

Audit Committee

Monday 28 June 2010

PRESENT:

Councillor Berrow, in the Chair.
Councillor Evans, Vice-Chair.
Councillors Murphy, Stark and Thompson.

Independent Members: Ms. Myles and Mr. Stewart.

Apologies for absence: Mr. Clarke, Independent Member.

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance, Adam Broome, Director for Corporate Support, Ian Gallin, Assistant Chief Executive, Karen Port, Care First Project Manager, David Northey, Head of Finance, Mike Hocking, Head of Corporate Risk and Insurance, Sue Watts, Assistant Head of Devon Audit Partnership, Martin Gould, Head of Devon Audit Partnership, Sandra Wilson, Assistant Head of Finance (Corporate Accountancy), John Cremins, Project Manager, Barrie Morris and Leslie Whitworth, Grant Thornton.

The meeting started at 10.00 a.m. and finished at 1.15 p.m.

Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.

1. **APPOINTMENT OF CHAIR AND VICE-CHAIR**

Agreed to appoint Councillor Berrow as Chair and Councillor Evans as Vice-Chair for the municipal year 2010/2011.

2. **DECLARATIONS OF INTEREST**

The following declaration of interest was made in accordance with the Members' Code of Conduct –

Name	Minute No.	Reason	Interest
Councillor Murphy	8 – Statement of Accounts	Employee of South West Public Transport Information Ltd.	Personal
Councillor Stark	11 – Plymouth Citybus Review	Former Director of Citybus	Personal

3. **MINUTES**

Agreed the minutes of the meeting held on 26 March, 2010.

4. CHAIR'S URGENT BUSINESS

Order of Business

The Chair reported that, due to the substantial amount of business on the agenda, it would be appropriate to prioritise the items to be considered today and the remaining items would be deferred to a special meeting to take place at the end of July, 2010.

Agreed that the following items be prioritised for consideration –

- Internal Audit Annual Report 2009/10
- Annual Governance Statement 2009/10
- Treasury Management Annual Report 2009/10
- Statement of Accounts 2009/10
- External Audit Interim Audit Report 2009/10
- External Audit Progress Report
- External Audit Plymouth Citybus Review
- Audit Committee Work Programme

(In accordance with Section 100(B)(4)(b) of the Local Government Act, 1972, the Chair brought forward the above item of business because of the need to consult Members).

5. INTERNAL AUDIT ANNUAL REPORT 2009/10

The Assistant Head of Devon Audit Partnership presented the Internal Audit Annual Report 2009/10 which –

- summarised the work undertaken by Devon Audit Partnership during the year
- reviewed the performance and effectiveness of the Internal Audit service
- provided an audit opinion on the adequacy of internal controls
- was of particular relevance to preparation of the Authority's Annual Governance Statement

One of the significant issues highlighted within the report related to the findings of the Audit Service, following a review in October 2009, of 'fundamental weaknesses' within the CareFirst system. Members were advised that those findings had been accepted by the CareFirst Programme Board, chaired by the Assistant Chief Executive, and resources had since been allocated to address those weaknesses. A recent audit follow-up review had found significant improvements which had changed the overall audit opinion from 'fundamental weaknesses' to 'improvements required'. In attendance to support the report in respect of this particular matter, and respond to questions, were the Assistant Chief Executive and CareFirst Project Manager.

In response to questions raised, the Committee was advised that –

- (a) a decision on whether or not the Council would be keeping key performance indicators, following comments made by the new coalition government, had not yet been made. However, it would be difficult to assess how the Council was performing without them and it was likely they would be kept although not reported to central government;

- (b) the percentage of staff turnover was higher than target but this could be attributed to a number of reasons, namely –
- career promotions
 - retirement
 - life changes
- (c) there had been problems in getting the different computer systems from the different authorities within the Partnership to talk to each other. The first solution identified had not been achievable due to Government Connect barriers, however, work had been ongoing to address the situation and it was envisaged that the problem would soon be resolved;
- (d) a copy of the Benefits Realisation Report to the Devon Audit Partnership Committee would be circulated to Members for their information;
- (e) with regard to the CareFirst project, lessons learned would be shared across the Council;
- (f) each Authorities' Audit Plan within the Partnership was put together using an audit needs assessment model which, along with other factors, took account of individual Council's risk register entries. Potential audit reviews were attributed individual risk scores and were then ranked to produce draft risk-prioritised audit plans for each authority. These draft audit plans were discussed with senior management teams at the relevant Council and reviewed in line with available resources. The plan produced for the year would be reviewed on a regular basis and could be changed if necessary;
- (g) one of the benefits of the Partnership was the sharing of staff expertise and knowledge, an example of this was that staff in Plymouth were currently leading a review taking place in Torbay due to their experience of Local Area Agreements.

Agreed that –

- (1) the report be noted;
- (2) the adequacy and effectiveness of Plymouth's system of internal audit for the year ended 31 March, 2010, be endorsed.

6. **ANNUAL GOVERNANCE STATEMENT 2009/10**

The Head of Corporate Risk and Insurance presented the Annual Governance Statement for 2009/10.

Concern was expressed that, despite an already significant shortfall in the funding of the Council's pension fund, the Council had knowingly increased this pressure by adding the Citybus pension deficit to it.

Agreed that –

- (1) the processes for the production of the 2009/10 Annual Governance Statement be noted;
- (2) the adequacy and effectiveness of the system of internal audit be endorsed;
- (3) the Annual Governance Statement be approved, prior to signature by the Leader, Chief Executive and Director for Corporate Support.

7. **TREASURY MANAGEMENT ANNUAL REPORT 2009/10**

In accordance with the Code of Practice for Treasury Management, the Director for Corporate Support submitted a report which –

- presented details of capital financing, borrowing, debt rescheduling and investment transactions
- commented on the risk implications of treasury decisions and transactions
- gave details of the outturn position on treasury management transactions in 2009/10
- confirmed compliance with treasury limits and Prudential Indicators

In response to questions asked, committee members were further advised that –

- (a) the Council's revised debt portfolio had a significant proportion of market loans which were tied up in LOBO's and could not be repaid early;
- (b) the Department of Communities and Local Government had repaid the HRA proportion of the Council's Public Works Loan Board debt totalling £91.37m as part of the Housing stock transfer, together with the early redemption premium of £25.94m;
- (c) overall, there had been a reduction in borrowing of £137.761m since 1 April 2009, reflecting the Council's policy to reduce debt;
- (d) the Council had not undertaken any new long term borrowing during the year but had instead taken advantage of low rate short term loans and internal balances to replace maturing loans and meet capital financing and cash flow requirements.

Agreed that –

- (1) Audit Committee note the Treasury Management Report for 2009/10;
- (2) the report be referred to full council as required by the CIPFA Treasury Management Code of Practice (TMP note);
- (3) Council be requested to approve the final Minimum Revenue Provision (MRP) Policy for 2009/10 as outlined in paragraph 7.3 of the report.

8. **STATEMENT OF ACCOUNTS 2009/10**

The Assistant Head of Finance (Corporate Accountancy) presented the Draft Statement of Accounts for 2009/10. A summary of the changes which had been made to the report as a result of the Quality Control Review was tabled and Members' attention was drawn to the report's key messages for 2009/10 relating to –

- Accounting for PFI and similar schemes
- Accounting for local taxes, i.e. Council Tax and NNDR
- Financial Liabilities
- Removal of Disclosure Notes
- Officer Remuneration
- Housing Stock Transfer
- Sale of Citybus
- Pensions Deficit
- Balance Sheet Position

In response to questions raised, it was further reported that –

- (a) the exact amount to be recovered from the Icelandic Bank losses was still unknown, however, the Council had been successful in applying for debt capitalisation funding of £5.7m from the Department of Communities and Local Government (DCLG). Although the Council was not required to write off any impairment in 2009/10, the Council had decided to use the Capitalisation Direction in full and based on the latest formal announcements from the Icelandic Banks receivers' of the likely level of recoveries had written off a total impairment of £5.9m in 2009/10 being £5.7m from the Capitalisation Direction and £0.2m from the Icelandic Bank reserve. However officers reiterated that the impairment charge required for accounting purposes should in no way be taken to assume this will be the final outcome. The Council, working with the LGA and Bevan Brittan remained committed to maximising the recovery of our investments and an adjustment to the impairment can be made in future years;
- (b) the Capitalisation Direction would be funded from short term borrowing to be met in the first instance from the Icelandic Bank reserve;
- (c) there had been a change in accounting requirements relating to council tax arrangements and how this was recorded within Plymouth's Statement of Accounts. Councils were now required to only reflect the amount of money owed to them directly, with the preceptors now required to show their liability in their own accounts;
- (d) the shortfall anticipated in respect of concessionary fares had not been as big as expected.

A number of questions were raised relating specifically to the sale of Citybus but it was suggested it would be more appropriate for those questions to be considered under the external auditor's report on the 'Plymouth Citybus Review' (see minute 11).

Agreed the Statement of Accounts for 2009/10.

(Councillor Murphy declared a personal interest in respect of the above item).

9. **EXTERNAL AUDIT - INTERIM AUDIT REPORT 2009/10**

The City Council's external auditor, Grant Thornton, submitted its Interim Audit report for 2009/10, whose scope included –

- Interim Accounts Audit
- Value for Money (VFM) Conclusion
- Review of VAT arrangements

The report also provided an update on progress made against 2008/09 recommendations.

Members were advised that, with regard to VFM, work on evaluating the Council's use of resources had ceased since May, in accordance with instructions from the Audit Commission. Whilst, the results of the work undertaken to date were not permitted to be shared with the Council, good progress had been made against all of the identified areas. It had been agreed with the Director for Corporate Support that a formal report highlighting the areas identified for improvement and highlighting successes achieved to date would be submitted to a meeting of City Council.

Concern was expressed at the fact that a report had been produced reviewing the sale of Plymouth Citybus before the detailed working papers and disclosures had been reviewed by the external auditor. However, Committee was reminded that the purpose of the Citybus review had been to examine the process of the disposal in order to establish whether appropriate arrangements were in place and that they had been properly applied.

Any further questions in this regard would be reserved for the relevant agenda item (see minute 11).

10. **EXTERNAL AUDIT - PROGRESS REPORT**

The City Council's external auditor, Grant Thornton, submitted its Audit Plan Progress Report for projects undertaken in 2009/10. Members were advised that, with regard to progress on the Use of Resources report, guidance was awaited from the Audit Commission in light of the new coalition government's views on performance targets and monitoring.

The Committee noted the report.

11. **EXTERNAL AUDIT - PLYMOUTH CITYBUS REVIEW**

The City Council's external auditor, Grant Thornton, presented the findings of the Plymouth Citybus Review. Members were advised that –

- (a) in the lead up period to the sale, and throughout the duration of the project, the external auditor had been kept fully informed of progress by both the Director for Corporate Support and the project manager;

- (b) the external auditor was satisfied that adequate arrangements had been maintained throughout the process;
- (c) whilst the decision to sell Citybus may have been controversial, it was not the role of the external auditor to comment on whether the decision was right or wrong but simply to –
 - establish whether appropriate arrangements were in place and that they had been properly applied
 - identify how effective the overall project management had been
 - identify areas where lessons could be learnt for future projects
 - recognise any elements of best practice
- (d) an action plan had been prepared using the recommendations arising from the review.

Councillor Evans raised a number of questions and concerns and disagreed with the external auditor's view that the process had been adequate. He also expressed concern about the action plan and how it would be monitored. Other Members commented that they had appreciated that the project had been difficult to deal with, given the sensitivity around the competitive tendering process, and, whilst the Council may have erred on the side of caution and certain situations could have been handled differently, the right decision had ultimately been made. The Chair stated that he would be happy to meet separately with Councillor Evans to discuss the concerns he had raised.

Agreed that the report be noted.

(Councillor Stark declared a personal interest in respect of the above item).

12. **AUDIT COMMITTEE WORK PROGRAMME**

The Assistant Head of Devon Audit Partnership submitted the Committee's work plan for July 2010 to June 2011. Members were advised that –

- (a) an update report on the Regulation of Investigatory Powers Act (RIPA) would need to be added to the work plan;
- (b) the Democratic Support Officer would canvas members' availability for an additional meeting in July to consider the deferred items;
- (c) suggestions for issues to be included in the Committee's Annual Report should be raised through the Chair in the first instance.

Councillor Evans raised concerns regarding a specific organisation receiving business rate relief. It was suggested that he raise any concerns he had in this regard with the Assistant Head of Devon Audit Partnership outside of the meeting.

Agreed the revisions to the work plan as outlined at (a)-(c) above.

13. **REGISTRATION SERVICE - SERVICE DELIVERY REVIEW**

Deferred to special meeting to be held in July.

14. **RISK MANAGEMENT - ANNUAL REPORT**

Deferred to special meeting to be held in July.

15. **OPERATIONAL RISK MANAGEMENT UPDATE**

Deferred to special meeting to be held in July.

16. **EXTERNAL AUDIT - PERFORMANCE MANAGEMENT ARRANGEMENTS**

Deferred to special meeting to be held in July.

17. **EXTERNAL AUDIT - REVIEW OF ARRANGEMENTS FOR COMPLYING WITH AGE RELATED EQUALITIES LEGISLATION**

Deferred to special meeting to be held in July.

18. **REVIEW OF WHISTLEBLOWING POLICY**

Deferred to special meeting to be held in July.

19. **DEVON AUDIT PARTNERSHIP - PLYMOUTH'S INTERNAL AUDIT STRATEGY AND CHARTER**

Deferred to special meeting to be held in July.

20. **EXEMPT BUSINESS**

There were no items of exempt business.