

Audit Committee

Friday 21 January 2011

PRESENT:

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

Independent Members: Mr. Clarke and Mr. Stewart.

Apology for absence: Ms. Myles, Independent Member.

Also in attendance: Councillor Bowyer, Cabinet Member for Finance, Property, People and Governance, David Northey, Head of Finance, Sue Watts, Assistant Head of Devon Audit Partnership, Malcolm Coe, Assistant Director for Finance, Assets and Efficiencies, Mike Hocking, Head of Corporate Risk and Insurance, Julie Hosking, Risk Management and Insurance, Barrie Morris and Kate Jefferies, Grant Thornton, Judy Jones, Heath Lambert, Sandra Wilson, Corporate Accountancy and Finance Manager, Tim Howes, Assistant Director for Democracy and Governance, Joan Chilcott, Capital Programme and Projects Manager, Chris Trevitt, Head of Capital and Assets, Neville Cannon, Assistant Director for ICT, Richard Woodfield, Corporate Information Manager and Katey Johns, Democratic Support Officer.

The meeting started at 10 am and finished at 1.40 pm.

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.

58. **DECLARATIONS OF INTEREST**

There were no declarations of interest made in accordance with the Code of Conduct.

59. **MINUTES**

Agreed the minutes of the meeting held on 15 November, 2010.

60. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's urgent business.

61. **INDEPENDENT MEMBER**

The Chair reported on the resignation of Lynne Myles one of the Committee's Independent Members. The Committee was informed that, whilst Ms. Myles had found her role on the Committee extremely challenging, rewarding and developmental over the past three years, it was becoming increasingly difficult for her to attend meetings due to work pressures and she no longer felt able to fulfil the role to the best of her abilities.

Members were advised that the Chair had responded to Ms. Myles offering his thanks for her services to the Committee and wishing her well for the future. Recruitment would now commence with a view to appointing a new Independent Member before the next meeting of the Committee and Members were invited to send suggested nominations to the Chair and Vice-Chair.

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

62. OPERATIONAL RISK MANAGEMENT UPDATE REPORT

The Director for Corporate Support submitted an update in respect of Operational Risk Management. In attendance to present the report was the Head of Corporate Risk and Insurance who advised that –

- (a) the report outlined the continuing progress being made across services in delivering operational risk registers;
- (b) the total number of operational risks had increased from 115 to 118, comprising four high (red) risks, 63 medium (amber) risks and 51 low (green) risks;
- (c) commentary on the high risk areas was included within the report, together with details of control actions/mitigation in place.

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

- (d) target dates had been set against red risk items;
- (e) clarification on the number of children currently waiting allocation of a school place would be sought;
- (f) an update on progress with regard to replacement of the Council's performance management system would be sought, together with details of how the risk involved in transferring from one system to another was being recorded.

Agreed that –

- (1) the current position with regard to operational risk management be noted;
- (2) written responses to the questions raised at (d), (e) and (f) above would be circulated to Committee Members via the Democratic Support Officer.

(This item was considered in conjunction with the Independent Review of the Council's Risk Management Maturity report detailed under minute 63).

63. **INDEPENDENT REVIEW OF THE COUNCIL'S RISK MANAGEMENT MATURITY - SUMMARY**

The Committee welcomed Judy Jones from Heath Lambert who was in attendance to present the findings of the independent review undertaken in regard to the Council's risk management maturity. The report -

- (a) provided details of the approach which had been taken in order to carry out the review, along with the scope and objectives;
- (b) set out the key findings arising from the review which included many examples of very good, even exemplary, risk management practice;
- (c) identified risk management of partnerships as an area of relative weakness but commented Plymouth was not alone and that this was typical of the sector;
- (d) contained seven recommendations designed to support further integration and embedding of risk management across the Council.

In response to questions raised, Members were advised that –

- (e) the Audit Committee appeared to be playing its part in monitoring risk management, as had been evidenced through minutes of meetings, any further relevant observations would be fed back following today's meeting;
- (f) a fundamental review of risk management of partnerships was being carried out by the Head of Performance, Policy and Partnerships over the next 12 months;
- (g) clarification would be sought on who would be responsible for monitoring the City's birth rate after primary care trusts had been abolished.

Agreed that –

- (1) the findings of the independent review be endorsed.
- (2) a written response to the question raised at (g) above would be circulated to Committee Members via the Democratic Support Officer.

(This item was considered in conjunction with the Operational Risk Management Update report detailed under minute 62).

64. **ANNUAL REVIEW OF FINANCIAL REGULATIONS**

The Director for Corporate Support submitted for consideration the Annual Review of Financial Regulations. In attendance to present the report to Committee was the Corporate Accountancy and Finance Manager. Members were advised that –

- (a) as part of the review for 2010, it was being proposed that the Finance Regulations (hereafter referred to as Finance Rules) should be incorporated

within the overall constitution in order to clarify and ensure consistency of Council delegation authorities;

- (b) the new Finance Rules, which had been significantly refined from 108 pages down to 30 pages, were attached at Appendix A to the report;
- (c) authority was also being sought to amend the virement delegation limits and the inclusion of the Capital Governance document, attached at Appendix B to the report, onto the index.
- (d) a separate presentation would be provided on the proposed Capital Programme Governance arrangements for which the Capital Programme and Projects Manager and Head of Capital and Assets were in attendance.

Given that the constitution should be embedded in the Council and subject to little change, concern was expressed at the proposal to incorporate documents which were subject to frequent review. Concern was also expressed at the level of delegation being proposed to officers, particularly in respect of –

- Emergency Spending proposals within the new Finance Rules
- Capital Programme Governance arrangements

Agreed that –

- (1) the proposal to incorporate the Financial Rules within the overall constitution be noted;
- (2) the proposed changes to the virement delegation limits be recommended to Council;
- (3) the new Finance Rules be recommended for discussion at Council; the same to be attached to the constitution as an appendix;
- (4) the Capital Governance Document outlining the detailed arrangements for managing and monitoring the capital programme be approved and added to the Finance Rules Index, subject to new schemes costing up to £100,000 being approved by the relevant Cabinet Member;
- (5) no project manager should be appointed to any project (revenue or capital) prior to having undertaken relevant project management training.

(Councillor Evans' proposal to amend recommendation (3) so that the new Finance Rules be discussed at Council, having been seconded by Councillor Stark, was put to the vote and declared carried).

(Councillor Stark's proposal to amend recommendation (4) so that new schemes costing up to £100,000 required approval by the relevant Cabinet Member, having been seconded by Councillor Evans, was put to the vote and declared carried).

(Councillor Evans' proposal to include an additional recommendation (5), having been seconded by Councillor Stark, was put to the vote and declared carried).

65. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2011/12**

The Director for Corporate Support submitted for consideration the Treasury Management Strategy Statement and Annual Investment Strategy 2011/12. In attendance to present the report to Committee was the Corporate Accountancy and Finance Manager. Members were advised that the report -

- (a) outlined how the treasury management function contributed to the Council's overall policy objectives;
- (b) set out the risks inherent within the treasury management function and how officers would seek to minimise those risks;
- (c) identifies the Council's Prudential Indicators for the next three years as required by the Local Government Act 2003, together with the MRP policy for 2011/12 required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

In response to questions raised, Members were advised that –

- (d) details of the interest rates being achieved in respect of the Council's investments were available and would be circulated to Members separately after the meeting;
- (e) it was difficult to draw a comparison with how Plymouth was performing as many local authorities were still only using the Government's Debt Management Fund, however, benchmarking of the Council's performance had been included in the last report and would be included in the next mid-year report to Committee;
- (f) the banks listed in the report were UK banks or wholly-owned UK subsidiary companies.

Agreed that the –

- (1) Treasury Management Strategy Statement for 2011/12 be approved;
- (2) Investment Strategy for 2011/12, as outlined in Section 11 of the report, be approved;
- (3) Lending Organisations and Counter Party Limits, as outlined in appendix D to the report, be approved;
- (4) Director for Corporate Support, acting under delegated authority in accordance with the Constitution, be requested to keep the lending list under review and updates the list during the year as dictated by market circumstances;

- (5) following be recommended to Full Council, subject to update following any revision to the capital programme –
- (a) the Prudential Indicators set out in the report;
 - (b) the Authorised Borrowing limits of £379m, £376m and £373m for the period 2011/12 to 2013/14;
 - (c) the Operational Boundary of £355m, £347m and £334m for 2011/12 to 2013/14;
 - (d) the MRP Policy for 2011/12.

66. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - PROGRESS REPORT**

The Corporate Accountancy and Finance Manager provided a verbal update on progress towards International Financial Reporting Standards (IFRS). It was reported that –

- (a) the project continued to progress well;
- (b) there had been a delay in receiving the guidance notes which had resulted in officers being behind with the re-statement of the 2009/10 accounts. The focus was now on –
 - re-stating the 2009/10 accounts in the new format
 - ensuring there was clarity on different treatments and that any changes were tracked
 - following through small pieces of outstanding work around grants and employee benefits
- (c) several meetings had taken place with external audit and agreement had now been reached on the proposed treatment of some smaller, less material, items;
- (d) an IFRS workshop, hosted by Grant Thornton, had been held in Plymouth before Christmas and had been well attended by representatives from local councils;
- (e) more detailed work was being undertaken with respect to preparing revised / new accounting policies and a revised set of accounting policies was now ready for the 2010/2011 closedown;
- (f) an IFRS chart of accounts had been set up in the General Ledger and three years' worth of draft statements had been produced in the new format. These were all now being reviewed in light of receipt of the final guidance and would need to be re-run when all of the re-statement entries had been finalised;
- (g) a lot of work had been done around analysing 'hidden' transactions, such as –
 - embedded leases

- service concessions
 - embedded derivatives
- (h) Officers hoped to be in a position to familiarise Committee with the new format prior to bringing the final accounts for 2010/11 to Committee for approval in June.

In response to questions raised, Members were advised that the initial preparation for this work had primarily involved substantial use of finance resources, however, more departments were now being required to input to the project such as procurement, through the review of contracts, and Community Services. The Council had not received any financial support towards the cost of the IFRS work in terms of officer time and resources. The work would result in additional work by the external auditor for which a fee would be payable. However, the cost of the additional audit work was being fully mitigated by the Audit Commission.

The Committee noted the update with thanks.

67. **EXTERNAL AUDIT - CERTIFICATION WORK REPORT 2009/10**

The City Council's external auditor, Grant Thornton, submitted the Certification Work Report for 2009/10. The report –

- (a) set out the requirements for certification arrangements and the approach adopted by Grant Thornton, acting as agent of the Audit Commission;
- (b) detailed the key messages arising from the certification work, including that –
- 9 claims and returns had been certified for the Council, amounting to £207 million
 - the Council's performance in preparing claims and returns had significantly improved since 2008/09
 - work was required in relation to timeliness of submissions
 - only one claim had been identified as having significant issues and that was in respect of the Housing and Council Tax Benefit Scheme
- (c) indicated that the fee for certification work at the Council in 2009/10 was £49,031.

Members were advised that a correction was required to the table set out on page 157 and that, within the 2009/10 column, the figure 7 should read 6 and the figure 1 should read 2.

In response to questions raised, Members heard that –

- (d) certification fees were set nationally by the Audit Commission and fees for 2010/11 had been frozen;
- (e) there had been a significant increase in certification work relating to the Housing and Council Tax Benefit Scheme this year and Plymouth was by no means alone in this regard. A number of reasons for this were cited, including

the change in eligibility criteria and increasing workloads.

The Committee noted the Certification Work Report for 2009/10.

68. **EXTERNAL AUDIT - AUDIT PLAN 2010/11**

The City Council's external auditor, Grant Thornton, submitted the Audit Plan for 2010/11. Members welcomed Kate Jefferies, Grant Thornton's Audit Manager for Plymouth, to her first meeting of the Audit Committee.

The Audit Plan sets out the work that Grant Thornton proposed to undertake in relation to the audit of the 2010/11 accounts at the Council. It was based on their risk-based approach to audit planning and their assessment of the potential business and audit risks that need to be addressed by the audit and the controls the Council had put in place to mitigate those risks.

The Plan also provided details of other areas of work to be undertaken, including –

- a review of the Annual Governance Statement
- a review of the Whole of Government Accounts
- forming a view on any electors challenges to the accounts
- Certification of Grant Claims and Returns
- a review of the Council's progress and actions relating to the National Fraud Initiatives
- Value for Money Conclusion

In response to questions raised, Members were advised that –

- (a) the area of work around revaluation of fixed assets was part of a five-year rolling programme and was still under review. The external auditor was happy with the Council's decision to take out trust and academy schools, however, the Audit Commission was now involved and clarification was expected by year end;
- (b) Grant Thornton was also the auditor for Plymouth Primary Care Trust and they would be looking at what mechanisms would be in place to put things in order before they were wound up.

The Committee noted the Audit Plan for 2010/11.

69. **MANAGEMENT OF INFORMATION SECURITY FORUM**

The Committee discussed the merit of taking the item under Part II, to which Councillor Evans objected stating that there may be some elements more suited for consideration in Part II but that did not warrant moving the whole issue. However, in light of the fact that the one Independent Member remaining at meeting had to leave, thus making it inquorate, it was agreed that consideration of the item be deferred to the next meeting.

70. **AUDIT COMMITTEE FORWARD WORK PLAN**

The Committee noted its forward work plan.

71. **EXEMPT BUSINESS**

There were no items of exempt business.