

This draft report is for discussion, comment and approval by Audit Committee at its meeting on 26 Mar 2010. The draft assumes that the period of the report will be the financial year ended 31 Mar 10, and areas which will need amendment are highlighted in blue. The report will also need to be updated for business conducted on 26 March, and, subject to Member approval, could be finalised by the Chair after the meeting.

PLYMOUTH CITY COUNCIL

ANNUAL REPORT OF THE AUDIT COMMITTEE – 2009/10

Introduction

The Audit Committee was established by Plymouth City Council in 2002. Whilst there is no statutory obligation to have such a committee, they are widely recognised as a core component of effective governance and are essential in order to score well under the Comprehensive Area Assessment (CAA) Use of Resources Key Lines of Enquiry (UoR KLOE) in respect of good governance and internal control.

Role of the Audit Committee

An audit committee is a key component of corporate governance. It is an important source of assurance about the Council's arrangements for managing risk and maintaining an effective control environment. It provides independent scrutiny of financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

An effective audit committee brings many benefits to a local authority including:

- Raising greater awareness of the need for internal control and the implementation of audit recommendations
- Increasing public confidence in the objectivity and fairness of financial and other reporting
- Reinforcing the importance and independence of internal and external audit and any other similar review process such as providing a view on the Annual Governance Statement
- Providing additional assurance through a process of independent and objective review

Plymouth's Audit Committee has agreed Terms of Reference which are included in the Council's Constitution and they are attached at Appendix 1.

Committee Members and Meetings

This report covers the financial year ending 31 March 2010. The Audit Committee is a fully constituted committee comprising 5 elected Council Members, and 3 appointed Independent Members. The Committee met on **4/5** occasions during the period for a normally convened meeting, and all meetings were quorate:- 26 June 2009, 25 Sept 2009, 11 Dec 2009, and 22 Jan 2010 **(?26 March 2010)**.

In addition, 2 training and development events were arranged especially for Audit Committee Members on 22 Jan 2010 and 5 Feb 2010. Invitations to attend this training were also extended to Cabinet and Scrutiny Members.

During the period **1 April 09 to 5 February 2010 / ? 28 Mar 2010** Members of the Audit Committee were as follows:-

Cllr Mrs Leaves	Chair
Cllr Vincent	Vice Chair
Councillor Stark	
Cllr Thompson	
Cllr Wildy	(to 26 June 09)
Cllr Tuohy	(from 25 Sept 09)
Mr R Clark	Independent Member
Ms L Myles	Independent Member
Mr I Stewart	Independent Member

Although not a Member of Audit Committee, Cllr Bowyer, Cabinet Member for Finance, was in regular attendance at Audit Committee throughout the period. This demonstrated the high profile of the Committee within the Council, and enabled many important issues or questions raised by the Committee to be addressed immediately, or referred back to full Cabinet by the Cabinet Member as necessary.

Achievements in 2009-10

Members of Audit Committee identified several achievements, and positive outcomes of the Committee when it carried out a self-assessment at the training workshop held on 5 February 2010:-

- Widewell school land – public engagement
- More openness of information (agreed to move reports from Pt II to Pt I agenda)
- Chair Issued press release to engage more with the public
- Better understanding between officers and Members working together
- Positive benefit of calling in officers to Committee
- Clarifying responsibilities between Audit and Scrutiny
- Improvements to Treasury Management
- Quality of debate and challenge
- Expedited an unqualified auditors opinion on the accounts of City Bus to enable Plymouth's Annual Accounts to be signed by the statutory deadline

Further details are contained within this report.

Training and Development

In order to be effective, Members of the Committee have recognised that, when serving the Committee, they should be apolitical and objective, and have a clear

understanding of risk management, internal control and governance issues, and how the arrangements in place across the City Council operate.

Training was provided to assist the continued development of Committee Members throughout the course of the year. There was regular awareness and update training at all scheduled Audit Committee meetings as follows:-

- Risk Management (Sept 09, Dec 09, Mar 10 ?)
- Statement of Accounts (Jun 09)
- International Financial Reporting Standards (IFRS) (June, Sept and Dec 09 ? March 2010)

In addition there were specifically convened workshops arranged as follows:-

- Treasury and Investment Management (22 Jan 2010)
 - Arlingclose and GriffithsMorley provided a personalised Plymouth, comprehensive training programme to assist Committee Members fulfil their role and obligations under the new CIPFA Treasury Management Code of Practice, to enable them to scrutinise the Authority's treasury management policies and practices
- Audit Committee Training Workshop (5 Feb 2010)
 - The programme included sessions on Internal Audit/Fraud Awareness by Devon Audit Partnership; an overview of External Audit/Annual Accounts arrangements from Barrie Morris, a Director with Grant Thornton; and a facilitated group discussion by Committee Members to prepare their Audit Committee self-assessment

Assurances

The Committee has considered a range of reports during the year, covering risk management, annual governance statement, internal and external audit reports, examination and approval of internal and external audit plans, scrutiny of a revised Treasury Management Strategy, and review and approval of the annual financial statements.

Risk Management

The Audit Committee continues to review both strategic and operational risk management arrangements across the Council, and the Corporate Risk and Insurance Manager reports regularly to the Committee.

In September 09 the Committee received the Risk Management Annual Report which summarised the work carried out during 2008/09 to develop the Council's approach to risk management. The Annual Report also provided information on the focus of proposed risk management activity for the following twelve months following the transition from Comprehensive Performance Assessment (CPA) to the "harder test" under the Comprehensive Area Assessment (CAA) from April 09.

The 6-monthly formal Strategic Risk Register (SRR) update and monitoring report was also submitted to the Sept 09 Audit Committee for endorsement. The report indicated that strategic risks had, overall, increased from 32 to 36. There had been 7

new risks added and 3 deleted. (NB – The next updated SRR is due to go to March 10 Cttee)

The Audit Committee also monitors the embedding of operational risk management across the Council. During 2008/09 the Committee was informed that departmental Operational Risk Registers (ORR's) were being revised to identify and align risks with departmental Business Plans. In September 09 the Committee received an update report informing on progress being made and, as part of their monitoring role, Members requested that Directors be asked to attend future meetings of Audit Committee to provide feedback on the operation of risk management in their areas. The Asst Director for Community Services (Business Support) and the departmental Risk Champion attended Committee in December 09 and outlined the arrangements in place for their department.

The committee will continue to monitor progress on the embedding of risk management across the Council.

Annual Governance Statement (AGS)

In England, the preparation and publication of the AGS is necessary to meet the requirement of the Accounts and Audit Regulations 2006 to prepare such a statement in accordance with 'proper practices'. The AGS replaced the previous Statement on Internal Control and is our review mechanism for the Council's Code of Corporate Governance and its application.

The AGS is published with the financial statements, but is intended to be a broad reflection of the whole governance of the authority. As such, it summarises the annual review of the effectiveness of the governance arrangements within the Council.

There were 5 significant governance issues identified in the AGS 2008/09 which was submitted to, and approved by, the Audit Committee on 26 June 09:

- Deliverability of Decent Homes in North Prospect Estate
- Financial impact of listing of the Civic Centre as a Grade II building
- Economic downturn affecting Treasury Management
- Significant financial pressures on the Council's medium term financial strategy
- Corporate impact of housing stock transfer

Internal Audit

Internal audit services, which have been provided by Devon Audit Partnership since April 2009, provide the Council with important assurances that Council assets and resources are properly applied and used wisely.

The Committee has received regular reports and information from the Head of Internal Audit. These have included:-

- The annual risk assessment, and audit plan for 2009/10. (NB the plan for 2010/11 will be going to March cttee) This plan was prepared in line with the Audit Strategy and took into account strategic and operational risk registers, the results of the CPA Use of Resources assessment, and issues arising out of audit and inspection reports.

- The Internal Audit Annual Report for 2008/09, and the 6-month progress report (09/10) were presented, respectively, to the June 09 and December 09 Committees which:-
 - summarised the work undertaken by the Internal Audit Service during 2008/09 and the first 6 months of 2009/10;
 - reviewed the performance and effectiveness of the Internal Audit Service;
 - provided an audit opinion on the adequacy of internal controls on individual system reviews carried out;
 - provided overall reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment;
 - confirmed that fundamental weaknesses previously identified had all been addressed;
 - outlined the relevance of the reports in the preparation of the AGS;
 - provided a summary of fraud and irregularity investigations and outcomes;
 - gave details of the proactive role internal audit continued to play in providing fraud awareness training to management teams across the Authority.

As part of the AGS review process, the effectiveness of the system of internal audit should be reviewed annually. Receipt of the above reports has enabled the Committee to draw conclusions regarding eg Internal Audit's independence and objectivity, approach and performance against targets set, compliance with professional auditing standards etc.

In addition, the Committee has considered reviews of Internal Audit carried out by external auditors where they have repeatedly concluded that they can place reliance on Internal Audit's work. Audit Committee is therefore satisfied that the system of internal audit in place is adequate and effective, and this was endorsed at Audit Committee on 26 June 09.

At Audit Committee in December 09, Members discussed, and agreed, that in future Internal Audit reports would be submitted under Part I of the Committee's agenda in the interests of openness and transparency on the Council's internal control and governance arrangements.

External Audit – Governance and Statement of Accounts

External audit is an essential element in the process of accountability for public funding and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

The Committee has considered the following detailed reports from our external auditors, Grant Thornton during 2009/10:

- Audit of Accounts 2008/09 – Annual Report to those Charged with Governance (Sept 09)
- Annual Audit Letter 2008/09 (Dec 09)
- Use of Resources 2009 – Findings and Conclusions (Dec 09)
- Project Management Arrangements Report (Dec 09)
- Regular progress reports from the Audit Manager on the external audit plan

The Annual Audit Letter 2008/09 summarised the key messages and conclusions which had arisen from the above work during the auditors' 2008/09 audit, namely:-

- Auditing the 2008/09 financial statements
- Assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources
- PAYE and Employment Tax review
- Certification work on grant claims and returns

The Annual Audit Letter issued by the Council's external auditors said the Council was managing its finances well and delivering improvements to the residents of Plymouth.

The auditors said they had found good practice in many areas, and the Council was in a strong position to build upon these. "The scores achieved by Plymouth City Council are fairly strong when compared to the assessments of council's nationally and reflects positively on the progress being made by the Council in both improving underlying arrangements as well as delivering sustainable outcomes that meet the needs of the local community."

The auditors added: "The Council's strong performance needs to be considered against the backdrop of new assessment criteria which has been designed to be more demanding, with an emphasis on demonstrating improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed council to achieve higher assessment ratings in the first place."

The Auditors issued an "unqualified" audit opinion on the Council's financial statements and accounts and on its arrangement to secure value for money, meaning there were no major issues for concern. They said the quality of financial statements was 'good'.

The auditors also said the Council had sound arrangements for managing and improving value for money and that it had been actively reviewing the costs of delivering its service. It had a good understanding of its cost base, with clear links through to the performance of services.

They also found particularly good arrangements around governance, risk management and internal control.

The 2009 Annual Audit Letter also commented that "the new Audit Committee that is now in place continues to provide effective and robust challenge." The opportunity was taken by Audit Committee to improve engagement with the public by issuing a press release summarising the good practice highlighted in the Auditors Annual Audit Letter.

International Financial Reporting Standards (IFRS)

The Audit Committee was first appraised in December 2008 of the new requirement for Local Authority Accounts to be produced on an IFRS basis with effect from

2010/11. Since that time an update report on progress made by the Steering Group towards implementation has been given to every meeting of the Audit Committee.

Treasury Management

Audit Committee had been briefed on the potential impact of the Icelandic Banking crisis on the Council's loans and investments portfolio when the risk was first alerted. However, whilst it had initially been hoped that most of the loans (£13 million) would be recovered, Audit Committee were informed at the December 09 meeting that recovery might be as low as £5 million.

At the same Committee, Members were informed that the Council had received two new CIPFA Codes of Practice outlining changes to Council Treasury Management governance arrangements following the Icelandic crisis and reflecting the recommendations of the Government Select Committee.

Two recommendations affected Audit Committee which were (a) that a Council Committee (preferably Audit) should have formal responsibility for the scrutiny of the Treasury Management Strategy prior to approval by full Council and (b) Members should be appropriately trained to undertake this role. This training was subsequently arranged for 22 January 2010, which is referred to previously in this report.

The training was both timely and beneficial to Committee Members and they were able to robustly challenge the draft revised Treasury Management Strategy Statement and Investment Strategy at a specially convened Audit Committee on 5th March 2010.

Transfer of land at Widewell School

There had been much strength of feeling from the local community at the loss of usage of land at Widewell School when the School changed its legal status to a Trust School. This had been followed by a complaint to the Commission for Local Administration. As a result, an independent review of the circumstances surrounding the land transfer had been commissioned from external solicitors and their report was considered by Audit Committee at its meeting on 26 June 09.

With several members of the local community present at Committee, the circumstances surrounding the transfer were scrutinised to establish if there were any internal control or procedural issues that needed to be strengthened to prevent any similar situation recurring in the future.

The outcome from Committee to ensure that procedures were robust was that, in future, there should be consultation with Ward Members and that revised procedures should be reviewed by Devon Audit Partnership and the external solicitors.

Looking Forward

Apart from continuing to monitor, on an ongoing basis, the Council's corporate governance arrangements as set out in the Committee's Terms of Reference, Audit Committee will in 2010/11:-

- Review the Whistleblowing Policy
- Monitoring the Council's implementation of its UoR action plan

- Further develop the Audit Cttee as identified by it's self-assessment eg:-
 - Look at trends in anti-fraud referrals and consider preventative measures
 - Maintain an integrated "tracker" of issues arising at Committee
 - Consider how to improve communication on financial information to the public
 - Further enhance training / discussion on the statement of accounts in advance of signing
 - Forge better links to the Scrutiny Management Board
 - Promote the Audit Committee's Annual Report / increase publicity

Conclusion

The Audit Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and to challenge those arrangements, and will continue to build on this in 2010/11.

Cllr Mrs Leaves

Chair, Audit Committee

Date

THE AUDIT COMMITTEE

1. General

1.1 The Council's established Audit Committee is comprised of:

- five Councillors
- three independent members
- four of the five Council members shall not be members of the Cabinet.

1.2 Council Members may serve on both the Audit Committee and the Standards Committee

1.3 The independent members of Audit Committee shall not be those appointed to the Standards Committee

2. Function

2.1 External Audit Functions of Audit Committee

(a) To consider the appointment of the Council's external auditor, as far as the Audit Commission rules permit.

(b) To discuss with the external auditor the nature and scope of audit coverage, including Value for Money (VFM) and Best Value Work and to agree level of fees chargeable.

(c) To review external audit reports and annual audit letters, together with management response and make recommendations to the Cabinet.

(d) To respond to any other concerns of the external auditors.

2.2 Internal Audit Functions of the Audit Committee

(a) To monitor the progress and performance of Internal Audit.

(b) To review and approve the Internal Audit annual programme.

(c) To consider significant findings of Internal Audit reviews and investigations together with management responses and monitor implementation of agreed recommendations.

(d) To advise Council on the Internal Audit function, resourcing and standing within the authority.

(e) To ensure co-ordination between internal and external auditors.

(f) To consider the Chief Auditor's annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council.

2.3 Risk Management Functions of the Audit Committee

(a) To approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the authority.

(b) To review and advise the Cabinet and Council on the content of the corporate governance report in the annual report, statement of accounts and Best Value Performance Plan.

(c) To monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders Contracts.

(d) To keep under review corporate policies such as Public Information Disclosure Code (Whistleblowing) and Anti-fraud Strategy.

2.4 Corporate Governance

To advise Council on the promotion, maintenance and review of Code of Corporate Governance for the City Council.

3. Procedures

3.1 Council Rules of Procedure apply to meetings of Full Council, and to all meetings of committees of the Council.

3.2 Quorum

The quorum of the Audit Committee is three, which number must include at least one independent member. If, as a result of a declaration of interest, an independent member is required to leave the meeting, the meeting shall remain quorate during his/her absence.

3.3 Appointment of Substitute Members

Any member of the City Council may act as substitute to the Audit Committee provided that the balance of the membership of the Committee is maintained.

3.4 Lead Officer

Council's Chief Internal Auditor