

## **Audit Committee**

**Thursday 12 December 2013**

### **PRESENT:**

Councillor Wheeler, in the Chair.  
Councillor Dr. Mahony, Vice Chair.  
Councillors Murphy, Stark and Stevens.

Independent Members:  
Mr Stewart and Mr Clarke.

Apologies for absence: Ros Badger.

Also in attendance: Simon Arthurs (Group Accountant), David Bray (Senior Audit Manager for Grant Thornton), Brenda Davies (Audit Manager), Mike Hocking (Head of Corporate Risk and Insurance), Rob Hutchins (Head of Devon Audit Partnership), Andrew Liddicott (Senior Accountant), Barrie Morris (Director for Grant Thornton), David Northey (Head of Finance) and Helen Rickman (Democratic Support Officer).

The meeting started at 2.10 pm and finished at 3.55 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.*

34. **DECLARATIONS OF INTEREST**

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

35. **MINUTES**

The minutes of 19 September 2013 were approved as a correct record.

36. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's urgent business.

37. **INTERNAL AUDIT ANNUAL REPORT (SIX MONTH PROGRESS REPORT)**

Rob Hutchins (Head of Devon Audit Partnership) and Brenda Davies (Audit Manager) provided the Committee with the Internal Audit Annual Report (Six Month Progress Report).

Members were informed that –

- (a) the report detailed the position statement on the audit work carried out since September 2013 based on work performed to date during 2013/14;

- (b) Appendix A provided progress on audits undertaken up until November 2013;
- (c) it was the opinion of Internal Audit that adequate controls were in place to control operations in the Council;
- (d) 70% of planned audits had commenced and 42% of audit fieldwork was completed;
- (e) customer satisfaction remained high;
- (f) officers were confident that the Internal Audit Plan would be delivered as expected;
- (g) management were aware of strategic risks and mitigating controls had been established;
- (h) there were no significant concerns identified in the Corporate Services, Place and People departments however the audit of Fostering and Adoption Panel Processes/ EDRMS (Electronic Document and Records Management System) highlighted that progress was slow for sending documents electronically and implementing an EDRMS. Officers advised Members that progress had been made and this issue was moving forward;
- (i) the delivery of the audit plan to schools had made progress and was to a good standard;
- (j) work had continued on providing support to the Devon and Cornwall Constabulary as part of the investigation at St Boniface's Catholic College however charges of fraud were dropped by the Crown Prosecution Service therefore the Partnership's involvement in the case had come to an end;
- (k) the Devon Audit Partnership, as part of the 2012/13 National Fraud Initiative (NFI) data matching exercise, continued to monitor the work undertaken within departments. A total of 9,316 matches were received of which 2,739 were categorised by the Audit Commission as the highest priority. A total of 4,449 matches had been processed of which 683 errors and three potential frauds had been identified.

In response to questions raised it was reported that –

- (l) officers confirmed that the issue involving the Electronic Document and Records Management System, as part of the Fostering & Adoption Panel Processes, was making progress, delays were due to the lack of resources available to test the solution being offered;
- (m) officers confirmed that there were a lot of changes taking place with regards to ICT arrangements in the Council; Internal Audit had been working through logs of audited work and were working to manage issues in order to make the management more efficient and less time consuming. There were ongoing discussions regarding the Civica system and how it could be enhanced to give

managers more access to real time data; this would be reported to the Committee at the March 2014 meeting;

- (n) information regarding delays at the Data Centre at Windsor House would be reported to Members at their scheduled March 2014 meeting;
- (o) the old mini bus fleet identified in the report for replacement had a small residual value; the Council would go through a dealer to try and sell the vehicles however this was not always successful;
- (p) the customer survey results, shown on page 36 of the agenda pack, demonstrated that 3% of those questions did not consider that the draft audit report was issued on a timely basis; auditors confirmed that this could be because of a variety of reasons including the sickness or working arrangements. It was confirmed that Internal Audit had part time staff and whilst they supported flexible working, part time working hours could affect the service provided to the client. More information regarding the specific details of draft reports issued would be provided to Members;
- (q) the pie charts depicting the results of the customer survey were from the customer base of Devon Audit Partnership and not just the Council;
- (r) officers confirmed that the service area for the Control of fuel, fuel cards and fuel contained were under different management and requested an audit; a final audit report had been issued and an action plan was in place to implement any necessary changes and controls;
- (s) auditors were continuing to look at pupil data being held at schools in order to help improve the service;
- (t) St Boniface's Catholic College was a local payment school responsible for managing their own budgets; the school was now under the umbrella of the City Council however, initially the college had procured a school financial information management system that was not used elsewhere in the country. The information management system was now the same as those used by other schools in the city and the college was expected to transfer into academy status;
- (u) auditors confirmed that the new iTrent payroll system had been implemented; it was considered that due to the long standing dedicated payroll team there were controls in place with an action plan going forward.

Agreed that –

1. officers would provide Members with more information regarding the delays of the implementation of the Electronic Document and Records Management System;
2. an update regarding the Civica system would be reported to the Committee at the March 2014 meeting;

3. information regarding delays at the Data Centre at Windsor House would be reported to Members at their scheduled March 2014 meeting;
4. the legality of St Boniface's Catholic College debt being transferred to the Council is investigated in order to ascertain the feasibility of recovering the lost money;
5. the report is noted.

38. **TREASURY MANAGEMENT MID YEAR REVIEW 2013/14**

Simon Arthurs (Group Accountant) and Andrew Liddicott (Senior Accountant) provided the Committee with the Treasury Management Mid-Year Review for 2013/14.

Members were informed that –

- (a) the report provided an update on the progress and outcomes against the Treasury Management Strategy for the six month period ending at 30 September 2013;
- (b) Treasury management was highly regulated because of the short, medium and long term approach and was supported by cross party representation;
- (c) the Council worked closely with its treasury management advisors, Arlingclose, who assisted the Council in formulating views on interest rates, regular updates on economic conditions and interest rate expectations, and advise on specific borrowing and investment decisions;
- (d) the UK economy showed some improvement with the GDP, for the first quarter of 2013, revised to +0.4%. The Office of National Statistics showed the UK avoided a double dip recession in 2012;
- (e) annual CPI for August was 2.7%, inflation fell in line with expectations and was expected to remain close to this level throughout the autumn;
- (f) there was no change to UK monetary policy with official interest rates maintained at 0.5%; within the August Inflation report, the Bank stated its forward guidance to defer monetary tightening at least until the ILO Unemployment Rate fell to a threshold of 7% - it was projected that the probability of this happening would remain below 50% until 2016;
- (g) officers were required maximise the cost of carry to reduce borrowing;
- (h) the Council's strategy proposed that the Council would continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security with liquidity and yield;

- (i) there had not been debt rescheduling in the period identified in the report however Officers, along with the Council's advisors, continued to monitor PWLB (Public Works Loan Board) interest rates in order to repay any debt maximising the savings achieved;
- (j) over the period identified in the report total loan debt had increased by £17.605m as a result of an increase in short-term borrowing due to the improvement in credit conditions and the use of cash-flow balances;
- (k) the Council had received 79% of monies invested in the Icelandic banks.

In response to questions raised it was reported that –

- (l) on page 55 of the agenda pack, the percentage of money received from Heritable bank should have read 94%;
- (m) new debt had been taken out to pay for the ferry, electronic tolling and the landing adjustment for the Tamar Bridge;
- (n) in 2013/14 the grant from the Government was paid up front in April to the approximate total of 30m.

Under this item the Chair reminded Members of the Sub-Committee scheduled for 23 January 2014 to discuss the Treasury Management report.

Agreed that the report is noted and submitted to Full Council.

## 39. **OPERATIONAL RISK AND OPPORTUNITY MANAGEMENT - UPDATE REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) provided the Committee with an update on Operational Risk and Opportunity Management.

Members were advised that –

- (a) the total number of operational risks reported had decreased from 159 to 140 comprising of three red risks, 67 amber risks and 70 green risks;
- (b) it was considered that one of the reasons for the decrease in the number of risks was due to a risk review within the Chief Executive's Office;
- (c) the three red risks related to Medium Term Financial Strategy issues, increasing homelessness as a result of the welfare reform changes and the deterioration of the condition of the City's Highway network;
- (d) the Transformation Project was aiming to deliver a significant amount of the 64m budget gap; a workshop was being planned to log the risks to delivery of outcomes; risks to project outcomes would be tracked via project logs and

the over-arching risk would be added to the Strategic Risk and Opportunity Register;

- (e) it may be useful for Members to invite the Director responsible for the Transformation Programme to attend a future meeting to outline the governance of the Transformation Project;
- (f) an information security breach occurred in July 2013 involving a caseload listing being sent to the wrong recipient; the ICO (Information Commissioners Office) ruled that the type of data on the caseload listing was not sufficient to initiate their regularity intervention; no monetary penalty notice was imposed;
- (g) the Council took the decision to invite the Information Commissioner to undertake an audit; it was expected that this would happen at the end of January 2014; further information on this matter would be provided to Members in March 2014;
- (h) a mandatory data safe eLearning course had been designed for all council staff with access to a computer; 37% of all computer users had completed the course;
- (i) Devon Audit Partnership undertook an independent review of the Council's information governance arrangements and sent out questionnaires to a range of staff members to gauge the level of awareness across the organisation; Members would be provided with an update in March 2014.

In response to questions raised it was reported that –

- (j) the data safe eLearning course took approximately 30 minutes to one hour to complete;
- (k) the Data safe eLearning course was designed for members of staff however officers were in discussions with the Democratic and Members Support Manager to issue something similar for elected members; it was considered that this may be guidance other than a quiz;
- (l) the Head of Corporate Risk and Insurance would provide Members with a refresher on the scoring system for risks;
- (m) since the information security breach in July 2013 the Council had initiated a staff awareness campaign during October 2013; guidance pages were published on the Council's staffroom web pages;
- (n) the breach was considered to be a human error and sanctions had been undertaken to prevent such information security breaches to happen again.

Agreed that –

1. the Interim Director for Corporate Services is invited to the March 2014 Audit Committee in order to provide Members with an outline of the governance arrangements of the Transformation Project;
2. the Committee note and endorse the current position with regard to operational risk and opportunity management.

40. **COVERT SURVEILLANCE RIPA**

Members were advised that there were no revisions proposed to the surveillance policy however the Covert Surveillance RIPA report was also scheduled on the work programme for March 2014 so that Members could receive the outcome of the Interception of Communications Commissioner Office investigation that was scheduled for Tuesday 2 December 2013.

Members noted the update.

41. **AUDIT UPDATE - GRANT THORNTON**

David Bray (Senior Audit Manager – Grant Thornton) provided the Committee with the Audit Update.

Members were informed that –

- (a) the audit update was a retrospective exercise that reported on the progress of Grant Thornton in delivering their responsibilities as external auditors;
- (b) the audit for 2012/13 was complete and the annual audit letter had been produced;
- (c) the final accounts audit and the value for money conclusion for 2013/14 were not yet due; the deadline was 30 June 2014;
- (d) Grant Thornton were proposing to start their audit early; monthly meetings had been arranged to look at issues carried forward from 2012/13 and discuss potential challenges;
- (e) Grant Thornton were running a series of final accounts workshops across the country in order to give officers an understanding of key issues; there was a workshop scheduled on 18 February 2014 at Exeter;
- (f) the Value for Money update would be submitted to the Committee in March 2014.

In response to questions raised it was reported that –

- (g) the question on page 79 of the report prompted Councillors to question if they were adequately trained for financial planning in order to challenge officers effectively in relation to strategic objectives; several Councillors had

recently attended a training workshop in which officers ran through the whole process of how the budget linked to the corporate plan and objectives;

- (h) Grant Thornton recently issued a national report regarding financial resilience in local government; it was considered that robust plans were in place but challenging times were expected for 2016;
- (i) the Lead Officer confirmed that the Council reviewed the proposed amendments and assessed the potential impact of the 2014/15 Code of Practice on Local Authority Accounting in the UK; consultation had only recently closed however officers were keeping up to date with new developments;
- (j) the Lead Officer confirmed to the Committee that dedicated officers were working through the list of considerations from the Audit update report.

Agreed that the Audit Update is noted.

#### 42. **ANNUAL AUDIT LETTER 2012/2013**

Barrie Morris (Director for Grant Thornton) provided the Committee with the Annual Audit Letter 2012/13.

Members were informed that –

- (a) the Annual Audit Letter summarises the key findings arising from the work carried out for the year ending 31 March 2013;
- (b) the audit conclusions provided in relation to 2012/13 were as follows:
  - an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year;
  - an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources;
  - an unqualified opinion on the Council's Whole of Government Accounts submission;
  - Grant Thornton certified the non domestic rates return without amendment and Grant Thornton were working on the other two claims and returns that were subject to external assurance;
- (c) a key issue facing the Council in the future was the status of the waste partnership and its governance and accounting treatment; clarification was required however Council officers from all three local authorities were due to meet to discuss arrangements;



- (d) Appendix A set out the audit fees; Members were advised that that a 40% discount had been applied due to the Grant Certification Fee;

The Chair thanked and congratulated staff in the preparation of the accounts.

Agreed that the Annual Audit Letter 2012/13 is noted.

43. **CERTIFICATION REPORT 2012/13**

David Bray (Senior Audit Manager – Grant Thornton) provided the Committee with the Certification Report 2012/13.

Members were informed that –

- (a) the report summarises Grant Thornton’s overall assessment of the Council’s management arrangements in respect of the certification process; three claims and returns were certified for the financial year 2012/13;
- (b) the three claims included the Housing Benefits return, the Teachers’ pensions return and the NNDR return which amounted to a combined total expenditure of £214.775m.

Agreed that the Certification Report 2012/13 is noted.

44. **REVIEW OF ROLLING WORKPLAN**

Members noted the workplan.

Agreed that the following items are added to the rolling workplan –

1. an update on the Civica system to be scheduled for March 2014;
2. an update on the delays in the Data Centre to be scheduled for March 2014;
3. for the Interim Director for Corporate Services to attend a future meeting to outline the governance arrangements for the Transformation Project;

45. **DATE AND VENUE OF FUTURE AUDIT MEETINGS**

The Committee noted the date and venue of the future audit meetings.

Under this item the Chair reminded the Committee of the 23 January 2014 Audit Sub Committee which was scheduled to consider the Treasury Management Strategy. As a result of a request to change the start time of the meeting the Chair advised Members that he would liaise with members of the Committee and would confirm the start time once discussions had taken place.

46. **EXEMPT BUSINESS**

There were no items of exempt business.

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