

Audit Committee

Thursday 17 September 2015

PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.
Councillor Sam Leaves, Vice Chair.
Councillors Sam Davey, Murphy and Mrs Pengelly.

Co-opted Representatives: Mr Clarke and Mr Stewart.

Also in attendance: Alison Botham (Assistant Director for Children, Young People and Families), Carole Burgoyne (Strategic Director for People), David Bray (Grant Thornton), David Curnow (Devon Audit Partnership), Chris Flower (Lead Accountant), John Golding (Grant Thornton), Julie Hosking (Risk and Insurance Officer), David Northey (Head of Corporate Strategy), Greg Rubins (BDO) and Helen Wright (Democratic Support Officer).

The meeting started at 2.00 pm and finished at 3.30 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.

18. DECLARATIONS OF INTEREST

Councillor Sam Leaves declared a private interest should any items refer to NHS information as she was employed by NEW Devon Clinical Commissioning Group.

19. MINUTES

The committee agreed that the minutes of the meeting held on 25 June 2015 are confirmed as a correct record.

20. CHAIR'S URGENT BUSINESS

There were no items of Chair's urgent business.

21. INDEPENDENT MEMBERS

The committee agreed to appoint Mr Clarke as an Independent Member on the Audit Committee for four years.

22. DIRECTOR OF CHILDREN'S SERVICES LOCAL ASSURANCE TEST REVIEW

Carole Burgoyne (Strategic Director for People) together with Alison Botham (Assistant Director for Children, Young People and Families) presented the Director of Children's Services Local Assurance Test Review report which highlighted the following key areas –

- (a) the Department for Education statutory guidance on the roles and responsibilities of the Director of Children's Services and Lead Member for Children's Services sets out the expectations for local authority Director of Children's Services (DCS), their appointment, role and responsibilities in relation to education and children and young people's services;
- (b) Section 6 of the guidance states that local authorities should undertake a local assurance test so that the focus on outcomes for children and young people would not be weakened or diluted as a result of adding other responsibilities;
- (c) the assurance test was first undertaken in 2013 and it was agreed to review it in 2015;
- (d) following completion of the updated assurance test, the Council commissioned the Devon Audit Partnership to audit the test;
- (e) the audit of the assurance test concluded that overall the responses addressed the majority of points outlined in the questions and the supporting evidence confirmed the information given;
- (f) the supporting evidence was defined and obtained in order to verify the detail within the answers; sources of evidence, including the recent Ofsted report, Council structure information and interviews/discussions with a cross section of six staff, supported a number of the management responses;
- (g) in some cases it was considered that the response could be enhanced as the supporting evidence showed more compliance than had been recorded; there were also a number of questions that would benefit from the inclusion of additional information such as data sharing, recognition of capacity issues, delegation outlined within formal role profiles and recognition of how family views were incorporated into policy and practices;
- (h) whilst there may be potential to expand the answers provided, or provide additional information, this review confirmed that the responses provided were suitably evidenced.

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

- (i) following the review all staff within the Children, Young People and Family Services department had been offered an online training course on the prevention of terrorism; staff training needs would be kept under review by agency leads in the light of the rapidly changing landscape; the Plymouth Safeguarding Children's Board had received a presentation on 'preventing people from being drawn into terrorism';

- (j) the Devon Audit Partnership was satisfied with the responses provided and the recommendations outlined within the report.

The committee noted that -

- (1) the Director of Children's Services Assurance Test had been reviewed and revised using a risk assessment framework;
- (2) the Devon Audit Partnership had audited the work and had made recommendations that officers were implementing.

The Chair thanked Carole Burgoyne and Alison Botham for attending the meeting.

23. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA260 REPORT) 2014/15 INCLUDING VALUE FOR MONEY (VFM)**

John Golding (Grant Thornton) and David Bray (Grant Thornton) presented the annual report to those charged with governance (ISA260 report) 2014/15 including value for money (VFM) which highlighted the key matters arising from Grant Thornton's audit of the Council's financial statement for the year ended 31 March 2015.

The committee was informed that –

- (a) the key issues arising from the audit included -
 - the draft financial statements were not provided in accordance with the agreed timetable and both these, and the supporting working papers, were not prepared to the standard that the auditor had come to expect from the Council;
 - a number of inconsistencies had been identified within the financial statements and between the financial statements and the working papers;
 - responses to audit queries were not dealt with in a timely manner, sometimes due to the unavailability of key staff during the audit;
 - a number of key areas (eg accounting for schools, the landfill provision and the sale of the Civic Centre) did not reflect the on-going discussions the auditors had had with the Council throughout the year;
- (b) a number of adjustments had been identified which improved the presentation of the financial statements, although none of the adjustments had a material effect on the Council's reported financial position as far as its General Fund position was concerned;
- (c) it was considered that the Council should undertake a fundamental review of the process for the production of its financial statements and its subsequent audit, ensuring that there was sufficient time allowed for the completion of robust quality assurance arrangements;

- (d) based on the auditor's review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, the auditor proposed to give an unqualified value for money (VFM) conclusion;
- (e) the Council's original Whole of Government Accounts (WGA) submission to the Department for Communities and Local Government had been returned due to a number of errors and internal inconsistencies within it; following the completion of the audit, work would be undertaken on the WGA in accordance with the national timetable;
- (f) a number of control issues had been identified which included -
 - journals had not been authorised prior to processing;
 - bank reconciliations had not been performed or reviewed in a timely manner;
 - one expenditure had been authorised without the appropriate supporting documentations; (this was an isolated incident and there were no wider internal control implications for the Council);
 - a number of IT internal control issues that had been identified in the 2013/14 audit had not been addressed (the lack of formal reviews of information security policies and procedures, reviews of information security logs were not being formally, proactively and routinely reviewed and the intruder lockout settings were weak).
- (g) six recommendations had been made (as detailed in Appendix A) which had been agreed;
- (h) the auditors anticipated that the Council would be provided with an unmodified audit report;
- (i) as this had been a challenging audit the actual audit fee would need to be considered.

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

- (j) the new office accommodation for the Tamar Bridge would be reviewed within the 2016/17 audit;
- (k) the cost of replacing the Tamar Bridge had been reduced by £80m (the Council's share was £40m); the formula used for this process was different for a toll bridge;
- (l) planning work was being undertaken to ensure that the Council would be able to submit its financial statements by 31 May for the 2017/18 audit;

- (m) work was being undertaken to address the issues relating to the IT internal control issues which had first been identified in the 2014/15 audit.

The committee noted the report.

24. **STATEMENT OF ACCOUNTS 2014/15**

Chris Flower (Lead Accountant) presented the Statement of Accounts 2014/15, 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 25 June 2015;
- (b) the accounts had now been audited and were being presented to the Audit Committee for approval; the Accounts and Audit Regulations required the accounts to be formally approved and published by 30 September 2015;
- (c) the main amendments which had arose following the publication of the draft accounts, included –
 - the re-classification of the Civic Centre as an asset following the offer to purchase;
 - recalculation of the landfill provision (income from the sale of gas from the site);
 - updated figures for officer's remuneration;
 - cash balance (removal of a school's bank balance);
 - CIET internal recharges had been removed from schools' income and expenditure.

In response to a question raised, it was reported that the energy produced from the energy to waste plant produced steam which was fed back into the Dockyard and surrounding area; the income from this was included within the contract and was therefore not an income stream.

The committee noted -

- (1) the amendments made to the Statement of Accounts for 2014/15 (as agreed by the auditor);
- (2) the Statement of Accounts for 2014/15 (as attached to the report);

The committee agreed that the letter of representation is authorised and submitted to the auditor.

The Chair took the opportunity, on behalf of the committee, to formerly thank Grant Thornton for working with the Council.

25. **STRATEGIC RISK AND OPPORTUNITY REGISTER MONITORING REPORT**

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 2015 to August 2015.

The committee was advised that –

- (a) the total number of strategic risks reported had increased from 31 to 36 with the addition of eight new risks and the deletion of three; the number of red risks had reduced from five to three;
- (b) the new risks included -
 - planning reforms;
 - History Centre Project
 - risk of judicial review in relation to deprivation of liberty claims;
 - data loss and/or compromise of connected national infrastructure or attaches via standard hacking methods, phishing email or malware infection;
 - failure to secure adequate market interest in the South Yard Marine Industries Production Campus site;
 - Failure to secure adequate funding for the South Yard Marine Industries Production Campus site;
 - highway maintenance re-procurement;
- (c) the movement in risk scores and the consequent changes to the Council's overall strategic risk profile outlined in the latest review, provided good evidence of the dynamic nature of the Strategic Risk and Opportunity Register and the maturity of the Council's approach to identification and management of strategic risk;
- (d) the inclusion of risk management considerations was a key feature in the Council's key corporate processes which featured in the Corporate Plan preparation, business planning framework, budget planning and monitoring performance management;
- (e) this embedded approach acted as an effective early warning system for the recording, monitoring and management of risks that threatened the delivery of the Council's strategic objectives and plans.

In response to a question raised by the committee, it was reported that following a recent review the capacity level within the existing secondary schools would be adequate for the number of pupils (there would be no need to build further educational facilities).

The committee agreed that –

- (1) the Head of Access and Planning is invited to attend a future meeting to provide information on the five year plan for school places;
- (2) a formal request is made to the Strategic Director for Transformation and Change and the Assistant Director for Finance for the Transformation Programme to be included within the Medium Term Financial Strategy in a simpler format and outlining how the savings are being achieved.

26. **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2014/15**

David Northey (Head of Corporate Strategy) presented the Annual Report on Treasury Management Activities for 2014/15, which highlighted the following key 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 –
 - details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2014/15;
 - risks inherent in the portfolio and outlined action taken by the authority during the year to minimise the risk;
 - compliance with treasury limits and Prudential Indicators (PIs) and the outlined the final position on the PIs for the year;
 - details the outturn position on Treasury Management transactions in 2014/15;
- (c) the outstanding monies invested with the Glitnir Bank (Icelandic Bank) continued to earn a good interest rate; the authority continued to work in partnership with the LGA to pursue the recovery of the outstanding monies.

In response to a question raised by the committee, it reported that training would be provided prior to the December 2015 meeting of the committee by our external advisors Arlingclose.

The committee noted the report.

27. **INTERNAL AUDIT - PROGRESS REPORT**

David Curnow (Devon Audit Partnership) presented the Internal Audit – progress report which provided a positions statement on the audit work undertaken since April 2015 and was based on work performed to date during 2015/16.

Members were advised that –

- (a) overall, good progress had been made against the plan agreed with management for the 2014/15 financial year;
- (b) progress in the period up to 21 August 2015 had included the completion of work carried forward from 2014/15, undertaking follow up audits and in completing assignments in accordance with timescales agreed with management;
- (c) overall and based on work performed to date during 2015/16, 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) further information regarding the worsening position relating to the processing of new housing benefit claims would be provided;
- (e) Delt Services had appointed its own auditors and Devon Audit Partnership would be working with them to put in place arrangements to support the process.

The committee noted the report.

28. **INTERNAL AUDIT - FOLLOW UP WORK**

David Curnow (Devon Audit Partnership) presented the Internal Audit follow up work.

The committee was informed that –

- (a) the Annual Internal Audit report had been submitted to the June 2015 meeting of the Audit Committee; it provided a summary of the audits undertaken during 2014/15 along with Devon Audit Partnership's assurance opinion; where a high or good standard of audit opinion was provided, it was confirmed that overall, sound controls were in place to mitigate exposure to risks identified;
- (b) where an opinion of 'improvement required' had been provided then issues had been identified during the audit process that required attention;
- (c) Devon Audit Partnership were content that management were appropriately addressing the key issues that had been identified;
- (d) the Partnership had given an opinion of 'reasonable assurance' for the audits that had been undertaken in 2014/15.

The committee noted the report.

29. **REVIEW OF ROLLING WORK PLAN 2015/16**

The committee considered and noted its rolling work programme for 2015/16.

30. **EXEMPT BUSINESS**

There were no items of exempt business.