

Audit Committee

Thursday 18 December 2014

PRESENT:

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

Independent Members: Mr Clarke and Mr Stewart.

Apologies: Councillor Stark.

Also in attendance: David Bray (Senior Audit Manager – Grant Thornton), Paul Brookes (Programme Director History Centre), David Curnow (Deputy Head of Devon Audit Partnership), John Finch (Information Governance Manager), John Golding (Partner and Engagement Lead – Grant Thornton), Mike Hocking (Head of Corporate Risk and Insurance), Julie Hosking (Risk Management and Insurance Officer), David Northey (Head of Corporate Strategy), Helen Rickman (Democratic Support Officer), Zoe Wilkinson (Lead Accountant).

The meeting started at 2.00 pm and finished at 4.10 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**

Agreed the minutes of 25 September 2014 as an accurate record of the meeting.

36. **CHAIR'S URGENT BUSINESS**

The Chair advised Members of the following items of Chair's Urgent Business:

- 1 information requested at the last meeting held on 18 December 2014 had been emailed to Committee Members;
- 2 a decision was required by Members as to whether the Treasury Management Strategy would be discussed via delegated authority or at the 22 January 2015 Audit Committee meeting;
- 3 the Data Breach item listed on the agenda as part II (restricted) was to be discussed in part I.

Under this agenda item the Head of Corporate Strategy advised Members that, with regards to minute 22 'Change of External Auditors' of the last meeting, he had not sent a letter to the Audit

Commission urging them to reconsider the appointment of BDO LLP; it was the opinion of Grant Thornton that the letter would not have been successful in changing the Audit Commission's opinion to appoint BDO LLP as the Council's external auditors.

37. **AUDIT COMMITTEE UPDATE**

John Golding (Grant Thornton) and David Bray (Grant Thornton) provided Members with the Audit Committee Update.

Members were advised that –

- (a) the audit of the 2013/14 financial statements, the value for money conclusion and the opinion on the Council's accounts had been completed;
- (b) the debate regarding school land and buildings being recognised on local authority balance sheets had been reignited; Grant Thornton were taking a lead role in trying to resolve this issue;
- (c) Grant Thornton hosted a seminar in Taunton on 2 December 2014 regarding accounting for schools and infrastructure assets; this was attended by Plymouth City Council;
- (d) the DCLG was consulting on proposals to bring forward the audit deadline for 2017/18 from September to the end of July 2018; it was considered that both local authorities and their auditors would have to make real changes in how they worked in order to ensure that they were able to achieve the deadline. It was highlighted that the change in deadline might result in estimate figures being provided by auditors other than actual figures;
- (e) changes to the code were effecting how local authorities accounted for services delivered through other entities and joint working with partners; a key change for 2014/15 included accounting for joint arrangements and included the change to the definition of joint ventures and how they were consolidated in group accounts.

In response to questions raised it was reported that –

- (f) the Grant Thornton seminar held in December included representatives from Cornwall Council;
- (g) as of yet Grant Thornton were unaware how the newly adopted suite of standards for accounting for subsidiaries, associated and joint arrangements would affect the Tamar Bridge and Torpoint Ferry Committee, Mount Edgcombe Joint Committee and the South West Devon Waste Partnership Committee.

Members noted the Audit Committee Update.

38. **ANNUAL AUDIT LETTER 2013/14**

John Golding (Grant Thornton) and David Bray (Grant Thornton) provided Members with an update on the Annual Audit Letter 2013/14.

Members were advised that –

- (a) Grant Thornton issued an unqualified opinion of the Council's accounts and an unmodified conclusion on the value for money conclusion;
- (b) the Council's consolidation pack was consistent with the audited financial statements;
- (c) Grant Thornton's fees for 2013/14 was £181,428 (excluding VAT) as expected and had not changed;
- (d) there were two recommendations from Grant Thornton in relation to the Council's accounts advising that firstly the Council shouldn't make amendments to the financial statements until the audit had been completed and secondly that the Council should introduce a sample-based approach to journal review and authorisation covering all journals.

In response to questions raised it was reported that –

- (e) Grant Thornton was satisfied with the Council's accounts;
- (f) any changes to accounts needed to be logged; all changes would be put through system at once which was considered to be more efficient.

Members noted the Annual Audit Letter 2013/14.

39. **CERTIFICATION REPORT 2013/14**

David Bray (Grant Thornton) provided Members with the Certification report 2013/14.

Members were advised that –

- (a) Grant Thornton was required to certify certain claims and returns submitted by Plymouth City Council;
- (b) the number of claims to certification had fallen considerably to one claim for 2013/14 relating to housing benefit whereby the benefit awarded to a claimant was too low;
- (c) once the error with the housing benefit claim had been discovered auditors were required to assess a further 40 cases relating to housing benefit to ensure that no other mistakes had been made; auditors were satisfied that only one error had been made;
- (d) the housing benefit claim was qualified due to the error found in one instance whereby a claimant was not awarded the correct entitlement.

In response to a question raised it was reported that certification work was very prescriptive; auditors were required to extract the errors and report them.

Members noted the Certification 2013/14 report.

40. **TREASURY MANAGEMENT STRATEGY 2014/15 MID-YEAR REVIEW**

Zoe Wilkinson (Lead Accountant) provided Members with the Treasury Management Strategy 2014/15 Mid-Year Review.

Members were advised that –

- (a) Table I in the agenda displayed the Council's overall treasury portfolio as at September 2014 compared to the position at the start of the year; the average interest rate for borrowing decreased from 3.19% to 3.12% in December 2014;
- (b) the Council's external debt limits for 2014/15 had not been breached between 1st April to 30th September 2014; authorised limits were set to £335m and Operational Boundary limits were set to £312m;
- (c) on the recommendation of the Council's advisors, Arlingclose, the Council's investments were put out for a shorter period of time, between 1-3 months;
- (d) as part of the 2014/15 budget setting process the Council reduced the allocation to Treasury Management by £1m. This was to reflect the reduced interest costs resulting from the realignment of the LOBO (Lender Option Borrower Option loan) debt at the of 2013;
- (e) following advice from advisors, the Council had invested a further £5m in the Property Investment fund increasing the total to £15m.

In response to questions raised it was reported that –

- (f) with bank deposit rates falling and current returns not being as attractive, the Authority continued to look at alternative investment products to diversify its portfolio. After discussions with Arlingclose, the following funds were chosen: Federated Prime Rate Cash Plus Fund, Ignis Sterling Short Duration Cash Fund, Investec Short Bond Fund, Investec Target Return Fund and Payden & Rygel Sterling Reserve Fund; £1-2m was deposited in each of the funds and it was considered that this was sufficient to show best performance. The performance of these funds will be included in the Treasury Management out-turn report;
- (g) the value of property funds (pooled funds) could go up and down; the purpose for diversifying was to take a longer term view whilst balancing the risk of return;
- (h) property funds (pooled funds) had variable interest rates; return rates expected would be emailed to Members;

- (i) a schedule detailing where the Council had invested its funds and the investment performance would be emailed to Members;
- (j) the Council was continually monitoring its performance against other authorities and receiving advice from its advisors.

Agreed that –

1. the Treasury Management Strategy 2014/15 Mid-Year Review report is noted by the Audit Committee and presented to Full Council;
2. the Audit Committee agree that approval of the Treasury Management Strategy and Annual Investment Strategy 2015/16 is delegated to the Head of Corporate Strategy in consultation with the Chair and Vice Chair of the Audit Committee to agree a final version before being submitted to Cabinet and Full Council for authorisation in February 2015.

41. **OPERATIONAL RISK AND OPPORTUNITY MANAGEMENT UPDATE REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) provided Members with the Operational Risk and Opportunity Management Update Report.

Members were advised that –

- (a) the total number of operational risks had decreased from 144 to 110 (including 2 high red risks, 53 medium amber risks and 55 low green risks); the main reason for the risk reduction was the deletion of old Chief Executive department risks and ICT risks that were no longer valid following the establishment of DELT;
- (b) twelve years ago Plymouth City Council implemented its first risk management strategy; this had been continually reviewed each year and updated to ensure it remained fit for purpose;
- (c) the deterioration of the condition of the City's Highway Network (both carriage and footway) had been removed as a red risk; the scheduled resurfacing work was underway and this risk was monitored via the strategic register.

In response to questions raised it was reported that –

- (d) the underlying fabric of the highway was deteriorating rapidly due to bad winter weather conditions; there was a 500% increase in pothole damage claims however this figure was decreasing. The Council had committed £2m per annum for 10 years to help improve the highway network;
- (e) claims linking to the footway had decreased; it was considered that a lot of damage to pavements was caused by trees; a programme of tree maintenance was in place to help with this issue;

- (f) Officers were working with Devon Audit Partnership regarding the lack of operational risk register for the Plymouth Safeguarding Adults Board; this would be further discussed under the Internal Audit Update.

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

42. **INTERNAL AUDIT HALF YEAR AUDIT REPORT 2014/15**

David Curnow (Devon Audit Partnership) and Brenda Davis (Audit Manager) provided Members with the Internal Audit Half Year Audit Report 2014/15.

Members were advised that –

- (a) the Audit Committee was required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings and to monitor the progress and performance of internal audit to satisfy themselves that the internal control framework continued to be maintained;
- (b) Internal Audit provided reasonable assurance on the adequacy and effectiveness of the Authority's internal control framework;
- (c) audit work was affected by the Council's operational business needs being examined as part of the Transformation Programme as well as the Ofsted Inspection and the change of ICT services to DELT;
- (d) audits completed this year, in the majority of areas, provided assurances that identified risks were being minimised or mitigated where appropriate;
- (e) the internal audit activity had added value to the organisation and stakeholders by providing objective and relevant assurance and contributing to the effectiveness and efficiency of governance, risk management and internal control processes;
- (f) the graphs displayed on page 76 of the agenda pack were incorrect – the revised graphs provided a better opinion than those displayed and would be updated on the Council's website;
- (g) the Plymouth Safeguarding Adults Board identified areas for improvement specifically regarding the governance of the Board; issues were due to be discussed and addressed at the next board meeting;
- (h) during 2014/15 an audit was undertaken linked to Fraud Prevention and Detection; seven irregularity investigations were carried out of which five were linked to IT misuse and two linked to employee conduct. Concerns had been reported back to management;

- (i) asterisks contained within the appendix highlighted if the report had recently been issued or linked to transformation or other projects.

In response to questions raised it was reported that –

- (j) the replacement graphs for page 76 of the agenda did not show the high standard category however officers confirmed that results were of a good standard;
- (k) Plymouth Safeguarding Adults Board was listed in the appendix as having a green rag rating despite the lack of an operational risk register because there were plans in place to progress this issue;
- (l) the Safeguarding Adults Return 2013/14 was populated using data held in a spreadsheet instead of data being extracted direct from CareFirst as this was not considered to be complete or up to date; this resulted in more likelihood for error. Officers confirmed that they would provide Members with an update on this issue;
- (m) the performance against indicators within the report was very good; some reports were not issued to the customer within the agreed timeframe however areas for improvement had been highlighted;
- (n) an update would be provided to Members at the March 2015 Committee meeting regarding the risks of delivery of the Transformation Programme.

Agreed that –

- (1) Members would be provided with an update on the issues linked to the Safeguarding Adults Return 2013/14;
- (2) Members would be provided with an update at the March 2015 Audit Committee meeting regarding the risks of delivery of the Transformation Programme.

Members noted the Internal Audit Half Year Audit Report 2014/15.

43. **PLYMOUTH INTERNATIONAL HISTORY CENTRE UPDATE**

Paul Brookes (Programme Director History Centre) provided Members with an update on the Plymouth International History Centre.

Members were advised that –

- (a) the Plymouth International History Centre was a £24m scheme with a vision to transform the existing museum and art gallery on North Hill into a cutting edge cultural centre;
- (b) this was a unique project to the UK bringing together collections and archives currently at risk;

- (c) the Heritage Lottery Fund funded £12.9m for the project; another £6m was still required to be raised for the History Centre;
- (d) the project was due to commence in 2016 and completed in late 2019; it was expected to be open to the public in early 2020 in time for the Mayflower 2020 celebrations.

In response to questions raised it was reported that –

- (e) archives stored in the West Devon Archives office were to remain in their current storage until they were ready to be moved to the new development;
- (f) the Heritage Lottery Fund was to undertake a mid-term review in May 2015 to assess the progress of the project;
- (g) branding for the History Centre was very important to the success of the project; a final name had not yet been agreed;
- (h) it was expected that central library would be relocated and would remain in the city centre;
- (i) there was potential disabled car parking space allocated for this project;
- (j) risks associated with the project linked to timescales, funding and planning permissions.

Members thanked Paul for his update.

Agreed that an update on the International History Centre would be scheduled in June 2015.

44. **LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE ARRANGEMENTS**

David Northey (Head of Corporate Strategy) provided Members with an update on the Local Government Pension Scheme Governance Arrangements.

Members were advised that the Local Government Pension Scheme was currently run by a committee in which two Plymouth City Council representatives were nominated. It was proposed that the current committee should be disbanded and a new committee was to be formed as well as a board of members. Under the new proposals Plymouth's representatives would reduce to one member; the Head of Corporate Strategy was invited to respond to the consultation and sought feedback from the Audit Committee before submitting feedback.

In response to questions raised it was reported that -

- (a) Devon currently had 12 members but was proposed to be reduced to six; the overall committee is reduced from 19 to 12 members;
- (b) Plymouth and Torbay currently had three members, split between both authorities, on the committee however this was proposed to reduce to two

members;

- (c) officers shared members' concerns regarding the changes to the local government pension scheme and would respond to the consultation specifying that the proposals didn't satisfy the Council's assurances.

Members noted the update.

45. **REVIEW OF ROLLING WORKPLAN**

Members discussed the workplan for 2014/15.

Agreed that –

- (a) the 22 January 2015 Audit Committee was not required as this meeting was only arranged to discuss Treasury Management Strategy; it was agreed in minute 40 that the approval of this item would be delegated to the Head of Corporate Strategy in consultation with the Chair and Vice Chair;
- (b) an update would be provided on the City's Assets and Insurance status in March 2015;
- (c) an update would be provided in March 2015 regarding integrated health and an Ofsted Update;
- (d) an update on the Information Commissioners Audit would be available in March 2015;
- (e) Grant Thornton's audit committee update would be scheduled for every audit committee meeting.

46. **EXEMPT BUSINESS**

There were no items of exempt business.

47. **DATA BREACH (E3)**

This agenda item was discussed in part I (public).

John Finch (Information Governance Manager) provided Members with an update on the Data Breach.

Members were advised that –

- (a) on 1 December 2014 a large data breach occurred where personal financial details of 511 clients were mistakenly sent to 395 other clients and three suppliers; breached information included names, addresses, bank sort codes, the last four digits of account numbers and the financial remittance amounts deposited;

- (b) a full investigation was undertaken in which the cause was determined; an error in a creditors report was 'fixed' but the fix itself introduced another unknown error where the report displayed all records rather than individual records. Since the data breach the system for making fixes has been changed and alerts had been set up for quality assurance;
- (c) a letter was sent out to all clients advising them of the data breach and formally apologising; a phone line was also set up to take calls from concerned clients.

In response to questions raised it was reported that –

- (d) the error occurred with the direct payments software which was used to send out notification emails to clients advising them of the amount of funding they were entitled to;
- (e) the error was a human error other than a software error; the data breach was highlighted to the department involved and extra controls were introduced as well as staff training;
- (f) alerts were introduced to prompt the user on the computer, manager approval was now also required to make changes to the programme and a further test was required before a final email was to be sent;
- (g) the data breach was not linked to the problems experienced by a Councillor not receiving the weekly planning applications list where the email was mistakenly sent to a Council employee with the same surname;
- (h) the finance department generated the direct payments report however DELT maintained the ICT software;
- (i) the Head of Corporate Strategy was satisfied that the sanction for the member of staff matched the seriousness of the incident;
- (j) since 2006 all data incidents were recorded;
- (k) A member of staff based outside of the finance department was responsible for checking the content of future direct payments to ensure that the same mistake couldn't happen again;
- (l) not everyone had administration rights to change documents;
- (m) this breach would be reported to the internal security forum; Members of Devon Audit Partnership sat on this forum;
- (n) Members would be provided with a breakdown of security incidents and breach statistics

Members noted the update.

