

Audit Committee

Thursday 25 September 2014

PRESENT:

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

Co-opted Representatives: Mr Clarke and Mr Stewart.

Apology for absence: Councillor Stevens.

Also in attendance: David Bray (Senior Audit Manager – Grant Thornton), Malcolm Coe (Head of Finance), David Curnow (Deputy Head of Devon Audit Partnership), John Finch (Information Governance Manager), John Golding (Partner and Engagement Lead – Grant Thornton) Julie Hosking (Risk Management and Insurance Officer), David James (Head of Strategic Development Projects), Dominic Measures (Audit Manager - Specialist Services -Devon Audit Partnership), David Northey (Head of Corporate Strategy), David Trussler (Interim Strategic Director for Transformation and Change), James Watt (Head of Land and Property), Zoe Wilkinson (Lead Accountant) and Helen Wright (Democratic Support Officer).

The meeting started at 2.00 pm and finished at 4.25 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.

16. **DECLARATIONS OF INTEREST**

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

17. **MINUTES**

Agreed that the minutes of the meeting held on 26 June 2014 are confirmed as a correct record.

It was confirmed that the risk matrix had been circulated to councillors.

18. **CHAIR'S URGENT BUSINESS**

The Chair proposed to consider the status report on the Civic Centre in Part II of the meeting, rather than in part I.

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).

19. **AUDIT PLAN 2013/2014 PROGRESS REPORT**

John Golding (Partner and Engagement Lead) (Grant Thornton) and David Bray (Senior Audit Manager) (Grant Thornton) presented the audit plan 2013/14 – progress report which provided the committee with the progress in delivering the external auditor’s responsibilities.

(a) areas of work included –

- CIPFA 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (Code), the Exposure Draft and the Invitation to Comment for public consultation (consultation would close on 10 October 2014);
- certification work;
- 2013/14 value for money conclusion;
- 2013/14 final accounts audit;
- good practice papers, national reports and guidance.

The Chair on behalf of the Audit Committee took the opportunity to thank Grant Thornton for the good news relating to the issuing of an unqualified value for money conclusion for the year ended 31 March 2014.

In response to questions raised by the committee, it was reported that –

- (b) the auditors were satisfied that adequate procedures were in place across the Council;
- (c) a response would be sought relating to the planning permission that had been granted for the housing development at Central Park which had to date not commenced and the principles behind that decision.

The committee noted the report.

20. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE 2013/2014 (ISA260 REPORT) INCLUDING THE VALUE FOR MONEY CONCLUSION**

John Golding (Partner and Engagement Lead) (Grant Thornton) and David Bray (Senior Audit Manager) (Grant Thornton) presented the annual report to those charged with governance 2013/2014 (ISA260 report) including the value for money conclusion, which highlighted the key matters arising from Grant Thornton’s audit of the Council’s financial statement for the year ended 31 March 2014.

The committee was informed that –

- (a) the key issues arising from the audit included the following –

- financial statements opinion – only a small number of adjustments of the Council’s draft financial statements had been made; overall the standard of the financial statements were consistent with the previous year and their content and layout had been significantly improved;
 - a large number of trivial amendments to the draft financial statements were made following submission to Grant Thornton; although they did not have a noticeable effect on the presentation of the financial statements, they did hinder the audit, particularly the Whole of Government Accounts (WGA) work which required reconciliation of the Council’s (WGA) return to its financial statements;
 - a number of further presentational and disclosure changes had been identified which were required by the Code of Practice 2013-14;
 - value for money conclusion – based on the review of the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources, an unqualified value for money conclusion would be given;
 - work was on-going on the ‘Whole of Government Accounts’ but would be completed in accordance with the national timetable;
 - controls – the audit undertaken by Grant Thornton was not designed to test all internal controls or identify all areas of control weakness; however, where as part of the testing control weaknesses were identified these would be reported to the Council;
 - the audit plan identified weaknesses relating to journal entries as there was no authorisation process for journals prior to posting; Grant Thornton’s IT auditors had identified scope to improve the controls in a number of areas, although none of these were considered to be a significant weakness;
- (b) as in previous years, the Council had deviated from the guidance provided by CIPFA regarding the accounting treatment for investments held with Icelandic Banks; if the Council was to follow CIPFA’s guidance there would be a reversal of the loss of £1.5m in investment income accounted for in the financial statements; as the Council had not followed the guidance, Grant Thornton had again raised this issue as an adjusted mis-statement for those charged with governance to consider;

- (c) the Council had been consistent and used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery; impairments had been made in line with actual receipts rather than those anticipated; the recovery will continue to be monitored during 2014/15 and made appropriate judgements in terms of the accounting entries.

In response to a question raised the auditors confirmed that they were satisfied that the upgrade of the financial system scheduled for April 2015 should address the authorisation of journal issues.

The committee agreed the letter of representation relating to the Council's financial statements for the year ended 31 March 2014 and noted the report.

21. **CERTIFICATION PLAN**

John Goulding (Partner) (Grant Thornton) and David Bray (Senior Manager) (Grant Thornton) presented the Grant Certification Work Plan for Plymouth City Council.

Members were informed that –

- (a) the report summarised Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process; there was one claim for Housing Benefit subsidy (no certification of council tax benefit was required in 2013/14);
- (b) the auditors expected to complete the certification of the claims by late 2014 and would issue a grant certification report highlighting any issues that needed to be brought to the Council's attention.

The committee noted the grant certification work plan for Plymouth City Council.

22. **CHANGE OF EXTERNAL AUDITORS**

David Northey (Head of Corporate Strategy) presented the change of external auditors.

Members were informed that –

- (a) the Local Audit and Accountability Act 2014 provided for the abolition of the Audit Commission and the introduction of new arrangements for the audit of local public bodies such as local authorities, clinical commissioning groups and police and crime commissioners;
- (b) the key elements of the Act relating to the audit arrangements included –

- local bodies would be able to appoint their own auditors, once existing audit contracts had run their course (contract currently ran until 2017 and would be overseen by a transitional body once the Audit Commission had been abolished);
- (c) the Council's financial accounts would be audited by Grant Thornton in 2014/15 and BDO LLP in 2015/16;
- (d) the Council had objected to the proposed appointment of BDO LLP and had asked the Commission to consider extending the appointment of the current auditor, Grant Thornton LLP;
- (e) the sub-committee of the Commission Board (the Board's Appointment Panel) had considered the Council's representations and as a result did not intend to change the Commission's proposal to appoint BDO LLP to audit the Council's accounts from 2015/16.

In response to a question raised by the committee, it was reported that all existing contracts would terminate in 2017; following which the Council would be able to procure/appoint audit services.

A discussion took place regarding the committee's concerns relating to the appointment of BDO LLP for a period of two years.

The committee agreed that even though the consultation period had closed a further letter will be written to the Audit Commission urging it to reconsider the appointment of BDO LLP.

23. **STATEMENT OF ACCOUNTS 13/14**

David Northey (Head of Corporate Strategy) presented the Statement of Accounts 2013/14, which highlighted the following key areas –

- (a) the Council's draft Statutory Statement of Accounts had been prepared and approved ready for audit by the Assistant Director for Finance on 26 June 2014;
- (b) the accounts had now been audited and were being presented to the committee for approval; the Accounts and Audit Regulations required the accounts to be formally approved and published by 30 September 2014;
- (c) the main amendments to the accounts, included -
- the PFI disclosure;
 - revaluations/impairments;
 - heritage assets;
 - the nature and extent of risks arising from financial instruments;
 - cash and cash equivalent;

- Defined Benefits Pension Scheme;
- movement in Reserves Statement;
- non compliance with Code of Practice 2013-14.

In response to questions raised by the committee, it was reported that –

- (d) a response would be provided as to why the Council's deposits were not deposited with the Royal Bank of Scotland;
- (e) a breakdown of the £20m invested in building and maintaining schools and academies would be provided;
- (f) an explanation of the contingent assets and liabilities that the Council may incur in 2015/16 would be provided.

The Chair took the opportunity to thank staff for their work in preparing the Statement of Accounts 2013/14.

The committee noted the amendments made to the Statement of Accounts for 2013/14 as approved by the auditor and outlined in the report.

The committee agreed the –

- (1) approval of the Statement of Accounts 2013/14;
- (2) authorisation of the letter of representation and its submission to the auditors.

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

David Northey (Head of Corporate Strategy) and Julie Hosking (Risk Management and Insurance Officer) presented the strategic risk and opportunity register monitoring report which summarised the latest formal monitoring exercise completed for the period of March 2014 – August 2014.

The committee was advised that –

- (a) the total number of strategic risks reported had increased from 28 to 31 with the addition of five new risks and the deletion of two; the number of red risks had increased from four to six;
- (b) the red risks included -
 - medium term financial forecast;
 - governance arrangements between ODPH, CCG and NHS England;
 - highway network;
 - transformation impact on Plymouth City Council;
 - future of the Civic Centre and Council House;

- Adult Social Care budget;
- (c) the Transformation Portfolio risk register was reviewed regularly and reported to the Portfolio Board;
- (d) the key potential risks identified in the Transformation Portfolio risk register included –
- the impact of transformation on business as usual;
 - the Council’s capacity and capability to design and deliver the substantial changes to the way services are delivered in the future;
 - insufficient allocation of resources in design and delivery to effect change.

In response to questions raised by the committee, it was reported that –

- (e) a response would be provided as to why the Council had agreed to purchase a new detailed survey of the highways network rather than providing this in-house;
- (f) updates would be provided on the following –
- ensuring that processes were in place to protect staff from violent incidents whilst carrying out their duties;
 - failure to reach recycling targets and divert waste from landfill;
- (g) a response would be provided relating to whether the recycling of kitchen waste would be revisited.

The committee noted the report and endorsed the current position with regard to the strategic register and opportunity register.

25. **INFORMATION ASSET ANNUAL REPORT**

John Finch (Information Governance Manager) presented the information asset annual report which summarised the work that had been undertaken by the Information Lead Officers Group to improve information governance principles across all directorates in order to improve the Council’s information asset.

The committee was informed that –

- (a) in 2011, a specific breach of the Data Protection Act had occurred and a fine of £60,000 was imposed by the Information Commissioner’s Office;

- (b) as a result of the breach the Information Lead Officers Group had been established in order to implement an action plan to improve the Council's information governance resilience to meet service delivery goals and ensure on-going legislative compliance;
- (c) following the independent audit undertaken by the Devon Audit Partnership an action plan had been produced which identified responsible officers and target dates for completion;
- (d) as a result of the audit 49 recommendations had been made by the Information Commissioner's Office, primarily around enhancing existing processes to facilitate compliance with the Data Protection Act;
- (e) 16 percent of the recommendations had been completed with a further 10 percent scheduled for completion by the end of October 2014;
- (f) areas of good practice included Adult Social Care which used electronic records rather than manual records;
- (g) 20 percent of staff had still not completed the Data Safe elearning course.

The committee noted the report.

26. **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2013/14**

Zoe Wilkinson (Lead Accountant) presented the annual report on treasury management activities for 2013/14, which highlighted the following main areas –

- (a) in order to comply with the Code of Practice for Treasury Management, the Council was required to formally report on its treasury management activities for the year, which provided information on the progress and outcomes against the Treasury Management Strategy;
- (b) the report included the following -
 - capital financing, borrowing debt rescheduling and investment transactions;
 - risks inherent in the portfolio and actions taken by the authority to reduce the risk;
 - outturn position on Treasury Management transactions;
 - confirmation of compliance with treasury limits and Prudential Indicators.

The committee noted the report.

The committee agreed to refer the Treasury Management annual report for 2013/14 to Full Council to note (as required by CIPFA Treasury Management Code of Practice – note 6 refers).

Order of Business

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

27. **REVISED GOVERNANCE ARRANGEMENTS FOR THE TRANSFORMATION PROGRAMME**

David Trussler (Interim Strategic Director for Transformation and Change) presented the revised governance arrangements for the Transformation programme.

Members were advised that –

- (a) the revised governance arrangements related to Cabinet Members being responsible for overseeing the Transformation Portfolio;
- (b) Transformation formed part of the portfolio for the Cabinet Member for Finance, who received the Portfolio Highlight Report from the Transformation Portfolio Board;
- (c) Cabinet took key decisions relating to the Transformation Portfolio in accordance with the constitution and scheme of delegation;
- (d) Cabinet Members –
 - own and were accountable for the Transformation Portfolio;
 - were aligned to individual programmes;
 - recommended programme business cases to Cabinet for approval.

The committee noted the report.

28. **INTERNAL AUDIT PROGRESS REPORT**

David Curnow (Deputy Head of Audit Partnership) (Devon Audit Partnership) and Dominic Measures (Audit Manager - Specialist Services) (Devon Audit Partnership) presented the Internal Audit – Progress report which provided a position statement on the audit work undertaken since April 2014 and was based on the work performed to date during 2014/15.

Members were informed that –

- (a) overall, good progress had been made against the plan agreed with management for 2014/15;

- (b) progress up to 21 August 2014 had included completion of work carried out from 2013/14, follow up audits and completion of assignments in accordance with the timescales agreed with management;
- (c) overall, and based on the work performed during 2014/15, Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the authority's internal control environment.

In response to questions raised by the committee, it was reported that –

- (d) following the announcement that the History Centre project had been successful in its first round bid for Heritage Lottery Funding, the project was now entering its next phase of development with six work streams identified to take the project forward; Internal Audit attended the Programme meetings and provided support, advice and assurance;
- (e) although there continued to be lack of proactive housing benefit fraud work, reactive work was being undertaken promptly and effectively in line with the procedures in place;
- (f) the implications of the Plymouth Adult Safeguarding Board not implementing an annual report, risk register, business plan and the lack of an operational risk register was considered to be high priority and would be expressed within Ofsted's review.

The committee agreed that a report on the History Centre is submitted to the next committee meeting in December 2014.

The committee noted the report.

(Councillor Stark was not present for the remainder of the meeting).

29. **INTERNAL AUDIT FOLLOW UP WORK**

David Curnow (Deputy Head of Devon Audit Partnership) presented the Internal Audit follow up work report.

The committee was informed that –

- (a) the report provided assurance to the Audit Committee that where an audit had been undertaken and that an opinion of 'improvement required' or less had been provided, Devon Audit Partnership had undertaken follow up audit reviews;
- (b) Devon Audit Partnership had not given an opinion of 'fundamental weaknesses identified' for any of the audits that had been undertaken in 2013/14 to date;

- (c) the 'rag' rating for contract Management Amey (Contract Overview) was red; agreement was awaited from the Network Management Team for a management action plan which would contain dates for actions to be completed; a follow up audit would be programmed in during 2015/16 audit plan year; (the council remained at risk of possible loss that could not be quantified, which was linked to the different interpretation of the contract by the council and contractor).

In response to a question raised by the committee it was reported that there was no 'rag' rating for the pre-paid cards (review process from end to end) as the draft report had only been finalised.

The committee agreed that the contract management – Amey (contract overview) is an agenda item at the next meeting scheduled for December 2014.

The committee noted the report.

30. **REVIEW OF ROLLING WORKPLAN**

The committee considered and noted its rolling work programme for 2014/15.

31. **STATUS REPORT ON THE CIVIC CENTRE**

Please refer to minute 33.

32. **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 Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

33. **STATUS REPORT ON CIVIC CENTRE (E3)**

Malcolm Coe (Head of Finance), David James (Head of Strategic Development Projects) and James Watt (Head of Land and Property) presented the status report on the Civic Centre.

The report updated the committee on the progress on the renovation project for the Civic Centre.

The committee noted the report.