

Audit and Governance Committee

Monday 9 December 2019

PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.
Councillor Kelly, Vice Chair.
Councillors Kelly, P Smith, Stevens and Stewart.

Co-opted Representatives: Mr Shipperley and Mr Stewart.

Also in attendance: Andrew Loton (Senior Performance Advisor), Jean Kelly (Service Director for Children, Young People and Families), Chris Flower (Finance Business Partner), Brenda Davis (Audit Manager), Ken Johnson (Counter Fraud Services Manager), Carolyn Haynes (Financial Controller), Andrew Hardingham (Service Director for Finance), Paul Dossett and Geri Daly (Grant Thornton), Sian Millard (Oversight and Governance Manager), Paul Looby (Head of Financial Planning and Reporting) and Jamie Sheldon (Democratic Advisor).

The meeting started at 15:00 and finished at 16:35.

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.

47. **Declarations of Interest**

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

48. **Minutes**

The Committee agreed the minutes of the meeting held on 23 September 2019.

49. **Chair's Urgent Business**

There Chair asked the Committee to appoint a Vice Chair for the remainder of the municipal year. Councillor Peter Smith proposed Councillor Nick Kelly to be the Vice Chair, which was agreed by the Committee.

50. **Operational Risk & Opportunity Management Update Report**

Andrew Loton (Senior Performance Advisor) present this item Operational Risk & Opportunity Management Update Report. Jean Kelly (Service Director for Children, Young People and Families) was present for questions due to red risk in her service area.

- (a) Plymouth City Council's Risk and Opportunity Management Strategy was reviewed each year and updated to ensure it remained fit for purpose. The latest version was endorsed by the Audit and Governance Committee on 23 September 2019.

- (b) To comply with the Risk and Opportunity Management Strategy each Directorate must implement a robust process of managing risks to corporate, service, project and partnership objectives for which they have responsibility.
- (c) To support the promotion and co-ordination of risk management each Directorate/Service had a dedicated Risk Champion. Risk Champions represent their Directorate/Service at the Operational Risk Management Group which is chaired by the Oversight and Governance Manager.
- (d) Good progress has been and the achievements outlined in this report should provide Members with assurance that operational risks are being identified effectively, mitigation actions put in place and Operational Risk and Opportunity Registers monitored routinely alongside the delivery of objectives
- (e) The total number of operational risks now reported has increased from 111 to 112, comprising of two high (red) risks, 67 medium (amber) risks and 43 low (green) risks.

Red Risks –

- (f) Delivering Council services within the envelope of the resources provided in 2019/20-2021/22 Medium Term Financial Plan - Risk to Services of not delivering within reduced budgets;
- (g) Projected overspend in children's social care caused by unprecedented demand and level of support needed to keep young people safe, such as specialist residential care placements with high levels of staffing.

Members discussed –

- Whether any savings being made were having an impact on services being delivered in Children's Services;
- The term "Overspend" being used and how this was a funding issue, if we didn't spend we would be saying no to Children who needed to come into care.
- How there was no cap on demand within the Service and how certain budget pressures were result of Court rulings;

The Audit and Governance Committee requested clarification on the movement of operational risk scores.

The Audit and Governance Committee noted and endorsed the current position with regard to operational risk and opportunity management.

51. **Treasury Management Strategy 2020/21**

Chris Flower (Finance Business Partner) presented the Treasury Management Strategy 2020/21 to the Committee -

- (a) Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the effects of changing interest rates.
- (b) The Treasury Management Strategy sets out how Plymouth would invest to grow and meet future Infrastructure needs. It is a companion document to the Medium Term Financial Strategy which sets out Plymouth's ambitions and priorities from the Plymouth Plan.
- (c) The Treasury Management Strategy fulfils the Council's legal obligation under the Local Government Act 2003 and compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code which was updated in 2018.

Members discussed –

- Whether Plymouth City Council had any pooled funds.

The Audit and Governance Committee recommended the Treasury Management Strategy 2020/21 (Incorporating the authorised limits, operational boundaries and prudential indicators) to the Council for approval.

52. **Capital Financing Strategy 2020/21**

Chris Flower (Finance Business Partner) presented the Capital Financing Strategy 2020/21 to the Committee –

- (a) The capital strategy report gave a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of local public services along with an overview of how associated risk was managed and the implications for future financial sustainability.
- (b) Decisions made this year on capital and treasury management would have financial consequences for the Council for many years into the future. They were therefore subject to both a national regulatory framework and to local policy framework.
- (c) It was now a requirement as part of the amendments implemented in the 2017/18 Treasury Management Code of Practice Guidance that all Local Authority's would need to produce a Capital Strategy each year.
- (d) The strategy provides an overarching policy framework for the Council's capital programme and planning, and would form part of a suite of strategies which provided a holistic view of the Council's financial planning framework.
- (e) This strategy was to be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

Members discussed –

- Whether there were any post code boundaries for the strategy;

- What the minimum investment return Plymouth City Council were aiming for.

The Audit and Governance Committee recommended the Capital Financing Strategy 2020/21 to the Council for approval.

53. **Mid- Term Treasury Management Report 2019/20**

Chris Flower (Finance Business Partner) presented the Mid- Term Treasury Management Report 2019/20

- (a) Provided the Audit Committee and the Council with a mid-year review of the Council's treasury management activities for the first 6 months to 30 September 2019.
- (b) The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) required that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- (c) The 2017 Prudential Code included a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments.
- (d) The Council's Capital Strategy and the Council's Treasury Management Strategy for 2019/20 were approved by full Council on 25 February 2019.
- (e) The Council had borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Council is reliant on the successful identification, monitoring and control of risk.

The Audit and Governance Committee noted The Mid-Year Treasury Management Report 2019/20.

54. **Internal Audit Half Year Report 2019/20**

Brenda Davis (Audit Manager) presented the Internal Audit Half Year Report 2019/20 to the Committee -

- (a) Provided Members of the Audit and Governance Committee with a position statement on the audit work carried out since April 2019. Overall, based on work performed to date during 2019/20 and experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion was of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

Members discussed –

- How the timescale on delivery of recommendations were agreed with management;
- The Definitions of Audit Assurance Opinion Levels and why they were provided.

The Audit and Governance Committee –

- 1) Noted the findings within the report;
- 2) Noted the Head of Audit assurance opinion based on work undertaken in the first half of the year.

55. **Counter Fraud Services Half Yearly Report**

Ken Johnson (Counter Fraud Services Manager) presented the Counter Fraud Services Half Yearly Report to the Committee –

- (a) Fraud in all its forms remained the most common criminal offence in the UK costing the UK economy an estimated £193 Billion a year. This equates to £7200 per household in the UK.
- (b) Any fraud against Plymouth City Council was a fraud against the public purse and therefore would continue to acknowledge the threat from fraud, build processes and policies that would prevent fraud and pursue those who would commit fraud to ensure that the public retain confidence in the Council.
- (c) Collaboration across the public sector would continue and strengthen under the current working arrangements through DAP and its partners.
- (d) The statistics for the current year show that there are consistent savings to be made by countering fraud. There had been 215 allegations of fraud made so far this year resulting in 21 recommended prosecutions and 27 recommendations for Cautions and other forms of sanction. Along with various compliance visits a total savings figure of £1,039,868.04 had been realised at time of receiving this half yearly report. The team continued to investigate 131 fraud allegations.
- (e) The DAP, Counter Fraud Services Team continued to set the standards in the South West Peninsula in the area of counter fraud. National recognition had shown that Plymouth City Council remained committed to its moral and legal duties to the public and that it effectively acts in line with its own 'Plan, Mission, Value and Priorities'.

Members discussed –

- What the process for publicity was when we catch someone committing fraud;
- What the definition of School admission fraud was and what could be done to combat it;
- Whether there was value in putting more staff into the Counter Fraud Team as more money could be put back into the budget.

The Audit and Governance Committee noted the Counter Fraud Services Half Yearly Report.

56. **Statement of Accounts 2018/19 - Final Audited Published Accounts**

Carolyn Haynes (Financial Controller), Andrew Hardingham (Service Director for Finance) and Geri Daly (Grant Thornton) presented the Statement of Accounts 2018/19, the Audit Findings Report and the Letter of Representation to the Committee -

- (a) The Council's draft Statement of Accounts for year ending 31 March 2019 was prepared and approved ready for our external auditors by the Service Director for Finance on 31 May 2019.
- (b) The Accounts had now been audited by Grant Thornton UK (GTUK) and were being presented to Audit Committee to note the changes between the draft and final version and to approve these changes prior to final publication.
- (c) The report also contained a copy of details of the management responses to the 'Letter to Management' which was discussed at the Audit & Governance Committee on the 11 March 2019.
- (d) Grant Thornton summarised the key findings and other matters arising from the statutory audit of Plymouth City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.
- (e) Grant Thornton provided a further update following the last two Audit Finding Reports which were presented to Plymouth City Councils Audit and Governance Committee on 22nd July 2019 and the 23rd September 2019.
- (f) The Accounts and Audit Regulations 2015 required Local Authorities to publish their financial statements by 31 July each year, irrespective of whether the audit has been completed. The Council complied with this date and published the draft accounts as well as a notice explaining why they were still unaudited.
- (g) Audit work was undertaken on site from late June through to December 2019. Initially, there were delays to the completion of the audit work as a result of Grant Thornton resourcing issues.
- (h) As the audit had progressed, Grant Thornton had identified a number of errors within the accounts that have required adjustments by management. The area where this has occurred the most is in capital grants, the valuation of property plant and equipment (PPE) and the detailed disclosure notes required for Financial Instruments. Our work on the valuation of PPE has identified a prior period adjustment (PPA) which management have included in the revised version of the financial statements. Our findings to date are summarised on pages 5 to 15.
- (i) Had identified seven adjustments to the Statement of Financial Position – one was a PPA as a result of the need to process the valuation of the Energy to Waste Plant for 2017/18, misclassification of investment properties which should have been recorded in other land and buildings and an error in the accounting for capital grants.
- (j) The amendments made in 2017/18 and 2018/19 had increased the net worth of the Authority by £5.931m. Unusable reserves had also increased by the same amount.

- (k) There had been six changes to the Council's Comprehensive Income and Expenditure Statement which had resulted in an increase in the surplus/ financial outturn of the Council by £8.77m for 2017/18.
- (l) Identified a possible material upward valuation regarding those assets revalued on a depreciated replacement cost basis (DRC) for those assets that have not been valued prior to 2017. Grant Thornton believe that the upward valuation will be circa £29m and the Council's valuer is currently reviewing this and applying the necessary indices to arrive at an accurate figure. Once this has been determined the Council will make the necessary adjustments in the accounts.
- (m) Audit adjustments to date were detailed in Appendix B. We have also raised recommendations for management as a result of their audit work in Appendix A. The Council's previous External Auditors did not make any recommendations in 2017/18 and so no follow-up work was required.
- (n) Our work is in its finalisation stages. We have listed below the items that will need to be completed prior to the audit opinion being issued.
- (o) Would also require specific representation from management and the Audit and Governance Committee for those items that had not been adjusted.

The key matters in progress as at 3rd December 2019 are:

- Completion of our work on the valuation of Property Plant and Equipment;
- Review and testing of the revised financial instruments disclosure notes;
- Review of the amended accounts and disclosure notes;
- Receipt of management representation letter;
- Review of the final set of financial statements, including the Annual Governance;
- Review of Post Balance Sheet Events;
- Our own internal quality checks.

Members discussed –

- The lateness of the reports received from Grant Thornton giving insufficient time to review all information;
- Why in Management's view the impact of the McCloud ruling was not material for Plymouth City Council and the fact that the financial statements would therefore not be adjusted;
- Raised concerns about the use of the reserves and what the plans were to replenish them.

The Audit and Governance Committee -

1. approved the Statement of Accounts for 2018/19 attached as Appendix B which have now been audited by GTUK for final publication.
2. noted the amendments made to the Statement of Accounts for 2018/19 as agreed with the Auditor and outlined in Appendix C.
3. ensured the Letter of Representation attached as Appendix D was authorised and submitted to the Auditor.

57. **Audit Findings report 2018/19 - Final Draft**

Please see minute number 56.

58. **Letter of Representation**

Please see minute number 56.

59. **Heart of the South West Joint Committee ToRs**

Sian Millard (Oversight and Governance Manager) presented Heart of the South West Joint Committee ToRs –

- (a) This report was based on a standard template intended to update each of the Constituent Authorities of the Heart of the South West (HotSW) Joint Committee regarding revised governance arrangements, and the budgetary position for 2019/20.
- (b) Members were asked to consider the changes required to the Council's constitution resulting from the Heart of the South West Joint Committee's governance review exercise.
- (c) The changes to the list of functions were set out in Appendix A of the attached report, and a tracked changes version is attached as Appendix C.

The Audit and Governance Committee agreed the proposed changes and recommended that the Council also approve the recommendations in the attached report, specifically the first point that amended the range of functions of the Heart of the South West Joint Committee. These changes were required to bring the Committee's role into line with developments since its establishment in March 2018.