

# Public Document Pack

## Audit Committee

Thursday 25 June 2015

### PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.  
Councillor Sam Leaves, Vice Chair.  
Councillors Sam Davey, Murphy and Mrs Pengelly.

Independent Members: Mr Clarke and Mr Stewart.

Also in attendance: Nicola Allen (Senior Category and Contract Manager), David Bray (Senior Audit Manager - Grant Thornton), David Curnow (Devon Audit Partnership), Chris Flower (Lead Accountant - Technical), Mike Hocking (Head of Corporate Risk and Insurance), David Northey (Head of Corporate Strategy), Greg Rubins (BDO) and Helen Wright (Democratic Support Officer).

The meeting started at 10.00 am and finished at 11.55 am.

*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**

The committee noted the appointment of Councillor Parker-Delaz-Ajete as Chair and Councillor Sam Leaves as Vice Chair for the forthcoming municipal year 2015/16.

#### 2. **DECLARATIONS OF INTEREST**

Councillor Sam Leaves declared a private interest should any items refer to NHS information as she was employed by a NHS partner.

#### 3. **MINUTES**

The committee agreed that the minutes of the meeting held on 26 March 2015 are confirmed as a correct record, subject to the inclusion of Malcolm Coe (Assistant Director for Finance) as being present.

#### 4. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's urgent business.

#### 5. **INTRODUCTIONS FROM NEWLY APPOINTED AUDITORS, BDO**

Greg Rubins (BDO) provided a presentation on the external audit which highlighted the following main areas –

- (a) BDO was the fifth largest accountancy network providing a range of financial and advice services for both the private and public sectors;

- (b) the company regularly supported the sector with advise, research and industry events to such organisations as the Local Government Association, Solace, Cabinet Office and CIPFA;
- (c) the main current focus areas included -
  - commissioning and procurement;
  - service review and redesign;
  - strategic projects and commercialisation;
- (d) BDO had supplied external audit services to the Audit Commission for over 10 years;
- (e) the audit approach had been broken down into six phases, as follows -
  - transition;
  - planning and strategy;
  - execution;
  - opinion;
  - reporting;
  - feedback;
- (f) the potential issues and risks for 2015/16 included -
  - transformation/savings;
  - shared services and joint ventures;
  - accounting for schools;
  - integration of health and wellbeing;
- (g) there was a reduction of £45,000 in audit fees for 2015/16.

The committee thanked Greg Rubens for his presentation.

## 6. **INTERNAL AUDIT CHARTER/INTERNAL AUDIT STRATEGY**

David Curnow (Devon Audit Partnership) provided a report on the Internal Audit Charter and Strategy.

Members were advised that –

- (a) one of the requirements of the Public Sector Internal Audit Standards (PSIAS) was that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter and strategy;
- (b) The PSIAS also set additional public sector requirements for both the internal audit charger and strategy, which included -

- the definition of the role of internal audit in any fraud related work;
  - inclusion of arrangements for avoiding conflicts of interest if internal audit undertook non-audit activities;
- (c) the revised Accounts and Audit Regulations 2015 came into effect from 1 April 2015; the changes to Internal Audit included -
- inclusion of compliance to the Public Sector Internal Audit Standards (PSIAS);
  - Inclusion of the remit of governance which included ethics within the audit.
- (d) both the Council's Charter and Strategy comply with the mandatory requirements of the Public Sector Internal Audit Standards;
- (e) delivery of the Internal Audit Service would be by Devon Audit Partnership (a shared services arrangement between Devon County Council, Plymouth City Council and Torbay Council) in accordance with the agreed Internal Audit Plan.

The committee noted the report.

## 7. **INTERNAL AUDIT ANNUAL REPORT - 2014/15**

David Curnow (Devon Audit Partnership) presented the Internal Audit Report 2014/15.

Members were informed that –

- (a) the report summarised the work undertaken by Devon Audit Partnership during 2014/15, reviewed the performance and effectiveness of the Internal Audit services and provide an audit opinion on the adequacy of internal control;
- (b) the report was particularly relevant to the preparation of the authority's Annual Governance Statement which was required under the Accounts and Audit (England) Regulation 2015.

In response to questions raised by Members, it was reported that –

- (c) the misuse of IT equipment related to staff using the Council's assets for their own personal gain;
- (d) the term 'hard federation' related to shared governance of a new governing body;
- (e) there had been a couple of data breaches which had previously been reported to the committee;

- (f) it had not been appropriate in 2014/15 to undertake an audit of Public Health, although there would be a level of work to audit in 2015/16;
- (g) the percentage of staff turnover reflected those members of staff transferring to other organisations and the year on year requirement to reduce staffing by 10%;
- (h) the level of staff sickness had increased slightly on previous years which may need to be reviewed;
- (i) there was still concern that there was residual risk relating to the CareFirst duplicate payments; although testing had been undertaken it had not been possible to carry out wider testing due to the change in systems and processes; a new system had been implemented which would need to be tested in the future as a separate audit exercise.

The committee noted the report.

## 8. **RISK AND OPPORTUNITY MANAGEMENT 2015 - 2017 AND ANNUAL REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) provided the Risk and Opportunity Management Strategy 2015/2017 and the Risk Management Annual Report.

Members were informed that –

- (a) the report summarised the work which had been carried out during 2014/15, in order to develop the Council's approach to risk and opportunity management, which covers the following -
  - Corporate and Operational Risk Management Groups;
  - Risk and Opportunity Management Strategy;
  - Risk and Opportunity Registers;
  - Annual Governance Statement;
  - Information Lead Officer Group (ILOG);
  - Transformation Project;
  - Integrated Assurance Project;
  - Focus for 2015/16;
- (b) there was good evidence of the development of a risk management culture within the Council with proactive engagement of Members, Directors, Heads of Service and senior operational managers; this culture was supported by a mandatory assessment of risk management performance as part of the Competency Framework annual appraisal process;
- (c) the Council had a well-developed and proven risk management process in place which had been integrated into business planning, budget, transformation and project management.

In response to questions raised by Members, it was reported –

- (d) the Civil Protection Unit co-ordinated the Council's response to major incidents both internal and external and worked with partners such as the MOD, Devon and Cornwall Police and Devon and Somerset Fire Service; the emergency plans were regularly tested with such exercises as Short Sermon;
- (e) the Council had been involved in several major incidents, such as the gas explosion in Southway and had received a special award relating to how it had dealt with the emergency working together with other agencies;
- (f) there were directorate champions which had been trained to ensure that all members of staff were aware of their ability to include risks on the risk register.

The committee noted the reported, endorsed the Risk and Opportunity Management Strategy 2015 – 17 and agreed to invite a member of the Civil Protection Service to a future meeting of the committee to provide an explanation of its role and responsibilities.

## 9. **OPERATIONAL RISK AND OPPORTUNITY MANAGEMENT UPDATE REPORT**

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

Members were advised that –

- (a) in order to support the delivery of the city's vision and to enable the provision of high quality services to the residents and communities of Plymouth, it was imperative that effective risk management arrangements were in place; a fundamental element of corporate governance, a risk managed approach to decision making would enable the Council to achieve its objectives and deliver services more efficiently and cost effectively;
- (b) the management of risk principles and processes equally applied at operational level, supporting improved performance, integration with business planning projects, change programmes and partnerships;
- (c) 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;
- (d) the total number of operational risks reported had increased from 110 to 116, which comprised of two high (red) risks, 50 medium (amber) risks and 64 low (green) risks.

The committee noted and endorsed the current position with regard to the operational risk and opportunity management.

10. **ANNUAL GOVERNANCE STATEMENT 2014/15**

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

Members were informed 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 2014/15 for publication with the Annual Statement of Accounts;
- (b) the purpose of the AGS was to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance, as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified;
- (c) the purpose of the AGS was to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified;
- (d) the report provided an opinion on the effectiveness of the internal audit system for the same period.

The committee noted the process adopted for the production of the 2014/15 Annual Governance Statement and agreed to -

- (1) endorse the adequacy and effectiveness of the internal audit system;
- (2) approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Assistant Director for Finance (Section 151 Officer).

11. **INFORMATION GOVERNANCE ANNUAL REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) presented the Information Governance Annual Report.

Members were informed that –

- (a) the report provided a summary of the work that had been undertaken by the Information Lead Officers Group (ILOG) to improve information governance principles across all directorates, in order to improve the Council's information asset;

- (b) the Council had won the Association of Local Authority Risk Managers (ALARM) Strategic Risk Award for its corporate information governance strategy and the revised approach it had implemented to improve its information governance resilience and ensure legislative compliance.

The committee took the opportunity to congratulate all those involved in winning this award.

In answer to a question raised by the committee, it was reported that all members of staff had been required to complete an e-learning data protection course. Staff would also be required to undertake a shorter refresher course on an annual basis. New members of staff would also be required to complete the full course. Development work was being undertaken to deliver a similar package for Members to complete.

The committee noted and endorsed the current position with regard to the action of the Information Lead Officers Group.

## 12. **CONSTITUTIONAL CHANGES IN RELATION TO CONTRACT STANDING ORDERS AND FINANCIAL REGULATIONS**

Nicola Allen (Senior Category and Contract Manager) presented the report on Constitutional Changes in relation to Contract Standing Orders and Financial Regulations.

Members were advised that –

- (a) on 17 April 2014, a new EU procurement directive had been adopted by the European Commission; all EU member states were required to implement the directive into national Law within two years of the adoption date; the Directive had been transposed into UK law (Public Contracts Regulations) which came into force on 26 February 2015;
- (b) the main purpose of the EU public procurement regime was to open up the public procurement market to competition and ensure the free movement of supplies, services and works within the EU; the EU rules reflect and reinforce the value for money focus of the UK government's public procurement policy;
- (c) in addition the Lord Young Reform had been introduced to create a small and medium enterprises (SMEs) friendly market for public procurement by removing the barriers to entry through a standardised Pre- Qualification questionnaire (PQQ) and a single website, Contracts Finder, to source advertised opportunities;
- (e) taking into account all of the changes the Council's Contract Standing Orders and Financial Regulations had been updated to cover the following -
  - changes to legislation;

- increase to the Council's low value procurement thresholds from £100k to £150k for goods and services from £200k to £2m for works to ensure that suppliers are sourced locally where possible via an RFQ process rather than nationally advertised opportunities on Contracts Finder;
  - tender opportunities advertised on Contracts Finder as well as the Council's procurement portal, supplying the south west;
  - purchasing card limits had been updated in line with the purchasing card policy and practice;
  - purchase order authorisation limits had been increased;
  - enhancement of contract management;
- (f) by increasing the Council's low value procurement thresholds it would be able to target local suppliers and micro, small and medium enterprises (SMEs). This would enable delivery of the Council's pledges as well as supporting the objectives of the Fairness Commission.

The committee agreed to recommend to the City Council that the –

- (1) Contract Standing orders which form Part H of the Constitution are updated in line with the Public Contracts Regulations 2015 and in support of the Council's localism agenda;
- (2) Financial Regulations which form Part H of the Constitution are updated in line with the purchase order authorisation and purchase card limits.

### 13. **TREASURY MANAGEMENT PRACTICES, PRINCIPLES AND SCHEDULES 2015/16**

David Northey (Head of Corporate Strategy) presented the Treasury Management Practices, Principles and Schedules 2015/16.

Members were advised that –

- (a) the Local Government Act, 2003 required the Council to set out its Treasury Management Policy, Treasury Management Strategy for borrowing and the preparation of an Annual Investment Strategy;
- (b) the Council's Treasury Management Policy and the Strategy for 2015/16 had been approved by City Council on 23 February 2015;
- (c) it was a requirement of the adopted CIPFA Code of Practices on Treasury Management that practices, principles and schedules were in place to ensure the Council's policy was adhered to and that



working practices and controls were in place to meet the approved strategy and to fully report activities to this committee and City Council.

The committee agreed to approve the Treasury Management Practices, Principles and Schedules for 2015/16.

#### 14. **EXTERNAL AUDIT PLAN PROGRESS REPORT**

David Bray (Senior Audit Manager - Grant Thornton) presented the External Audit Plan progress report.

Members were advised 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 their responsibilities;
- (b) the external audit fees had increased in 2013/14 by £1070 to reflect the additional work that was required on business rates balances; the total audit fee for the Council was £182,498;
- (c) the 2014/15 Audit Plan had been presented to the committee at its meeting held on 26 March 2015; the plan set out the understanding of the risks affecting the external auditor's opinion on the Council's financial statements and its value for money conclusion together with an outline of the work that would be undertaken to address these issues;
- (d) it was intended to provide the findings of the 2014/15 final accounts audit to the committee on 17 September 2015.

In response to questions raised by Members, it was report that –

- (e) officers were confident that the plans and processes already implemented would enable the accounts for 2014/15 to be completed and available for consideration by the committee at its September meeting.

The committee noted the report.

#### 15. **AUDIT COMMITTEE WORKPLAN 2015/16**

David Northey (Head of Corporate Strategy) provided an update on the committee's work plan for 2015/16.

Members were informed that the work plan would be submitted to the September meeting of the committee which would set out the schedule for the next 15 months including the key reports.

Following discussions the committee agreed to review the time of meeting with a view to moving the meeting to 2pm instead of 10am.

The committee further agreed to hold a training session (date to be confirmed) and a pre meet prior to the September meeting of the committee in order to review the Statement of Accounts 2014/15 with Grant Thornton.

16. **EXEMPT BUSINESS**

There were no items of exempt business.

17. **STATEMENT OF ACCOUNTS 2014/15**

Chris Flower (Lead Accountant - Technical) presented the Statement of Accounts 2014/15.

Members were informed that –

- (a) the report outlined the Council's revenue and capital outturn for the 2014/15 financial year which was reported to Cabinet on 9 June 2015;
- (b) the report details the timetable and key issues in relation to the production of the statutory form of accounts (the Statement of Accounts) which the Council was required to produce for audit and publication and reported the progress towards the requirement to prepare the pre-audited accounts by 30 June 2015;
- (c) the Accounts and Audit Regulations required that the accounts were available for public inspection for four weeks commencing on 22 June 2015 (the external audit commenced on 15 June 2015);
- (d) the report also detailed progress towards the completion of the action plan agreed to implement the recommendations made by the auditor following the audit of the 2013/14 Statement of Accounts.

In response to questions raised by Members, it was reported that –

- (e) the cost of replacing the Tamar Bridge and been reduced by £80m; (the Council's share £40m); discussions were being held with Cornwall Council to ascertain how this could be substantiated;
- (f) appeals relating to adult social care individual assessments which occur at the time that the accounts were being closed down would be considered in the next financial year;
- (g) there had been an increase in the pension liability due to an increase in the future obligations of £146m following a change in the financial assumptions used by the actuaries.

The committee noted the report.