

# Audit Committee

Friday 16 December 2011

## PRESENT:

Councillor Dr. Mahony, in the Chair.  
Councillor Stevens, Vice-Chair.  
Councillors Evans, Stark and Thompson.

Independent Members: Mr Clarke and Mr Stewart.

Also in attendance: Barrie Morris, Grant Thornton, Martin Gould, Devon Audit Partnership, Tim Howes, Assistant Director for Democracy and Governance, Malcolm Coe, Assistant Director Finance Assets and Efficiencies, Martine Collins, Revenues and Benefits Service Manager, Mike Hocking, Head of Corporate Risk and Insurance, Julie Hosking, Risk Manager, David Northey, Head of Finance, and Katey Johns, Democratic Support Officer.

The meeting started at 10 am and finished at 1.25 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 declaration of interest was made in accordance with the code of conduct –

Name	Minute No. and Subject	Reason	Interest
Councillor Thompson	Minute Nos. 44 and 45 – Treasury Management Strategy and Supplement	Director of Plymouth Community Homes	Personal

## 36. MINUTES

Agreed the minutes of the meeting held on 23 September 2011.

## 37. CHAIR'S URGENT BUSINESS

### Recruitment of Independent Member

The Chair reported that whilst there had been some initial interest to the advertisement no-one had actually applied for the role. The Chair had discussed the matter with the Council's Corporate Communications Manager with a view to running a new advertising campaign in the new year.

In accordance with Section 100(B)(4)(b) of the Local Government Act 1972, the Chair brought forward the above items of business in order to inform Members).

38. **FINANCIAL RESILIENCE REVIEW**

The City Council's external auditor, Grant Thornton, presented the Financial Resilience Review. Members were advised that the report focussed on the arrangements that the Council had in place in terms of financial planning and how those plans were monitored throughout the year to ensure delivery of the financial savings required. Overall, the review found that the arrangements in place were robust and that plans were clearly defined and linked well to the city priorities. However, a number of areas for improvement had been identified as follows –

- the Council should continue to develop delivery plans to meet the funding shortfall expected in 2012/13 and beyond;
- zero based budgeting, focussed on priority areas, should be developed across the Council;
- the Council should continue to ensure that delivery plans were based on realistic assumptions, that they were deliverable in the planned timescales across departments, and that there were alternative delivery plan options for implementation where intended plans were unlikely to produce the planned level of savings;
- the content of the joint performance and finance reports should be kept under review to ensure that it contains sufficient detailed information to enable appropriate action to be taken where performance or spending was not in line with expectations.

Despite this, the external auditor reported that he was very pleased with the work done by the Council and was happy to recommend the authority as an example of best practice to others.

In response to questions raised, Members heard that –

- (a) an action plan was in place to address the areas of improvement identified and this was appended to the report;
- (b) a further freeze on Council Tax was being recommended to City Council as part of the 2012/13 budget setting process. The knock-on effect of this freeze would be a £2.4m gap in funding to be found from the 2013/14 delivery plans.

The Committee welcomed the report and noted the recommendations.

39. **ANNUAL AUDIT LETTER 2010/2011**

The City Council's external auditor, Grant Thornton, presented the Annual Audit Letter 2010/11 for consideration. The Letter summarised the key messages and conclusions which had arisen from the work of Grant Thornton during their 2010/11 audit, namely –

- auditing of the 2010/11 year end accounts;
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved;
- certification of claims and returns to various grant paying bodies.

In addition, the following key areas where the Council had not yet completed recommendations to further improve its arrangements for 2011/12 were highlighted –

- roll out of the new draft project management procedures across the Council combined with the planned training programme;

- continued refining of financial planning and control arrangements to maintain strong financial performance in an increasingly challenging financial environment.

Concerns were raised about whether the rationalisation of staff and new transparency agenda would provide increased opportunity for acts of fraud or corruption. The external auditor commented that where rationalisation of staff occurred it was sometimes possible that jobs which had responsibility for elements of internal controls could be lost or forgotten. In addition, incidents of fraud or corruption could increase as a result of the economic climate with people willing to take more of a risk.

Members were advised that the National Fraud Authority and Audit Commission had done lot of work to address these concerns and had produced a 'Fraud Resilience Self Assessment Tool' which local authorities could use. Another example of helpful material available to local authorities was the 'Fighting Fraud Locally' document, which contained good advice on identifying risk and preventing it.

The Annual Audit Letter 2010/11 was noted.

#### 40. **CERTIFICATION WORK REPORT 2010/2011**

The City Council's external auditor, Grant Thornton, presented the Certification Work Report 2010/11 for consideration. The report –

- (a) set out the requirements for certification arrangements and the approach adopted by Grant Thornton, acting as agent for the Audit Commission;
- (b) detailed the key messages arising from the certification work, including that –
  - 6 claims and returns had been certified for the Council, amounting to £216,421,754;
  - the Council's overall performance in preparing claims and returns had slightly deteriorated since 2009/10, with one additional claim requiring amendment;
  - one claim had been identified as having significant issues and that was in respect of the Housing and Council Tax Benefit Scheme;
- (c) indicated that the fee for certification work at the Council in 2010/11 was £51,966.

In order to help Members better understand the significant issues identified in the claim relating to the Housing and Council Tax Scheme, the Assistant Director for Finance Assets and Efficiencies and the Revenues and Benefits Service Manager gave a presentation on the Revenues and Benefits Services. A copy of the presentation was tabled at the meeting.

In response to questions raised, Members heard that –

- (d) the time taken to process claims was being monitored and regularly reported in the quarterly joint finance and performance report;
- (e) the Assistant Director for Finance Assets and Efficiencies was committed to turning the service around and welcomed being held to account should the performance targets set fail to be achieved;

- (f) there had been a significant increase in the workload relating to housing benefit claims and council tax staff were being trained in order to help alleviate this pressure;
- (g) the 18 FTE posts quoted as having left the service, equated to a total of 22 employees;
- (h) the Support Services Overview and Scrutiny Panel would shortly be undertaking a task and finish group part of which would be to look at the impact of the restructure in revenues and benefits;
- (i) Officers met with both the private sector and Plymouth Community Homes to discuss the impact and consequences of legislative changes on all parties.

The Committee noted the Certification Work Report 2010/11 and agreed that four members of the Support Services Overview and Scrutiny Panel be nominated to monitor performance within the housing benefit service and recommended commencement of the task and finish group at the earliest opportunity.

(The meeting adjourned for a comfort break at 11.50 am and reconvened at 12 noon)

#### 41. **OPERATIONAL RISK MANAGEMENT UPDATE REPORT**

The Head of Corporate Risk and Insurance presented an update on Operational Risk Management. The report –

- (a) outlined the continuing progress being made across services in delivering Operational Risk Registers;
- (b) indicated that the total number of operational risks had decreased from 131 to 113, comprising one high (red) risk, 66 medium (amber) risks, and 46 low (green) risks;
- (c) provided commentary on the high risk areas together with details of the control actions/mitigation in place;
- (d) included information on how risk management was being embedded in the Council's core business processes.

A number of queries were raised in regard to the arrangements put in place to mitigate the risk of failing to maintain trees on the corporate estate. As the specifics of this arrangement fell outside the remit of the Head of Corporate Risk and Insurance it was suggested that the relevant officer be invited to attend the next meeting of the Committee.

The Committee noted the Operational Risk Management Update and agreed that the relevant officer be invited to the next meeting to update Members on the amber risk – failure to maintain trees on the corporate estate.

#### 42. **SIX MONTHLY INTERNAL AUDIT PROGRESS REPORT**

The Head of Devon Audit Partnership presented the Six Monthly Internal Audit Progress Report. The report –

- reviewed audit work carried out since April 2011;
- commented on current commitments and performance;
- outlined proposed audit coverage for the remainder of the financial year.

In response to questions raised, Members heard that –

- (a) all of the anecdotes contained in the report were from Plymouth clients;
- (b) sickness levels were higher than anticipated due to a couple of incidents of long-term absence. As Devon County Council was the employing authority for Devon Audit Partnership staff, any long-term absences were referred to its wellbeing at work service which was generally very successful at getting people back to work. Cases which were not successful were pursued through the informal absence stage and ultimately dismissal. Despite this, delivery of the audit plan was still on target;
- (c) the Audit Management System was working well with previous connectivity problems having been resolved. Information could now be downloaded to laptops and staff were able to work offline.

The Committee noted the report.

#### 43. **CONSTITUTION UPDATE**

Further to minute 64 of the Audit Committee meeting held on 21 January 2011, the Assistant Director for Democracy and Governance, updated the Committee on progress following the Annual Review of Financial Regulations. Members were advised that –

- (a) five recommendations had been agreed at that meeting as follows –
  - (1) the proposal to incorporate the Financial Rules within the overall Constitution be noted;
  - (2) the proposed changes to the virement delegation limits be recommended to Council;
  - (3) the new Finance Rules be recommended for discussion at Council; the same to be attached to the Constitution as an appendix;
  - (4) the Capital Governance Document outlining the detailed arrangements for managing and monitoring the capital programme be approved and added to the Finance Rules Index, subject to new schemes costing up to £100,000 being approved by the relevant Cabinet Member;
  - (5) no project manager should be appointed to any project (revenue or capital) prior to having undertaken relevant project management training;
- (b) recommendations (1)-(3) had been addressed through the Constitutional reforms agreed at City Council on 5 December 2011;
- (c) the delegation tables which went to Council in June and December as part of the Constitution were slightly different from those which were seen by the Committee

as they had now been simplified, made consistent and were easier to understand. In addition, the officer delegation limit had increased from £100,000 to £200,000;

- (d) with regard to recommendation (4), the Finance Rules have the Cabinet Member and appropriate Director as consultees;
- (e) with regard to recommendation (5), the Council ensured that appointments to project management roles had the necessary skills and capabilities and this would be tested as part of any recruitment process;
- (f) changes in the delegation limits reflect the following broad rule –
  - Director Up to £200,000
  - Executive Up to £500,000
  - Council Above £500,000

The broad rule set out in the draft to the Audit Committee had a £100,000 ceiling on Director authority. The reference to third and fourth tier managers had also been removed to be replaced with Assistant Director;

- (g) whilst policies including the Whistleblowing policy were covered by the Audit Committee, the new Constitution gave the Standards Committee a concurrent role in relation to these matters.

The Committee noted the update.

#### 44. **TREASURY MANAGEMENT STRATEGY 2011/2012 MID-YEAR REVIEW**

The Head of Finance presented the Treasury Management Strategy 2011/12 Mid-Year Review. The report provided the Committee with an update on the progress and outcomes against the Treasury Management Strategy for the six month period ending 30 September 2011, including details of –

- New borrowing
- Debt rescheduling
- Investment activity
- Benchmarking
- Compliance with Prudential Indicators
- the latest Icelandic Bank situation

Discussion focussed on the pros and cons of paying less interest on the Council's borrowing compared to receiving less interest on its investments.

(This item was taken simultaneously with minute no. 45 below).

#### 45. **SUPPLEMENT TO TREASURY MANAGEMENT STRATEGY UPDATE SUBMITTED TO CABINET ON 29 NOVEMBER 2011**

The Head of Finance presented the update to the Council's investment policy/strategy as approved by Cabinet on 29 November 2011. The Committee was advised that amendments were required

to the Strategy and as the next meeting was not until March approval would need to be delegated to the Director for Corporate Support in consultation with Chair and Vice-Chair.

Agreed that –

- (1) approval of the Treasury Management Strategy be delegated to the Director for Corporate Support in consultation with Chair, Vice-Chair and Councillor Thompson;
- (2) the Strategy would be brought back to the next meeting in March 2012.

(This item was taken simultaneously with minute no. 44 above).

46. **AUDIT COMMISSION UPDATE**

The Committee considered the letter from the Audit Commission to the Council's Chief Executive. The letter informed the Council that –

- (a) 13 potential providers had been invited to submit tenders as part of the procurement exercise to outsource the work of the Commission's in-house audit practice;
- (b) the procurement process had three key stages –
  - decision-making about the award of contracts;
  - determining the length of contracts;
  - appointment of auditors to individual bodies

and set out the arrangements for each of these stages.

Members were further advised that a further update would be presented to the next Audit Committee meeting in March 2012.

The Audit Commission Update was noted.

47. **AUDIT COMMITTEE FORWARD WORK PLAN**

The Committee's Forward Work Plan for 2011/12 was noted.

48. **EXEMPT BUSINESS**

There were no items of exempt business.