

Audit Committee

Thursday 26 March 2015

PRESENT:

Councillor Wheeler, in the Chair.
Councillor Dr. Mahony, Vice Chair.
Councillors Jarvis (substitute for Councillor Stevens), Murphy and Stark.

Independent Members: Mr Clarke and Mr Stewart.

Apologies for absence: Councillor Stevens.

Also in attendance: Les Allen (Head of Portfolio), Lesa Annear (Director for Transformation and Change), David Bray (Grant Thornton), David Curnow (Deputy Head of Devon Audit Partnership), Simon Dale (Interim Assistant Director for Street Services), Brenda Davis (Audit Manager), John Finch (Information Governance Manager), Mike Hocking (Head of Corporate Risk and Insurance), David Northey (Head of Corporate Strategy), Helen Rickman (Democratic Support Officer), Dan Sharp (Amey) and Adrian Trim (Head of Highways, Parking and Marine Services).

The meeting started at 2.05 pm and finished at 4.45 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.

Chair's Thanks

Councillor Wheeler, Chair of the Audit Committee, thanked Malcolm Coe (Assistant Director for Finance) on the Committee's behalf, for his hard work and dedication to the role. Members wished Malcolm good luck for the future in his new job.

48. **DECLARATIONS OF INTEREST**

There were no declarations of interest in accordance with the code of conduct.

49. **MINUTES**

Agreed the minutes of 18 December 2014 as an accurate record of the meeting.

50. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's Urgent Business.

51. **AUDIT COMMITTEE UPDATE**

David Bray (Grant Thornton) provided Members with the Audit Committee Update.

Members were advised that –

- (a) 2014/15 was the last financial year in which Grant Thornton would be employed as the Council's external auditors;
- (b) the 2014/15 external audit fees were determined by the Audit Commission; there was an increase in fees of £1,070 for all Unitary Councils to reflect the additional audit work undertaken on material business rate balances;
- (c) the debate regarding which school land and buildings should be recognised on local authority balance sheets had been reignited by CIPFA who issued an update to the Code of Practice; Grant Thornton was taking a lead role in trying to resolve this issue;
- (d) the provision for business rates appeals had changed whereby the backdating of Valuation Office Agency (VOA) alterations was restricted; only alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 could be backdated to the period of 1 April 2010-1 April 2015;
- (e) the Employment Appeal Tribunal (EAT) has confirmed that non-guaranteed overtime should be included in the calculation of holiday pay; back dated claims could only be made if it occurred less than three months since the last incorrect payment of holiday pay;
- (f) legislation was recently passed to bring forward the deadline for the preparation and audit of Local Government financial statements from 2017/18 onwards; the deadline for the preparation of financial statements was brought forward by one month to May, and the deadline for the audit completion was brought forward by two months to July. These changes to deadlines represented a significant challenge to auditors and local authorities; Grant Thornton would be writing a national report in 2016 detailing how local authorities had achieved submitting their accounts earlier.

In response to questions raised it was reported that –

- (g) the Head of Corporate Strategy confirmed that his team worked closely with colleagues in Grant Thornton, Internal Audit and the Valuation Office to ensure that the Council had arrangements in place for the estimation of business rates appeals to be charged against the appeals provision set up last year. Officers were currently assessing if a provision was required in the 2014/15 accounts for the inclusion of overtime in the calculation of holiday pay;
- (h) a representative from Grant Thornton would advise Members at the next Audit Committee meeting of the success of pre-decision scrutiny nationwide;

- (i) Plymouth City Council was positively mentioned in the 'All Aboard? – Local Government Governance Review 2015' – this reflected well upon the Council's finance team as an example of good practice.

Under this item David Bray (Grant Thornton) thanked Malcolm Coe (Assistant Director for Finance), on behalf on Grant Thornton for all of his hard work.

The Chair thanked David Bray for his update.

Members noted the report.

52. **AUDIT PLAN 2014/15**

David Bray (Grant Thornton) provided Members with an update on the Audit Plan 2014/15.

Members were advised that –

- (a) the Audit Plan set out the key challenges and opportunities facing the Council as well as Grant Thornton's response to developments;
- (b) contained within the audit plan was a diagram on page 34 of the agenda detailing how the audit process worked and how the Council's external auditor issued their opinion;
- (c) there were two significant risks which were applicable to all audits under auditing standards (International Standards on Auditing – ISAs) including management over-ride of controls, and the revenue cycle including fraudulent transactions. Other risks identified included Housing Benefit expenditure being improperly computed however good progress had been made in this area;
- (d) the Code of Practice required Grant Thornton, as External Auditor, to issue a conclusion regarding if the Council had put proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources; to address the risks identified the external auditor would review the medium term financial planning of the Council, assess future savings plans, review the Council's performance against the budget and consider whether the better Care Fund was a risk in the context of the Value for Money conclusion;
- (e) the findings of the interim audit work included the review of the Council's journal entry policies and procedures. A material weakness was identified whereby there was no authorisation process for journals prior to posting. Further testing of journals would be undertaken as part of the final accounts audit. The Head of Corporate Strategy advised that as a result of last year's audit recommendations, with effect from 1st October 2014 all journals with a value in excess of £500k were being signed off by him or the Head of Finance Operations. In response to this audit recommendation, the head of Corporate Strategy was proposing that all journals are passed to the relevant finance manager for approval.

In response to a question raised it was reported that a software programme called 'Idea' was used to select samples for testing from all of the Council's transactions; an error was found for the sum of £33, officers were required to ensure that this was an isolated incident.

Under this item Malcolm Coe (Assistant Director for Finance) thanked David Bray and his colleagues from Grant Thornton for their hard work and support as the Council's external auditors.

Agreed that the report is noted.

53. **ACCOUNTING FOR SCHOOLS**

David Bray (Grant Thornton) confirmed that the Accounting for Schools briefing attached to the agenda was for Members' information; Grant Thornton were taking a lead to resolve this issue nationally.

54. **AUDIT FEE UPDATE**

David Northey (Head of Corporate Strategy) advised Members that his intention was to provide a verbal update upon the new external auditors (BDO) fees, having arranged to meet them prior to the Audit Committee. Unfortunately his meeting was moved therefore the update would be provided at the next meeting.

Members noted the update.

55. **INTERNAL AUDIT ANNUAL PLAN**

David Curnow (Deputy Head of Devon Audit Partnership) provided Members with the Internal Audit Annual Plan.

Members were advised that –

- (a) the report commented on the Internal Audit resources available to undertake the 2015/16 plan, and identified the work to be carried out including audit support, contribution to Transformation, value added, core assurance, key financial systems, schools reviews, anti-fraud work and corporate governance;
- (b) the High Level Audit Plan 2015/16 detailed 1332 planned audit days for the review of core activities including transformational change, value added and anti-fraud and corruption; key items would receive the largest amount of time due to the higher risk;
- (c) the 2015/16 internal audit plan reflected the transition of many transformational change work-streams into the design and development stages. Internal audit would continue to contribute to the development of proposed governance and methodologies for commissioning and procurement and support and challenge the work undertaken by the Council to ensure better, more efficient use of its current financial systems;
- (d) internal audit would review the management of the new DELT contract and

the role of the retained client function and work alongside the transformation programme to ensure that their objectives were properly supported;

- (e) within the Place department, auditors would provide management with advice, support and assurance on the GAME transformation programme including the History Centre project and the new energy from waste facility;
- (f) work with Public Health would be agreed shortly;
- (g) internal audit would continue to investigate instances of potential fraud and irregularities, and would also undertake proactive anti-fraud and corruption testing of systems considered to be most at risk to fraud;
- (h) internal audit would continue to participate in a range of internal audit networks, both locally and nationally, which provided for a beneficial exchange of information and practices;
- (i) from assurances provided by the Annual Governance Statement Working Group, the Corporate Management Team and Internal Audit it was confirmed that the annual governance statement met statutory requirements;
- (j) appendix I set out proposed audit reviews and associated risks as well as the estimated audit effort days.

In response to questions raised it was reported that –

- (k) the proposals of the plan were flexible enough to change depending on need if an issue arose that needed urgent attention;
- (l) regular liaison meetings were held between Council officers, internal audit and external audit in order to share concerns and issues as well as coordinating work to avoid duplication; it was hoped that this working practice would continue with the Council's new external auditors BDO.

Agreed that –

1. the report is noted;
2. the proposed Internal Audit Plan 2015/16 at Appendix I is approved.

Order of business

With the permission of the Chair the order of business was amended as set out below in the minutes.

56. **RISKS OF DELIVERY OF THE TRANSFORMATION PROGRAMME**

Lesa Annear (Director for Transformation and Change) and Les Allen (Head of Portfolio) provided Members with an update on the Risks of Delivery of the Transformation Programme.

Members were advised that –

- (a) the briefing report attached to the agenda provided Members with a summary of the management measures that the Portfolio Office was taking to control the risks to the delivery of the financial benefits for the Council's transformation. The Transformation Programme was set up to enable the Council to make a saving of £6.7m in the first year; the Portfolio Management system approach adopted was considered best practice;
- (b) several transformation projects were running in parallel; it was expected that there would be a significant financial impact for the Council as well as changes to services provided that would benefit the public. Not all projects were focused around cost cutting as income generation was equally important as well as a shared working approach;
- (c) the Coroners team was due to move to Building 1 at Derriford and would be located with the NHS and Police; Public Health were located at Windsor House nearby allowing costs to be shared and services improved;
- (d) the Portfolio, Programme and Project Maturity Model (P3M3) was a standardised maturity assessment; results were scored 1 each section on a 1-5 sliding scale whereby the Council's transformation programme and projects would be mapped against them. In this year the score had increased from 0 to 1.6 with a target of 2 by the end of the year;
- (e) with regards to the governance of the project, the transformation programme reported to Cabinet Members, the Chief Executive, Senior Officers and Programme Managers on a regular basis; Full Council, Cabinet and Audit Committee were also engaged in the process; approximately 60 hours every month was allocated to scrutiny of the transformation programme;
- (f) various officers around the council were selected to work for the Transformation Programme; all members received regular development training. 12 apprentices were linked to the programme and seven employees were taken from the redeployment pool;
- (g) transformation was at the centre of the Council's budget setting process; Internal Audit had regular access to the ongoing work with confirmation from the Finance team.

In response to a question raised it was reported that –

- (h) the Director for Transformation and Change was in agreement with concerns raised that the Council and its partners had a lot of work to do ensure the success of the transformation programme; it was highlighted that the challenge was ambitious but everyone was working together with a shared goal to achieve and improve.

The Chair thanked Lesa and Les for their comprehensive report and attendance at the meeting.

Agreed that an update on the Transformation Programme would be provided to the Audit Committee in the future.

Order of business

With the permission of the Chair the order of business was amended as set out below in the minutes.

57. **CONTRACT MANAGEMENT - AMEY CONTRACT OVERVIEW**

Simon Dale (Interim Assistant Director for Street Services), Adrian Trim (Head of Highways, Parking and Marine Services) and Dan Sharpe (Amey) provided Members with an update on Contract Management – Amey Contract Overview.

Members were advised that –

- (a) the Council was successful in winning £8m bid from Government for highways maintenance; Dan Sharpe was congratulated in helping to achieve the bid;
- (b) the Council's contract with Amey LG Ltd for highways services had been extended for a further two years until March 2017; the contract was initially awarded in 2008 for a seven year term covering highway maintenance, network management and design and delivery of improvement schemes;
- (c) approximately two years ago a review of the service was commissioned by the Strategic Director for Place, the following areas were focused upon: cost components, direct fee schedule, information systems, scheme development and financial procedures and systems. Scheme development was considered good practice however the other four areas required improvement; measures were put in place to address concerns where required;
- (d) auditors previously highlighted concerns regarding the hourly rate calculation for some members of staff; incorrect allowance calculations could result in the Council either be under or over charged. Hourly rates for each member of staff had been agreed and were reviewed periodically;
- (e) auditors raised a query regarding the possible overlap of support provided by Amey's local management team and that provided in the central team in Oxford; Amey charged a fee of 8.81% on works delivered through the contract including management, accounting, HR and IT support. The query involving one individual being listed as IT in the hourly rate calculation was instead a GIS technician working locally on the Plymouth contract;
- (f) with regards to concerns relating to information systems, Amey provided the Council with access to their financial systems SAP via two user accounts to assess costs incurred on projects. These user accounts were inadvertently suspended by Amey's IT team; interim arrangements had since been put in place as new accounts were issued via access to an Amey computer. Further improvements were expected with the proposed co-location of the Council and Amey and by reinstating direct access via the Council's IT network;

- (g) auditors previously noted inconsistencies in the lump sum fee percentage applied to certain schemes in different years; it was explained that different fees had been applied to works in different financial years which resulted in a different value of works delivered in each year; this was subsequently changed so that fees were applied to individual projects irrespective if they span different financial years;
- (h) auditors noted a large number of disputed costs whereby the Council had not paid Amey; the majority were small in value and generally related to where Amey had exceeded the agreed estimate for work undertaken. A settlement of outstanding disputed sums had since been resolved between Amey and the Council and an early warning and scheme closedown process was reinforced to ensure that these problems didn't continue to occur; these changes were incorporated as at 1 April 2015;
- (i) overall the Audit has been well received and prompted improvements from both parties.

In response to questions raised it was reported that –

- (j) officers were confident that disputed costs between Amey and the Council had been resolved; officers confirmed they would also make a more concerted effort to deal with any issues when they arose;
- (k) a consultation was held a year ago during a Department for Transport Roadshow in which ideas relating to top-slicing the integrated transport budget was proposed; the Council was successful in receiving £8m from a bid submitted. The money would be used to free up revenue to concentrate on maintenance of lesser roads in the city;
- (l) the council had gained overall despite the budget being top-sliced by approximately £200,000 to £300,000.

The Chair thanked officers for their attendance at the meeting and congratulated them on the successful £8m bid.

Agreed to note the update.

(Councillor Murphy left part way through this item.)

58. **STRATEGIC RISK AND OPPORTUNITY MANAGEMENT REGISTER MONITORING REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) provided Members with the Strategic Risk and Opportunity Management Register Monitoring Report update.

Members were advised that –

- (a) the information provided in the report was a six monthly monitoring report spanning September 2014 to February 2015;

- (b) the total number of strategic risks reported remained at 31; there was one new amber risk regarding the Council's potentially impaired ability to contact appropriate members of staff out of hours to respond to a major emergency. Call-out rotas for the Senior Management Team were being implemented to mitigate this risk;
- (c) the deterioration of the condition of the City's highway network remained a red risk; further money was being invested in the highway network and Amey's highways maintenance contract had been extended until 2017;
- (d) the future of the Civic Centre and Council House remained a red risk despite the Council accepting an offer from Urban Splash for the freehold of the Civic Centre tower as the future use of the building was not confirmed;
- (e) the pressure on the Adult Social Care budget remained a red risk; the budget containment plan was monitored on a fortnightly basis;
- (f) amber risk 33 'Governance arrangements between Office of the Director of Public Health, Clinical Commissioning Group and NHS England Area Team decreased from 25 to 15; the risk was significantly reduced due to the appointment of a Governance Pharmacist in PCHealthcare;
- (g) green risk 91 'failure to keep abreast of and track new and emerging legislation as part of the powers following Localism Act (regulations)' had been deleted as this was being tracked as business as usual;
- (h) the Transformation Programme was moving from the planning to the delivery and benefits phase; a number of programmes and associated projects were delivered in line with the Council's Corporate Plan and was considered to be a very robust programme.

In response to questions raised it was reported that –

- (i) the Council had simulated major emergencies to ensure that processes were in place to respond effectively; the Head of Corporate Strategy confirmed that, on an ad-hoc basis, he would receive a text message alert of which he had to respond to;
- (j) the Council's emergency response room was now based at Windsor House;
- (k) row number 24 in Appendix A relating to 'Employee Relations' on the strategic risk register was assessed as an amber risk as there was positive progress with Trade Unions despite initial issues; a written response would be provided to Members at the next Audit Committee meeting;
- (l) officers would provide Members with an update on risk reference 76 relating to the risk of not getting funding to progress development of gypsy sites;

- (m) officers would provide Members with an update on why the recent road works to Alma Road took so long and as an effect caused so much disturbance.

Agreed that the report is noted.

59. **INFORMATION COMMISSIONERS AUDIT**

John Finch (Information Governance Manager) provided Members with an update on the Information Commissioners Audit.

Members were advised that –

- (a) the Information Commissioners Office (ICO) was invited to undertake a data protection audit by the Council; the audit took place in Spring 2014;
- (b) the ICO made 49 recommendations to the Council and gave a limited assurance rating for record management and training & awareness and a rating of reasonable assurance for subject access requests;
- (c) a follow-up audit was undertaken in January 2015 to monitor the progress of the 49 recommendations; 28 recommendations had now been completed, a further 20 were partially complete; 15 areas were still outstanding;
- (d) three areas of noteworthy improvement included the resolution of the substantial volume of records in the Civic Centre basement; the assignment of corporate responsibility for data protection training to the Information Governance Manager and the monthly consideration of subject access reports by the Information Governance Manager;
- (e) the Council still had to work towards the appointment of a corporate records manager, and the delivery of specialised training for specialised roles;
- (f) officers were disappointed that the assurance level hadn't improved to 'improved' after the follow-up audit in January; this was challenged by the Council however it was their policy not to provide revised ratings during follow-up audit work.

Agreed to note the report.

(Councillor Stark left the meeting during the discussion of this item)

60. **CITY'S ASSETS AND INSURANCE STATUS**

Mike Hocking (Head of Corporate Risk and Insurance) provided Members with an update on the City's Assets and Insurance Status.

Members were advised that –

- (a) all Council buildings were alarmed with a 24 hour security call out system in

place;

- (b) the Council had a large insurance programme with a variety of different policies; property assets were also self-insured up to the value of the first £100,000;
- (c) the total value of assets insured was £550m including the contents and re-buildings costs;
- (d) museum exhibits were insured on an all risks basis with no excess; the total value of assets insured was £39m;
- (e) high value items were valued more frequently.

Agreed to note the report.

61. **REVIEW OF ROLLING WORKPLAN**

Members noted their workplan for 2014/15.

62. **EXEMPT BUSINESS**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public are excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

63. **DATA SECURITY UPDATE**

John Finch (Information Governance Manager) provided Members with the Data Security Update.

Members noted the update.