

# Audit Committee

Thursday 30 June 2016

## PRESENT:

Councillor Sam Leaves, in the Chair.  
Councillor, Sam Davey, Vice Chair.  
Councillors Dr Mahony and Mrs Pengelly..

Independent Members: Mr Clark and Mr Stewart.

Apology for absence: Councillor Parker-Delaz-Ajete.

Also in attendance: John Finch (Information Governance Manager), Chris Flower (Lead Accountant for Capital and Treasury Management), Andrew Hardingham (Assistant Director for Finance), Carolyn Haynes (Acting Lead Accountant for Technical Finance), Matthew Hepenstal (BDO), Mike Hocking (Head of Assurance Services), Julie Hosking (Risk Management and Insurance Officer), Robert Hutchins (Devon Audit Partnership), Dominic Measures (Devon Audit Partnership) and Helen Wright (Democratic Support Officer).

The meeting started at 2.pm and finished at 4.30pm.

*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. To Note the Appointment of the Chair

The committee noted the appointment of Councillor Sam Leaves as Chair for the forthcoming municipal year.

The committee agreed that Councillor Sam Davey is appointed as Vice Chair for this particular meeting.

The Chair took the opportunity to welcome Councillor Dr Mahony to this meeting of the committee.

## 2. Declarations of Interest

Councillor Sam Leaves declared a personal interest as she was employed by NEW Devon CCG.

## 3. Minutes

Agreed that the minutes of the meeting held on 24 March 2016 are confirmed as a correct record subject the correct spelling of 'Greg' Rubins.

#### 4. **Chair's Urgent Business**

There were no items of Chair's urgent business.

#### **Order of Business**

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

#### 5. **Annual Report on Treasury Management Activities for 2015/16**

Chris Flower (Lead Accountant) presented the annual report on Treasury Management Activities for 2015/16; the Council was required to formally report on its treasury management activities for the year and to agree the changes to its Treasury Management Strategy to comply with the Code of Practice for Treasury Management.

The report –

- (a) had been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- (b) confirmed capital financing, borrowing, debt rescheduling and investment transactions for the year 2015/16 and confirmed the borrowing limits for 2015/16 to 2017/18;
- (c) provided an update on the risk inherent in the portfolio and outlined actions taken by the authority during the year to minimise risk;
- (d) gave details of the outturn position on Treasury Management transactions in 2015/16;
- (e) confirmed compliance with treasury limits and Prudential Indicators (PIs) and outlined the final position on the PIs for next year.

The main areas of questioning from Members related to –

- (f) the method by which the private finance initiative for the energy from waste plant;
- (g) the impact that 'Brexit' would have on interest rates.

The committee agreed -

- (1) that Cabinet recommends the Treasury Management annual report (incorporating the authorised limits, operational boundaries for 2015/16 to 2017/18) to the Council for approval;
- (2) to refer the report to full council to note as required by the CIPFA Treasury Management Code of Practice;

- (3) to include a 'standing' agenda item on the impact of the United Kingdom leaving the European Union.

The committee noted the report.

## 6. **Internal Audit - Annual Audit Report 2015/16**

Robert Hutchins (Head of Devon Audit Partnership) presented the Internal Audit – annual report 2015/16. The report summarised the work undertaken during 2015/16, reviewed the performance and effectiveness of the Internal Audit service and provided an audit opinion on the adequacy of internal controls; the work had provided an objective and relevant assurance and contributed to the effectiveness and efficiency of the governance, risk management and internal process.

Members were informed that –

- (a) the reviews had made recommendations on and agreed management action for improvement in many areas to improve services, the key ones included -
  - redress for overpayments to domiciliary care providers which did not reflect actual provision;
  - support for the project to improve customer engagement (Firmstep Digital Platform);
  - effective governance arrangements of the Integrated Health and Wellbeing Board where the need to review existing Board structures was highlighted in order to better achieve goals and aims;
- (b) the committee was required to consider the assurance provided alongside that of the executive, corporate risk management and external assurance including that of the external auditor, as part of the Governance Framework.

The main areas of questioning from Members related to –

- (c) the cost effectiveness of budget cuts within Street Services which had resulted in a reduction in the grass cutting programme which had led to a significant increase in complaints;
- (d) the reduction in resources (particularly in housing benefits) and the challenge to improve performance;
- (e) the use of the word 'feel' in the assurance statement relating to the specific audits regarding ICT following the launch of Delt Shared Services Ltd and Public Health;
- (f) the Internal Auditor's opinion of 'improvement required' for one school (whether the same issues applied to other schools).

Andrew Hardingham (Assistant Director for Finance) undertook to liaise with Councillor Pengelly regarding the audit programme of work (minute 6 (c) refers).

The committee agreed that under Section 100A(4) of the Local Government Act 1972 to exclude the press and public 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 1 of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

A brief discussion took place regarding an individual member of staff in relation to fraud prevention and detection.

*(The meeting moved back into Part I)*

The committee agreed –

- (1) to consider the following issues when signing the Annual Governance Statement -
  - the assurance statement;
  - the basis of the Internal Auditor's opinion and the completion of the audit work against the plan;
  - the scope and ability of audit to complete the audit work;
  - audit coverage and findings provided.

## 7. **Risk and Opportunity Management - Annual Report**

Mike Hocking (Head of Assurance) provided the risk and opportunity management annual report.

Members were informed that –

- (a) the report summarised the work carried out during 2015/16 to develop the Council's approach to risk and opportunity management which covered the following -
  - Corporate and Operational Risk Management Groups;
  - Risk and Opportunity Management Strategy;
  - Risk and Opportunity Registers;
  - Annual Governance Statement;
  - Information Lead Officer Group (ILOG);
  - Transformation Project;
  - Integrated Assurance Project;
  - focus for 2015/16;
- (b) the focus for 2016/17 included -
  - supporting the creation of a new Integrated Assurance Service which would result in risk management being formally aligned and working alongside other compliance functions to promote a joined-up approach to all aspects of governance;

- the delivery work packages outlined within the Finance Fit project;
- undertaking a CIPFA risk management benchmarking exercise;
- continuing to develop and promote the Council's approach to risk management through the Risk and Opportunity Management Strategy;
- continuing to support the Transformation Portfolio Board in monitoring the key risks to the delivery of the blueprint for the Transformation Programme;
- the continuation of developing risk management processes to provide assurance that risks were sufficiently managed relating to the joint risk register between the Council and NEW Devon CCG.

The main areas of questioning from Members related to –

- (c) the cost of appointing a consultant to provide project management and advice, in order to help achieve compliance for the transport operator licence;
- (d) the use of the risk management fund to replace lighting in the Guildhall.

The committee noted the annual report.

## 8. **Operational Risk and Opportunity Management - Update Report**

Mike Hocking (Head of Assurance) provided an update on the operational risk and opportunity management update which highlighted the following key areas -

- (a) the report supported the delivery of the City's vision and to enable the provision of high quality services to the residents and communities of Plymouth it was imperative that effective risk management arrangements were in place; a fundamental element of corporate governance, a risk managed approach to decision making would enable the Council to achieve its objectives and deliver services more efficiently and cost effectively;
- (b) the management of risk principles and processes equally applied at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships;
- (c) the continuing progress being made across services in delivering operational risk and opportunity registers, in line with the Council's shared vision and priorities;
- (d) the total number of operational risks had reduced from 110 to 90, comprising of one high (red) risk, 53 medium (amber) risks and 36 low (green) risks;

- (e) partnership work being undertaken between the Council and NHS Northern, Eastern and Western Devon Clinical Commissioning Group to develop an integrated risk management framework and an integrated risk register.

The main areas of questioning from Members related to -

- (f) the delivery of Council services within the envelope of the resources provided in 2016/17 which had now been identified as a 'red' risk and the rationale behind the change in this risk as the budget for 2016/17 remained challenging;
- (g) staff and Members undertaking the risk management eLearning course which had been developed as part of the finance fit transformation work package.

The committee agreed that the risk management eLearning course should be promoted across the authority and that the number of individuals who had completed the course should be reported back to a future meeting.

The committee noted and endorsed the current position with regard to the operational risk and opportunity management.

## 9. **Information Governance - Annual Report**

John Finch (Information Governance Manager) presented the Information Governance annual report.

Members were informed that the report provided a summary of the work that had been undertaken by the Information Lead Officers Group (ILOG) to improve governance principles across all directorates, in order to improve the Council's information asset.

The main area of questioning from Members related to the reasons why there had been an increase in the number of breaches.

The committee noted the report and endorsed the current position with regard to the action of the Information Lead Officers Group.

The committee welcomed the fact that members of staff were confident in reporting minor breaches and requested that a communication was sent out to staff regarding the reporting of breaches on behalf of the committee.

## 10. **Surveillance, Covert Activities and the Regulation of Investigatory Powers Act 2000 (RIPA)**

John Finch (Information Governance Manager) presented the surveillance, covert activities and the Regulation of Investigatory Powers Act 2000 (RIPA). The report highlighted the following key areas -

- (a) surveillance was a tool that may be required for the Council to fulfil its obligations to investigate crime, prevent disorder, recover debt, protect the public and establish the facts about situations for which it had responsibility;
- (b) in certain situations, it may be appropriate to undertake covert activities which resulted in individuals being monitored without their knowledge; (the use of covert activities compromised an individual's 'right to privacy', so the use of covert activity must be lawful, necessary and proportionate), in order to comply with the Human Rights Act.

The main areas of questioning from Members related to the –

- (c) retention period for records;
- (d) reasons behind the low level of judicial applications that had been made during 2014/15 (two in total).

John Finch (Information Governance Manager) undertook to –

- (e) ascertain the retention period for the records;
- (f) seek clarification to the low level of judicial applications relating to Trading Standards.

The committee –

- (1) acknowledged that covert activities could be a necessary and proportionate response for achieving the Council's objectives through approval for the Surveillance and Covert Activities Policy; which allowed covert activities to be deployed where necessary and proportionate, under the control of a good practice process based on the Regulation of Investigatory Powers Act requirements;
- (2) noted that the recent inspection by the Office of Surveillance Commissioners concerning use of Covert Surveillance and Covert Human Intelligence Sources (CHIS) demonstrated that staff had appropriately implemented those powers available under RIPA; the 2013 report by the Office of Surveillance Commissioners demonstrated that staff had appropriately implemented those powers available under RIPA to obtain Communications Data;

the Protection of Freedoms Act 2012 created a judicial approval process for all Local Authority RIPA applications; following internal authorisation the local authority would seek judicial approval for their RIPA authorisation; the authorisation would not come into effect unless or until it was approved by a JP;

further changes had been implemented by the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources)

(Amendment) Order 2012; local authorities would only authorise directed surveillance or CHIS under RIPA to prevent or detect criminal offences that were punishable, by a maximum term of at least six months imprisonment or are related to the underage sale of alcohol and tobacco;

the Data Retention and Investigatory Powers Act 2014 received Royal Assent on 17 July 2015; the Act ensured that critical capabilities to fight crime and protect the public were maintained and clarified the existing law without extending current powers;

the Act introduces additional safeguards for the use of Investigatory Powers to respond to criticisms raised by the European Court of Justice; under the new measures certain public bodies lost the right to acquire communications data under RIPA; local authorities including Plymouth City Council had retained their powers but were required to use the National Anti-Fraud Network (NAFN) to assess communication data applications;

- (3) would ensure that the recommendations in the report were fully implemented.

#### 11. **Statement of Accounts 2015/16**

Andrew Hardingham (Assistant Director for Finance) advised the committee that due to an administrative error the Annual Governance Statement 2015/16 had not been published with the Statement of Accounts 2015/16 but that these reports needed to be considered together.

Carolyn Haynes (Acting Lead Accountant for Technical Finance) and Mike Hocking (Head of Assurance Services) presented the Statement of Accounts 2015/16 together with the Annual Governance Statement 2015/16.

Members were informed that –

- (a) the report outlined the timetable and key issues in relation to the production of the statutory form of account, the 'Statement of Accounts' which the Council was required to produce for audit and publication and reports on progress towards the requirement to prepare the pre-audited accounts by 30 June 2016;
- (b) the Accounts and Audit Regulations required that the accounts were available for inspection for six weeks which commenced on 30 June 2016;
- (c) the report also detailed progress towards completion of the action plan agreed to implement the recommendations made by the auditor following the completion of 2013/14 audit;
- (d) the purpose of the Annual Governance Statement was to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify action being taken or planned to address any key weaknesses



identified;

- (e) the Accounts and Audit (Amendment) (England) Regulations 2006 also introduced an annual review of the effectiveness of the internal audit system;
- (f) the 2011/12 Code of Practice on Local Authority Accounting also required that, within the Annual Governance Statement, there should be a statement on whether the Authority's financial management arrangements confirm with the governance requirements of CIPFA Statement on the Role of Chief Financial Officer in Local Government;
- (g) the report outlined the process followed in order to produce the Annual Governance Statement.

The main areas of questioning from Members related to the level of resources available to complete the accounts within the restricted deadline and concerns that the level of expertise within the department had been reduced due to staff changes.

The committee noted the process adopted for the production of the 2014/15 Annual Governance Statement and agreed -

- (1) to endorse the adequacy and effectiveness of the internal audit system;
- (2) to approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Assistant Director for Finance (Section 151 Officer);
- (3) that the Annual Governance Statement 2015/16 will be an agenda item for the September 2016 meeting ahead of the publication of the final Statement of Accounts.

The committee noted the report and the authorised for issue date (1 June 2016) for the draft Statement of Accounts.

The Chair, on behalf of the committee, took the opportunity to thank members of staff for their work in providing the Statement of Accounts 2015/16 by the deadline.

## 12. **External Audit Progress Report**

Matthew Hepenstal (BDO) presented the external audit progress report which provided an update on the audit work for 2016/17. The following key points were highlighted –

- (a) the auditor's principal objectives were to review and report on, under the relevant legislative requirements of the Code of Audit Practice for Local Government for the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources;
- (b) the requirement to certify specified grant claims and return (as directed

by Public Sector Audit Appointments Ltd);

- (c) the need to assess whether the arrangements put in place by the Council would allow the auditor to complete the work by the expected deadline and whether there were any issues that were likely to have a significant impact on the auditor's ability to provide unmodified audit reports and opinions.

The committee noted the progress of the external auditor's work.

13. **External Audit Planning Letter 2016/17**

Matthew Hepenstal (BDO) presented the external audit planning letter 2016/17 which set out the planned work for 2016/17. The report highlighted the following key areas –

- (a) the issue of the planned reports and opinions during 2016/17;
- (b) the proposed fees and programme of work for 2016/17 which included the following -
  - code audit fee;
  - certification of housing benefits subsidy claim;
  - audit related services;
  - other non-audit services;
  - amendments to the proposed fees;
  - Arrangements from 2017/18.

The committee noted the report.

14. **Review of Rolling Work Plan 2016/17**

The committee considered and noted its rolling work programme 2016/17 with the following amendments –

- the inclusion of a standing agenda item relating to the impact of leaving the European Union;
- the date of the September meeting being changed from 8<sup>th</sup> to 15<sup>th</sup>.