

Audit and Governance Committee

Monday 28 November 2022

PRESENT:

Councillor Luggier, in the Chair.

Councillor Lowry, Vice Chair.

Councillors Finn, Penberthy, (substitute for Councillor Evans) and Tofan.

Independent Members: Mrs Annette Benny and Mr Ian Shipperley.

Apologies for absence: Councillor Evans

Also in attendance: Paul Dossett (External Auditor – Grant Thornton), Brenda Davis (Audit Manager), Justine Thorpe (Grant Thornton), Ross Jago (Head of Governance, Performance and Risk), Wendy Eldridge (Principal Technical Accountant), Ken Johnson (Counter Fraud Services Manager), David Northey (Interim Section 151 Officer), Giles Perritt (Assistant Chief Executive) and Helen Rickman (Democratic Advisor).

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.

35. Declarations of Interest

The following declarations of interest were made by Members in accordance with the code of conduct:

Name	Minute Number	Reason	Interest
Councillor Finn	40	Member of the Devon Audit Partnership Oversight Committee	Personal
Councillor Luggier	40	Member of the Devon Audit Partnership Oversight Committee and Member of Plymouth Investment Partnership	Personal

36. **Minutes**

The minutes of 5 September 2022, and 29 September 2022 were agreed as an accurate record of the meeting.

37. **Chair's Urgent Business**

There were no items of Chair's Urgent Business however it was highlighted under this item that Plymouth City Council did not invest in Qatar banks; this would be confirmed by the Chair in writing.

38. **External Audit - Auditor's 20/21 and 21/22 Annual Report**

Paul Dossett (External Auditor – Grant Thornton) presented the External Audit – Auditor's 20/21 and 21/22 Annual Report. The following key points were highlighted:

- (a) there were two outstanding issues from the 19/20 accounts; one was a national issue of infrastructure assets and how they were accounted. This was expected to be resolved in 2022 via a statutory override. The second issue was regarding the pension transaction as set out in the External Auditor's September report;
- (b) the report set out the value for money (VFM) report for two financial years (20/21 and 21/22) and could only be finalised once the accounts were finalised therefore the report remained interim. The National Audit Office changed the approach to VFM beginning 1 April 2020 and brought in the requirement for a detailed report which required auditors to give a commentary on three areas: financial sustainability, governance and economy, efficiency and effectiveness;
- (c) the report focused upon financial sustainability and the risks facing the council surrounding this, specifically regarding demand led pressures and inflation. Croydon Council's section 114 report was referenced as well as Hampshire County Council and Kent County Council and the struggles they were facing;
- (d) page 15 of the pack set out a summary table with the external auditor's conclusions in all three areas; there were three key recommendations which had to be addressed, as well as improvement recommendations which were good practice to be addressed. The three key recommendations focused upon council tax levels; the medium term financial plan and staffing arrangements in the finance department.

In response to questions raised it was reported that –

- (e) a statutory override was being laid by the Department for Levelling Up and Communities and Housing within the next few weeks; this was not a matter for people to vote for or against and was instead a formality which had to go through the parliamentary process. This would come into force around Christmas and as a result of this override there was expected to be a major increase in accounts being signed off; for Plymouth this was one issue that

would be dealt with, leaving the outstanding pension issue remaining;

- (f) in terms of value for money, the external auditor was required to carry out an assessment of the arrangements the Council had in place to achieve VFM. In terms of childrens/ adult services, the opinion of regulators of the services was taken into account. If the CQC or Ofsted deemed the Council's arrangements to be inadequate that would have an impact upon the external auditor's assessment;
- (g) the Council had a duty to achieve a balanced budget position by law therefore the external auditor considered that putting the council tax up to the referendum limit of 5% would give the Council an opportunity to make more savings;
- (h) by increasing the council tax it gave the Council the opportunity to increase its funding base going forward. This may put pressure on families however there were schemes such as the Council Tax Support Scheme available – political choices and options had to be made however every time the Council made a decision not to put the tax up it either had to use reserves (which wasn't considered sustainable) or use other savings. The external auditor highlighted that if the Government made an assumption that council taxes would rise, and if it was an option, then it should be seriously considered by the Council;
- (i) the report work was carried out by the external auditor over the summer period of 2022 and into October 2022; some of the detailed commentary in the report reflected historical matters however it was highlighted that this was a fast moving situation and the council was in the process of taking a number of actions to address its financial situation;
- (j) the Council was open and transparent in communicating that there was a £37.5m gap in the budget that needed to be addressed in order to balance the budget, as was the legal duty. Approximately £26m of savings were out for public consultation and had been communicated with the Council's scrutiny panels and opposition political parties however this still left £11m of savings to find. Even if the Council tax was raised to the full 5% it was considered that this wouldn't entirely fill the gap in the Council's budget therefore it was a serious consideration but further options would need to be investigated;
- (k) the External Auditors 20/21 and 21/22 Annual Report was expected to be an accompanying document to the Council's budget scrutiny sessions scheduled for January 2023 as it was considered useful to have an external commentary to inform the budget scrutiny process. It was suggested by the external auditor that the recent Section 114 report from the Financial Director at Croydon Council, and the report produced in September on public interest reports and the lessons learned might also be useful documents to consider;
- (l) one of the challenges of a Section 151 officer was that the Government funding was not clearly set out over a significant period of time and there

was now considered to be an inflationary spiral where it was not known when it would end. The Council needed to make a judgment as to what it expected inflation to be; there was advice from the Bank of England on their expectations and indications of those would play into the Council's budget setting process;

- (m) the outstanding issues in the Council's 19/20 accounts regarding the pension transaction was the subject of a degree of legal debate by the external auditor. The latest position was that the external auditor's KC needed to have a discussion with actuarial valuations given for the pension transaction – the council was still exploring that issue with the actuary and it was hoped that this issue would be concluded shortly.

Both the Chair and Vice Chair considered that the External Auditor – Auditors 20/21 and 21/22 Annual Report recommendations should be submitted to Cabinet for consideration, as well as the minutes of the Audit and Governance Committee relating to the discussion of this item.

The Committee agreed:

1. that web-links to the recent Section 114 report from the Financial Director at Croydon Council, and the report produced in September on public interest reports and the lessons learned, would be provided to Members for their consideration;
2. that the External Auditor – Auditors 20/21 and 21/22 Annual Report recommendations should be submitted to Cabinet for consideration, as well as the minutes of the Audit and Governance Committee relating to the discussion of this item;
3. To note the recommendations contained within the External Audit – Auditor's 20/21 and 21/22 Annual Report.

39. **External Auditor - Audit Plan 2020/21**

Paul Dossett (External Auditor – Grant Thornton) and Justine Thorpe (Grant Thornton) presented the External Audit – Audit Plan 2020/21 report. The following key points were highlighted to Members:

- (a) the Audit Plan was originally presented to committee in 2021 however had been updated by the external auditor to ensure the information regarding the VFM risk assessment was correct;
- (b) the audit planning for the 20/21 audit was almost complete and auditors were starting the fieldwork on 5 December 2022 for the audit itself. Even though the external auditor had not been able to sign off the 19/20 accounts for the council, assurance was provided that the auditors were starting work for the 20/21 accounts and it was hoped to be completed by late spring. The 21/22

audit would be conducted later in the year.

In response to questions raised it was reported that –

- (c) in April 2020 the council engaged in a hedging option with Santander Bank; as it was considered an unusual transaction, the external auditor raised two issues: firstly the governance process of approving such transactions, and secondly how it was accounted for in the 20/21 accounts. There was complicated accounting for the hedging instruments; this was still under discussion with the council. There was an option of 'fair value through profit and loss' and also the option through 'other comprehensive income'. If the hedging option investment was considered through the option of 'fair value through profit and loss' then if the value of the investment went up or down, the gain or loss played through the general fund accounting. Currently there was a statutory override to prevent that from happening however this statutory override was due to end on 31 March 2023. Both CIPFA and DLUHC were in discussion over the statutory overrides;
- (d) there were arrangements in place clarified by DLUHC in terms of prudential borrowing for local authorities and all local authorities should borrow within the means to pay back. It was important that the council ensured its debt was well managed. The external auditor considered the overall level of minimum provision was circa 2% which was not unreasonable – the external auditor considered the minimum revenue and debt management was not unreasonable in totality however urged caution in the significant growth of debt;
- (e) the Section 151 Officer continued to regularly consider its capital programme and investments and was confident it was properly controlled;
- (f) the training session offered to Audit and Governance Committee Members approximately 18 months ago regarding their roles and responsibilities and how they proactively undertook their duties would be arranged for the benefit of new members; this would be considered as part of the inclusion into the Member Development Strategy as well as for the development of scrutiny panel members.

The Committee agreed:

1. That a training session upon the roles and responsibilities of the Audit and Governance Committee would be arranged for the benefit of new members, and would also be considered as part of the inclusion into the Member Development Strategy as well as for the development of scrutiny panel members;
2. to note the External Audit – Audit Plan 2020/21.

40. **Internal Audit Half Year Report**

Brenda Davis (Audit Manager) presented the Internal Audit Half Year Report to Members. The following key points were highlighted:

- (a) the report detailed the work carried out across the authority and various service areas since April 2022. The appendix showed reviews scheduled in quarters 3 and 4 including areas that had come out of the audit plan due to a re-prioritisation of work;
- (b) the Head of Audit assurance opinion was of reasonable assurance; in order to come to this conclusion work undertaken in previous years was considered as well as the internal control framework;
- (c) there were concerns because of the current financial circumstances of the local government and focus was directed towards the checks and balance processes.

In response to questions raised it was reported that –

- (d) the assurance opinion statements were put against every piece of work undertaken in-year and were rag rated, red, amber and green. The majority were rated good or in some cases very good. There were a minimum number of areas with minimum assurance however action plans were created to address this and recommendations would be tracked and reported back to the Audit and Governance Committee;
- (e) for the remainder of the financial year, the internal audit programme of work was scheduled and focused upon key financial systems. This would lead into providing assurance for the annual accounts. The Audit Manager would discuss the feasibility of undertaking an audit of the customer service experience with the Section 151 Officer;
- (f) summary internal audit reports were submitted to the committee; the complete internal audit reports were owned by the local authority and when issued they were sent to strategic directors for consideration. The reports were public and would be available on request;
- (g) there was currently no mechanism in place to routinely advise scrutiny chairs of information held within internal reports that were specific to their scrutiny panel terms of reference, however this could be addressed within action plans.

The Committee agreed:

1. to review and note the findings within the report;
2. to review and note the Head of Audit mid-year assurance opinion;
3. to review and approve the in-year changes to the audit plan.

41. **Risk Management Strategy - To Follow**

Ross Jago (Head of Governance, Performance and Risk) presented the Risk Management Strategy report. The following key points were highlighted to Members:

- (a) an external risk control manager was employed by the Council (through the Council's existing contract with its insurer) to review its processes. Several Councillors were interviewed as part of that process. The overall opinion was that the processes were generally working well, that risk awareness was embedded at a strategic level but that there was some work to do regarding operational risks;
- (b) officers were looking to implement a live interactive risk reporting tool that would help risk champions to manage risk flow and ensure departmental management teams had a clear overview of risks facing the authority;
- (c) work was being undertaken to re-invigorate risk champions in departments; there had been changes to personnel over the past few months and this would need to be addressed via enterprise risk management training;
- (d) in respect of the risk management strategy, changes were made to the difference in risk tolerance and the risk appetite, additions were made in how to address partnership risks that might pose a risk to the authority, and it was expected that further changes to the risk processes and how scoring would be conducted was required.

In response to questions raised it was reported that –

- (e) the council had a number of days available to it from the existing contract with the insurer and this was utilised by officers for this piece of work; it was not considered that this approach had been taken before however would be used in the future;
- (f) within the roles and responsibilities, it was not included how scrutiny could feed into the Audit and Governance Committee; it was agreed that this addition would be made and would be agreed via the Chair and Vice Chair.

The Committee agreed:

1. that the inclusion of scrutiny in the roles and responsibilities section of the report would be included and agreed with the approval of the Chair and Vice Chair;
2. to note the Risk and Opportunity Management Strategy 2022 – 2024.

42. **Risk Management Monitoring Report (to include scrutiny update on risk management) - To Follow**

Ross Jago (Head of Governance, Performance and Risk) presented the Risk Management Monitoring Report to Members. The following key points were highlighted:

- (a) three risks had been removed from the strategic risk register as they were broadly a duplication of other risks on the register; the reference to the departure from the EU single market had been removed as this was covered in a wider economic risk taking into account the war in Ukraine, inflation rates etc;
- (b) there had been an addition of an amber risk to the register relating to the Government's loss recovery grant. Additional narrative had also been added to the mitigation around the financial risk identifying the proposals put before Cabinet in November 2022 referencing the in-year budget. The report also highlighted the consideration of risk at scrutiny and should play a greater part in informing the scrutiny panels work programme moving forward.

There were no questions from Members.

The Committee agreed to note the current position with regard to the Strategic Risk Register.

43. **Treasury Management Strategy**

Wendy Eldridge (Principal Technical Accountant) presented the Treasury Management Strategy to Members. The following key points were highlighted:

- (a) it was a statutory requirement for the Council to produce the Treasury Management report; it would be submitted to full council as part of the budget setting process in February 2023;
- (b) pages 108/109 of the report set out the key statutory and performance frameworks in place for borrowing and investments. The operational boundary ceiling on borrowing was set at £109.5m; the Council had an ambitious capital programme with over £200m forecast for 2023/24; the borrowing limits were lower than the previous year;
- (c) Arlingclose highlighted a fluctuation in the increased bank rate from 0.75% at the beginning of the year to 3% in November; there were expectations that interest rates would continue to rise; the capital programme was reviewed on a regular basis.

In response to questions raised it was reported that –

- (d) affordability fed into the budget setting process and it depended on what the revenue budget could afford, however in terms of the affordability of the proposed borrowing and what percentage equated to not being affordable, this would be provided to Members;
- (e) in terms of the portfolio average credit rating the Council stuck to the A category when lending, however did not lend to other local authorities therefore there was no hidden risk in terms of a potential variation that made

up the average 'A' score.

It was highlighted by the Vice Chair that if Members wanted to observe the work of the Treasury Management Board then an approach should be made to the Section 151 Officer.

The Committee agreed to recommend the Treasury Management Strategy 2023/24 that incorporates the authorised limits, operational boundaries and prudential indicators to the City Council for approval. *(This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.)*

44. **Capital Finance Strategy**

Wendy Eldridge (Principal Technical Accountant) presented the Capital Finance Strategy to Members. The following key points were highlighted to Members:

- (a) the Capital Finance Strategy was a statutory report the Council was required to provide; this was to be submitted to full council for approval;
- (b) the report set out how the council managed its capital programme, the framework that governed it, the criteria for governance and how it was aligned to the financial regulations. The table included on page 141 of the agenda pack set out the five year capital programme as at the end of October 2022 and would be developed further and incorporated in the main budget setting report;
- (c) the graph explained how the funding of the capital programme was made up and highlighted the increase in borrowing from previous years where it funded 60% of the capital programme.

In response to a question raised it was reported that officers kept a watchful eye on what projects were costing the council – grant funding from Government for 85% of a project, with the Council funding the remaining 15% would initially have been promising with a 1% interest rate, however with a 3% interest rate there were greater financial impacts.

Members discussed the difference in impact between the rise in costs and timescales of a Government grant costed project where the ambitions of the Council changed during development, and a project whereby the costs increased due to interest rate rises.

The Committee agreed:

1. to recommend that officers are mindful of future debt associated with grant funding from Government and consider carefully the acceptance of grant funding especially in the current economic climate with increasing interest rates and the capacity for project costings to rise;
2. to recommend the Capital Financing Strategy to the City Council for approval. *(This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.)*

45. **Counter Fraud Services Half Year Report**

Ken Johnson (Counter Fraud Services Manager) presented the Counter Fraud Services Half Year Report to Members. The following key points were highlighted to Members:

- (a) in terms of Counter Fraud Services, officers were expecting similar savings in the second half of the year and the way they were investigated and how they came through the system; the commitment to counter fraud work was to be commended. A deep dive of work was undertaken and this was detailed in appendix I;
- (b) financial pressures were increasing and this resulted in more people participating in fraud – officers would continue to prioritise the investigation and prevention of fraud.

In response to questions raised it was reported that –

- (c) it was considered that the 277 fraud referrals investigated was a positive figure when comparing to other local authorities however it was highlighted that not all other local authorities prioritised the investigation of fraud as Plymouth did, therefore it wasn't as straight forward as comparing numbers;
- (d) there was a positive working relationship between the Council and Devon Audit Partnership;
- (e) figures for fraud and error were related to cost avoidance in many cases.

The Committee agreed to note the Counter Fraud Services Half Year Report.

46. **Tracking Decisions**

David Northey (Interim Section 151 Officer) provided an update in relation to minute 5 from 25 July 2022 committee meeting which read:

“It was agreed that a report would be submitted to the Audit and Governance Committee detailing work undertaken by internal audit in relation to covid related grants.”

Members were advised that a report had been written therefore this would be provided to Members and marked on the register as complete.

Under this item to committee collectively noted the improvement in the process for completing tracking decisions and offered their thanks.

The Committee agreed to note the tracking decisions update.

47. **Work Programme**

Members agreed to add the following to the 20 March 2023 agenda:

- Training and the understanding of roles and responsibilities

The committee agreed to note the work programme.

48. **Exempt Business**

Agreed that under Section 100(4) of the Local Government Act 1972, to exclude the press and public from the meeting for the following items of business on the grounds that involves the likely disclosure of exempt information as defined in paragraph 1, 2 7 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

49. **Information Governance Report 2021/22**

John Finch (Information Governance Manager) presented the Information Governance Report 2021/22.

The Committee agreed to note the update.