that more complaints would be received in services such as Adult Social Care, and some services had a two-stage complaints procedure while others had a three-stage procedure. In reply, officers advised that some statutory procedures, such as those relating to complaints about adults' or children's services, differed to the Council's internal procedures.

In response to a query, it was noted that the figures given for the Collection Fund Adjustment Account showed a credit balance. The Council was required

to estimate in January each year what Council Tax income would be for the following financial year and this had been underestimated. The Collection Fund Account showed an overall year-end surplus for 2016/17 of £8.8million, but this included money collected on behalf of the Fire Authority.

RESOLVED:

- 1) That the Director of Finance be asked to liaise with the Chair of this Committee to consider how the Committee should operate in the future in terms of achieving stability of membership that would enable members to gain the knowledge and experience necessary to enable them to engage fully with the functions of the Committee;
- 2) That the auditor's ISA 260 Report to those charged with Governance and the recommendations contained within it be noted, (see also minute 22, "Annual Governance Report – ISO 260 Report to Those Charged with Governance", above);
- 3) That the audited accounts for the year ended 31 March 2017 be adopted as submitted; and
- 4) That the letter of representation submitted by the Director of Finance be approved as set out in the report.

## **25. INTERNAL AUDIT ANNUAL REPORT AND OPINION FOR THE FINANCIAL YEAR 2016-17**

The Director of Finance submitted the Internal Audit Annual Report and Opinion for the financial year 2016-17.

Particular attention was drawn to the confirmation that the outcomes of the self-assessment of the function's effectiveness review, conducted by the former Head of Internal Audit and Risk Management, and reviewed by the Head of Assurance Services at Leicestershire County Council, indicated that reliance could be put on the opinions expressed. These had been used to inform the authority's Annual Governance Statement.

RESOLVED:

- 1) That the Internal Audit Annual Report and Opinion for the financial year 2016-17 be noted;
- 2) That it be noted that, for the year ended 31 March 2017, an internal audit opinion of 'substantial assurance' has been given in relation to the overall adequacy and effectiveness of the Authority's control environment;
- 3) That it be noted that the individual assignment opinions expressed, together with significant matters arising from internal audit work, (see minute 27, "Internal Audit Update Report 2016-17", below), have been given due consideration when developing and reviewing the Authority's Annual

Governance Statement for 2016-17, (see minute 23, "Annual Governance Statement 2016-2017", above); and

- 4) That the conclusions of the self-assessment of the internal audit function's effectiveness be noted.

## **26. PRIVATE SESSION**

RESOLVED:

that the press and public be excluded during consideration of the following item in accordance with the provisions of Section 100A(4) of the Local Government Act 1972, as amended, because it involves the likely disclosure of exempt information, as defined in the paragraph detailed below of Part 1 of Schedule 12A of the Act, and that the public interest in maintaining the exemption 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)

## **27. INTERNAL AUDIT UPDATE REPORT 2016-17**

The Director of Finance submitted the Internal Audit Update Report 2016-17, which summarised Internal Audit work completed during the 2016-17 financial year.

Members noted that audits were ranked by level of assurance and noted how levels of assurance were assessed. From this, it also was noted that the majority of issues that arose were with externally procured systems, (particularly smaller ones). Where these involved the security of the system, specially trained staff undertook penetration tests, which included trying to hack in to systems.

The Committee was advised that some issues had arisen relating to the finances of some schools. A significant proportion of these had been found to have arisen due to governance issues at the schools concerned.

RESOLVED:

- 1) That the report be noted; and
- 2) That the Director of Finance be asked to provide information to members of the Committee further explaining assurance levels, this information to include examples of partial assurance.

## **28. CLOSE OF MEETING**

The meeting closed at 7.03 pm

