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Audit Committee

Thursday 26 June 2014

PRESENT:

Councillor Wheeler, in the Chair.

Councillor Dr. Mahony, Vice Chair.

Councillors Hendy (substitute for Councillor Murphy), John Smith (substitute for Councillor Stevens) and Stark.

Independent Members: Mr I Stewart and Mr R Clarke.

Apologies for absence: Councillors Murphy and Stevens.

Also in attendance: David Bray (Senior Audit Manager for Grant Thornton), David Curnow (Deputy Head of Devon Audit Partnership), Brenda Davis (Audit Manager), Chris Flower (Group Accountant), John Golding (Engagement Lead for Grant Thornton), Mike Hocking (Head of Corporate Risk and Insurance), David Northey (Head of Corporate Strategy), Helen Rickman (Democratic Support Officer) and Zoe Wilkinson (Lead Accountant).

The meeting started at 2.00 pm and finished at 4.00 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.

1. **TO NOTE THE CHAIR AND VICE CHAIR**

Agreed to note the appointment of Councillor Wheeler as Chair and Councillor Dr Mahony as Vice Chair for the 2014/15 municipal year.

2. **DECLARATIONS OF INTEREST**

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

3. **MINUTES**

Agreed that the minutes of 13 March 2014 are approved as a correct record.

4. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's urgent business.

5. **INTERNAL AUDIT ANNUAL REPORT 2013/14**

David Curnow (Deputy Head of Devon Audit Partnership) and Brenda Davis (Audit Manager) provided the Committee with an update on the Internal Audit Annual Report 2013/14.

Members were provided with a brief outline of each page of the report and were informed that –

- (a) the report summarised the work undertaken by Devon Audit Partnership during 2013/14, reviewed the performance and effectiveness of the Internal Audit service and provided an audit opinion on the adequacy of internal control;
- (b) Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework;
- (c) the 2013/14 Audit Plan was subject to change due to the emergence of the Transformation Programme and audit resources had been targeted in response to the far reaching changes that were being proposed. As a result, some work originally included within the 2013/14 audit plan was no longer relevant or had been deferred to a later date to fit with client needs and current objectives, especially within ICT;
- (d) the audit plan set out the business objectives which included the following challenges and opportunities: transformational change, partnering and collaboration, commissioning, information technology, financial and operational constraint and compliance and regularity;
- (e) issues contained within the Internal Audit Assurance Work included support of the implementation boards, review of partner contracts, advice on procurement processes, service management reviews, advice on reduction in control framework and compliance reviews on all material systems;
- (f) the Audit coverage and performance against the plan for 13/14 showed that there was a small variance in outturn against target for audits provided during the year; there was an increase in work linked to fraud investigation and irregularity work;
- (g) an analysis of customer survey results between April 2013 and March 2014 showed that the majority of customers were very satisfied with work undertaken;
- (h) based on audits completed and on indications from previous and on-going work, it was considered that material systems controls for the Transformation and Change department (formally Corporate Services) had either been maintained or improvements were being made to address identified weaknesses;
- (i) it was considered that during the 2013/14 financial year and in previous years, adequate controls were in place to control operations within the People department; where weaknesses were identified management had agreed these findings and had either agreed the recommendations or accepted the associated risks; a significant amount of time was spent undertaking investigations within this department which had an impact upon Internal Audit's delivery against the agreed audit plan;

- (j) Internal auditors were not in a position to provide an overall opinion for the Public Health directorate as work planned towards the end of the 2013/14 financial year was deferred at the Interim Director of Public Health's request;
- (k) it was considered that overall work had continued to confirm that adequate controls were in place in the Place Directorate; management had generally responded positively to Internal Audit's recommendations to improve controls and reduce exposure to risk;
- (l) schools were considered to be of a good standard; recommendations had been made to reduce risks and in other areas recommendations made to strengthen reasonably reliable procedures.

In response to questions raised it was reported that –

- (m) ICT Financial Management was of a good standard with effective, if time consuming, processes in place to monitor budgets on a regular basis; it was considered that the inputting of data was more time consuming than anticipated however as a result of a recent restructure an advisor had been employed for six months to advise on contract management to make this area more efficient;
- (n) the Civic Centre had not yet sold, the risk was associated with the sale of the building however it was still for sale should a prospective buyer become known; the sale of the Civic Centre continued to be on the risk register and an update was provided in the Annual Governance Statement attached to the agenda;
- (o) officers had concerns regarding the duplication of effort and possible introduction of error as a consequence of the need for two ICT systems to undertake all the necessary Disclosure and Barring Service functions; this was linked to a project to install a new HR Payroll System however the equipment used wasn't sufficiently developed to undertake all functions. It was considered that staff were working in an efficient and accurate manner with both ICT systems and quality assurance checks were built into the process;
- (p) Plymouth City Council had to discharge their homelessness duty tenancies for a minimum of 12 months;
- (q) Officers confirmed that 'reasonable assurance' was a good standard for Audit assurance opinion as Officers only sampled a range of things.

The Chair thanked Officers for their attendance and advised the Committee that Mr Golding from Grant Thornton was required to leave the meeting early because of previous arrangements. It was therefore agreed that the order of business on the agenda would be changed to facilitate good meeting management.

Agreed that –

- I. the Internal Audit – Annual Audit Report 2013/14 is noted;

2. agenda items 11 (Audit Plan including Interim Results) and agenda item 13 (External Audit Plan Progress report) are brought forward immediately after the completion of this item to facilitate good meeting management.

Order of Business

With the permission of the Chair, the order of business on the agenda was amended, as set out below in the minutes.

6. AUDIT PLAN INCLUDING INTERIM RESULTS

John Golding (Engagement Lead for Grant Thornton) and David Bray (Senior Audit Manager for Grant Thornton) provided Members with an update on the Audit Plan Including Interim Results.

Mr Golding advised Members that he was replacing Barrie Morris as Engagement Lead for the Committee and that due to a technical error with the report, several pages contained illegible text – hard copies were brought to the meeting for Members' information.

Members were advised that –

- (a) External Audit considered the impact of key developments in the sector and took account of national audit requirements as set out in the Code of Audit Practice;
- (b) there were two presumed significant risks which were applicable to all audits under auditing standards including the revenue cycle including fraudulent transactions and the management over-ride of controls;
- (c) other risks identified included the employee remuneration, welfare expenditure and operating expenses;
- (d) Grant Thornton had undertaken a risk assessment to identify areas of risk the Value for Money conclusion identified; these included the review of the Council's budget and medium term financial plan, review of the Council's proposals for a shared ICT service with NEW Devon CCG, review the emerging governance and performance management arrangements for the joint waste PFI contract with Devon County Council and Torbay Council and the assessment of the introduction of the Better Care Fund.

Agreed that the Audit Plan Including Interim Results is noted.

7. EXTERNAL AUDIT PLAN PROGRESS REPORT

John Golding (Engagement Lead for Grant Thornton) and David Bray (Senior Audit Manager for Grant Thornton) provided the Committee with an update on the External Audit Plan Progress Report.

Members were informed that –

- (a) the aim of the report was to provide Members with a progress update on Grant Thornton, as the Council's external auditor, in delivering upon their responsibilities;
- (b) the 2013/14 final accounts audit would be submitted to the Audit Committee in September 2014;
- (c) the Council's scale fee for 2014/5 had been set by the Audit Commission at £181,428, which was identical to the audit fee for 2013/14;
- (d) a guide to local authority accounts had been sent to Members in order to assist in explaining the key features of the primary financial statements; this information would be emailed out again to those that didn't receive a copy;
- (e) in March 2014 CIPFA's (the Chartered Institute of Public Finance and Accountancy) Local Authority Accounting Panel (LAAP) issues the LAAP Bulletin 98 which provided further guidance and clarification to complement CIPFA's 2013/14 Guidance for Practitioners; topics in the guidance note included public health reform, non-domestic rates and disclosure requirements for dedicated schools grant;
- (f) Grant Thornton would be hosting a series of free workshops in July 2014 across the South West on the Local Government Audit Committee accounts; these workshops were being held in Taunton.

The Chair had sent details of the courses to Council Members of the Committee but apologised for omitting the Independent Members; he would send details on to them. Members expressed their regret that the closest course location was Taunton; John Golding confirmed that at a future meeting he would provide Members with a briefing on the LAAP Bulletin 98 if required.

Agreed that the Audit Committee –

- (1) noted the External Audit Plan Progress report;
- (2) would be provided with a briefing on the LAAP Bulletin 98 at a future meeting.

8. **RISK & OPPORTUNITY MANAGEMENT ANNUAL REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) provided Members with an update on the Risk and Opportunity Management Annual Report.

Members were advised that –

- (a) the report summarised the work carried out during 2013/14 to develop the Council's approach to risk and opportunity management;

- (b) the Head of Corporate Risk and Insurance chaired the Information Lead Officer Group (ILOG); audit findings from Information Commissioner's Officer audit would be submitted to the September 2014 Audit Committee meeting;
- (c) Public Events Planning Training was held on 31 January 2014 by Berrymans, Lace, Mawer litigation solicitors who carried out a mock trial based on an incident occurring at a major public event; this was considered to be a success and was a valuable learning experience;
- (d) the Transformation Portfolio Board was supported by the Portfolio Office who manage the risk management element of the projects using a Portfolio, Programme and Project Risk Management methodology;
- (e) the Plymouth Risk Management Group (PRMG) was a multi-agency group established with the objective of using risk management strategies to help with the delivery of the Plymouth Plan;
- (f) the appendix attached to the report records where the risk management fund was used.

In response to a question raised it was reported that a written report had not been compiled as a result of the public events planning training however the information pack could be shared with Members for their information.

Agreed that the Audit Committee note the Risk and Opportunity Management Annual Report.

9. **OPERATIONAL RISK & OPPORTUNITY MANAGEMENT - UPDATE REPORT**

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

Members were advised that –

- (a) the report outlined the continuing progress being made across services in delivering Operational Risk and Opportunity Registers in line with the Council's shared vision and priorities;
- (b) the total number of operational risks now reported had increased from 140 to 144, comprising 3 high (red) risks, 62 medium (amber) risks and 79 low (green) risks;
- (c) the three red risks included issues surrounding the Medium Term Financial Strategy, increasing homelessness as a direct result of the Local Housing Allowance and Welfare Reform changes and deterioration of the condition of the city's highway network;
- (d) risks to the Transformation Project outcomes were being tracked operationally via project risk logs.

In response to a question raised the Head of Corporate Risk and Insurance confirmed that he would circulate to Members a risk matrix that contained the scoring method and probability of risk.

Agreed that the Audit Committee note and endorse the current position with regard to operational risk and opportunity management.

10. **ANNUAL GOVERNANCE STATEMENT**

Mike Hocking (Head of Corporate Risk and Insurance) provided Members with an update on the Annual Governance Statement.

Members were advised that –

- (a) the report outlined the background to the statutory requirement to produce an Annual Governance Statement (AGS) and described the process followed in producing the AGS for 2013/14 for publication with the Annual Statement of Accounts;
- (b) preparation of the AGS was a wide ranging corporate issue that should not be owned by any one department of the Council therefore a Working Group of key officers was established to oversee the process;
- (c) the Governance Framework enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

Agreed that the Audit Committee –

- (1) note the processes adopted for the production of the 2013/14 Annual Governance Statement;
- (2) endorse the adequacy and effectiveness of the system of internal audit;
- (3) approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Section 151 Officer (Assistant Director for Finance) (replacing the Director for Corporate Services following an explanation at the meeting of role changes).

11. **STATEMENT OF ACCOUNTS 2013/14**

Chris Flower (Lead Accountant) provided the Committee with the Statement of Accounts 2013/14.

Members were advised that –

- (a) the statement of accounts had to be produced in line with the relevant CIPFA Codes of Practice and with regard to relevant items of statute; CIPFA offered guidelines to make the statement more readable and friendly and as result the amount of pages had reduced from 200 to 84;
- (b) the period of public inspection of the accounts would take place between 01 July to 26 July 2014; the accounts would be published in September 2014;
- (c) the governance of the Energy from Waste Partnership was through the South West Devon Waste Partnership Committee; the partnership were required to come up with their own set of accounts;
- (d) the transformation team were working on a project to update the Civic Financials to improve the financial reporting; the Council was also reviewing the way that the access to financial systems was managed and administered;
- (e) the Code required that events occurring after the balance sheet date (31 March 2014) were considered in terms of their relevance to the Council's financial position for 2013/14; there was an obligation to ensure that any such events were properly reflected in the Statement of Accounts up to the date that the statement was authorised for issue.

Agreed that the Audit Committee note the report and the proposed authorised for issue date (21 June 2014) for the draft Statement of Accounts.

12. **TREASURY MANAGEMENT PRACTICES, PRINCIPLES AND SCHEDULES 2014/15**

Zoe Wilkinson (Lead Accountant) provided the Committee with an update on Treasury Management Practices, Principles and Schedules for 2014/15.

Members were advised that –

- (a) some information contained within the original report was incorrect therefore a supplementary report was published to replace this information;
- (b) errors had been corrected in the following sections:
 - section 1.2.2 to reflect Barclays replacing Co-operative as our operational bank and reflecting the new overdraft arrangements;
 - section 1.7.1 to reflect Barclays internet banking arrangements and security (also 1.7.2.3);
 - section 5.3.6 change of title to Monitoring Officer;
 - section 5.5 on dealing limits (to match the table);
- (c) officers were continuing to work closely with Arlingclose advisors.

In response to questions raised it was reported that –

- (d) a manual diary was kept for Treasury Management files including major receipts and payments including future Chaps payments that needed to be made; the intention of the manual diary was to strengthen internal controls however officers would research how to improve this process;
- (e) there was a statutory duty for Officers to present the Audit Committee with the full annual report; an appendix would be attached to future reports to highlight specific changes to Members.

Agreed that the Audit Committee approve the Treasury Management Practices, principles and Schedules for 2014/15.

13. **AUDIT COMMITTEE WORKPLAN 2014/15**

Members discussed the Audit Committee workplan for 2014/15 and agreed that the Information Commissioners Audit report would be submitted to the 25 September 2014 meeting.

14. **EXEMPT BUSINESS**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

15. **INTERNAL AUDIT REPORT - LESSONS LEARNT (E3)**

Members noted the Internal Audit – Lessons Learnt report.

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