

## **Audit and Governance Committee**

**Monday 22 July 2019**

### **PRESENT:**

Councillor Lorraine Parker-Delaz-Ajete, in the Chair.  
Councillor Carson, Vice Chair.  
Councillors Pete Smith, Stevens and Kelly.

Co-opted Representatives: Mr Clarke and Mr Stewart.

Also in attendance: David Bray (Grant Thornton, External Auditor) and Geri Daly (Grant Thornton, External Auditor), Brenda Davis (Audit Manager), Chris Flower (Finance Business Partner), Andrew Hardingham (Service Director for Finance), Carolyn Haynes (Financial Controller), Julie Hosking (Corporate Risk Advisor), Ken Johnson (Counter-Fraud Manager), Siân Millard (Oversight & Governance Manager).

The meeting started at 3.00 pm and finished at 6.06 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.*

### 18. **To Note the Appointment of the Chair and to appoint a Vice Chair**

The Committee noted the appointment of Councillor Lorraine Parker-Delaz-Ajete as Chair. Councillor Smith proposed and Councillor Stevens seconded the appointment of Councillor Carson as Vice-Chair. Councillor Carson was duly appointed by consensus.

### 19. **Declarations of Interest**

The following declarations of interest were made in accordance with the Members Code of Conduct:

<b>Name</b>	<b>Subject</b>	<b>Reason</b>	<b>Interest</b>
Councillor Pete Smith	Item 7 – Annual Governance Statement  Item 15 – Awarding Contracts  Item 16 – Member development	Cabinet member responsible for the portfolio area (approver of the reports)	Pecuniary

Councillor Carson	Item 15 – Awarding of Contracts	Business interest	Pecuniary
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20. **Minutes**

The minutes of the meeting held on 11 March 2019 were approved as an accurate record.

21. **Chair's Urgent Business**

The Chair proposed to vary the order of business as follows:

Item 13 – Planning Committee Terms of Reference and Code of Good Practice, to be taken first

Item 6 – Audit Report and Item 7 – Statement of Accounts to swap order

The committee agreed the proposal by consensus.

The Chair further invited Councillor Stevens to raise an issue with regards the voting system in the Council Chamber for a recent meeting of Planning Committee. The issue had resulted in incorrect votes being recorded for members, whereby a manual show of hands vote was resorted to.

The Oversight and Governance Manager, Siân Millard, provided an update to the Committee on the cause of the issue which has been due to human error. Procedure notes for the voting system set-up had since been updated to avoid the issues occurring again.

22. **Planning Committee Terms of Reference and Code of Good Practice**

Councillor Stevens proposed this item be deferred to a later meeting to enable fuller consultation to be undertaken with both political groups as issues had been raised since the original drafting had taken place.

Members discussed the following:

- a) the decision-making process for the Terms of Reference and Code of Good Practice – that the Committee has authority per the constitution to approve the Code of Good Practice and Council would approve the Terms of Reference;
- b) that any elected-member can feed in comments on any items on the Committee agenda to any member of the Committee;
- c) Page 136, 1.3, last line but one should read 'partial' rather than 'impartial'.

The Committee agreed by consensus to defer the item to the September meeting on the understanding that consultation will be had with each political group on the proposed changes.

23. **Statement of Accounts 2018/19 - To follow**

Carolyn Haynes (Financial Controller) presented this item and highlighted the following:

- a) it is a legal requirement of the Accounts and Audit Regulations 2015 that the Statement of Accounts (Appendix A) is approved by a resolution of the Council or the relevant

Committee of the Council by 31 July 2019. The Scheme of Delegation to Committees within the Council constitution delegates the responsibility to the Audit and Governance Committee to consider and approve the Council's Statement of Accounts;

- b) the Accounts and Audit Regulations require that the draft Statement of Accounts is signed by the Council's Section 151 Officer by 31 May each year. The pre-audited accounts were approved by the Service Director for Finance and published on the Council's website on the 31 May 2019;
- c) formal audit of the accounts for 2018/19 commenced on 1st July. The 30 working days period in which the Council has to make the draft accounts available for public inspection started on 1 June;
- d) as part of the final audit requirement, and prior to the issue of the audit certificate, the Council is required to complete and sign a formal letter of representation and submit this to the auditor. This letter will be signed by the Service Director for Finance and the Chair of the Audit & Governance Committee;
- e) the Council's outturn position was reported to Cabinet on 11 June 2019 showing an overspend of £1.117m (before any adjustments), which is a 0.6% variance on the budget;
- f) the General Fund Balances (also known as the Working Balance) as at 31 March 2019 was £8.050m. The Working Balance has a recommended minimum set at 5% of the net revenue budget, as set by Council. However, due to the continued budget pressures in 2018/19, the Council had to make further use of its Working Balance reducing it to 4.3% of the net revenue budget;
- g) the Balance Sheet showed the Council's assets, liabilities and reserves. The reserves are split in to usable and unusable reserves. The unusable reserves are not available to the council but are part of technical accounting requirements;
- h) the Council has a negative Balance Sheet as at 31 March 2019 which means that the Council's liabilities are £156,513 million greater than its assets;
- i) the main movements on the Balance Sheet between 31 March 2018 and 31 March 2019 were summarised as:

#### Non-current Assets

- Property, Plant and Equipment had increased by £40.505 million partly due to the revaluation of a number of assets and also due to the addition of assets through the capital programme.
- Investment Property had increased by £60.104 million due to the Council's Asset Investment fund. The Council's Capital Programme included the provision for the purchase of Investment Properties. Investing more in these types of properties allows the Council to deliver wider benefits to the residents and economy of Plymouth.
- Long Term Investments had increased by £1.635 million reflecting a movement from short to long term investment on the advice of the Council's Treasury Management consultants Arlingclose.

#### Current Assets

- Short Term Debtors had increased by £4.105 million due to:
  - Increase in commercial rent invoices

- Various central government grants outstanding
- Capital debtors for a variety of capital schemes
- PCC's share of Tamar Bridge debtors
- Cash and Cash Equivalents had increased by £1.583 million to £31.863 million to reflect an increase in our cash investments.

#### Current Liabilities

- Short Term Borrowing had increased by £85.224 million. This is to finance the Capital Programme in accordance with the 2018/19 approved budget and Treasury Management Strategy.
- Short Term Creditors had increased by £8.416 million for the following reasons:
  - Outstanding payment to HMRC
  - Increase in revenue grants received in advance
  - Increase in the short term creditor for the NHS and for the Devon Pension Scheme
  - Capital creditor accruals have increased in line with the increase in capital expenditure

#### Long Term Liabilities

- Long Term Creditors had decreased by £1.259 million. Most of the movement was reflected in the slight reduction in the liability for unfunded pension liabilities relating to pre Local Government Reorganisation.
- Long Term Provisions had decreased by £1.704 million which related to a decrease in the provision for business rate appeals, insurance and landfill site provision
- Long Term Borrowing had increased by £12.938 million. Some of this increase related to additional funding for the Capital Programme.
- Long Term Liabilities Pensions had reduced by £20.625 million. The Council's net liability had reduced due to a reduction in the present value of the defined benefit and an increase in the fair value of the plan assets.

Members discussed the following:

- a) the appropriateness of the Council tax collection rate target. It was clarified that the budget assumes a lower collection rate than the target and that performance reflects in-year performance as opposed overall performance. The Director of Finance undertook to explain the data more clearly within the report in future iterations
- b) the implications of the reduction in working balances to 4.3% in order to make-up the deficit, against the recommended level of 5%. The Director of Finance:
  - a. confirmed that the generally accepted principle across local government is to retain a minimum of 5% of working balances to cover unforeseen events;
  - b. that Council has agreed the 5% level for the organisation and that the implications for going below the threshold is that less is potentially available for unforeseen events.

- c. that the Medium Term Financial Plan is being developed to build back up the level of working balances to restore what was taken out in 2018/19.
- c) the increased provision made for the collection fund referenced in section 19.3. The Director of Finance clarified that this fund is an amalgamation of mainly business rates and that the increased provision was due to the downturn in the economy and subsequent impact on businesses in the city.
- d) the appropriateness of investment in properties. The Director of Finance explained that any decision to invest in property is undertaken as part of the council's capital investment programme. The decision-making processes resulting occur in line with the Constitution and there is a robust governance process of the asset portfolio. The Council's Asset Investment Strategy sets out the areas of potential investment.
- e) the 46.9% reported spend on business in Plymouth postcode against the 55% target and actions in place to improve the performance. The Director of Finance explained that the 55% level was a self-imposed target and that the Council works within procurement regulations and relevant business law. The Council works with other major public sector organisations through a city-wide procurement forum, to make things as easy as possible for local providers/suppliers to access work with the council.
- f) the approach to capital infrastructure such as Next at March Mills and whether such investments take footfall from the city centre. Although an issue for Planning Committee, it was confirmed by the Financial Controller that there was a requirement for Next to maintain their presence in the city centre as part of their planning application for Marsh Mills.

By way of consensus, the Committee:

1. **approved** the Statement of Accounts for 2018/19 attached as Appendix A to the report, with the understanding that they are currently being audited by GTUK (Grant Thornton UK). Should any issues be identified during the GTUK audit and after the date of this committee, Members delegated the approval of the Statement of Accounts to the Chair of the Audit and Governance Committee, in consultation with the Service Director for Finance, to be done before the 31 July 2019. In the context of this approval, Councillor Kelly asked that his significant concerns about financial sustainability of the Council, based on the accounts, be noted in the minutes.
2. **noted** the 'Letter to Management' responses attached as Appendix B of the report which were agreed with the Chair of Audit and Governance Committee prior to being sent to GTUK at the end of April 2019.
3. **noted** the contents of the GTUK IT Audit Report attached at Appendix C of the report.

#### 24. **Audit Findings Report - To Follow**

David Bray (Grant Thornton) and Geri Daly (Grant Thornton) attended to present this item and highlighted the following points:

- a) the report summarised the key findings and other matters arising from the statutory audit of Plymouth City Council and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.
- b) auditors have to produce an audit findings report and will produce a final report once the audit is complete;
- c) the risk assessment and key matters in progress as at 16 July (the time of writing of the audit);
- d) a focus of testing has been on the Council's loans and LOBOs given national publicity on LOBOs last year; this is required per IFRS 9 (financial instruments);
- e) that those charged with governance should satisfy themselves that unadjusted items don't cause any concern re being materiality;
- f) the Value for Money (VfM) conclusion is something that all public sector auditors have to report on;
- g) the Council has appropriately made available the draft accounts to the public and no objections had been forthcoming;
- h) with regards the definition of materiality, auditors determine £9.775m (1.75% of the prior year gross expenditure) to be an acceptable threshold with regards any errors; auditors are required to report on any error over £489k;
- i) income recognition, particularly in relation to grant income, was a focus for the audit given an error last year;
- j) in relation to land and buildings, the auditors had concentrated on those items that had not been valued in-year, alongside the Tamar Bridge and waste plant given their value, to ensure accuracy of the figures
- k) with regards the pensions liability, the auditors were continue to seek advice from their own legal advisors on the legality of the proposed borrowing; that work had not yet been concluded and therefore advice provided so far could not be shared.
- l) The McCloud issue referred to within the report had impacted every local authority and has meant that all councils have had to go back to their actuaries as all pension liabilities would be increased. The actuary had estimated an increase in pension liability of £7.931m which the Council had decided not to reflect as the value was under the materiality threshold and it was a balance sheet issue; this was consistent with the approach taken by most other local authorities.

Members discussed the following:

- a) the key risks that the auditors considered faced the council. The auditors outlined three key risk areas in the audit plan and accounts: 1. Pension liability estimation technique, 2. McCloud problem, 3. decision-making regarding the potential pension transaction (the committee noted that any detailed discussion required on the potential pension transaction was commercial in confidence and would require moving into a Part II discussion);
- b) concern about the state of the Council's finances in general including savings targets and potential further impact on the working balances. The auditors confirmed that the Council's reserves are lower than ideal;
- c) That the figures in the auditors report were slightly out of date due to the timing of the meeting and when the report was written and that officers would be working with the auditors to ensure the most up-to-date figures are reflected in the final report.

The Committee **noted** the draft audit report, including the auditor's statement of independent, and the verbal update provided by the auditors.

25. **Annual Governance Statement**

Councillor Pete Smith left the room for this discussion due to a declared DPI.

Julie Hosking (Corporate Risk Advisor) introduced this report and highlighted the following points:

- a) Regulation 6(1) of the Local Government, England and Wales Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS);
- 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 action being taken or planned to address any key weaknesses identified;
- c) the Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.
- d) the report outlined the process followed in order to produce the AGS for 2018/19 and recommended approval of the Statement prior to signature by the Leader, the Chief Executive and the Service Director for Finance.

Members discussed the following:

- a) the validity of the assertion within the report of financial pressure in Children and Young People's Services due to an increase in the number of children with complex needs; it was confirmed that the increase in cost pressure was largely due to an increased in the number of children with high cost and complex needs;
- b) with regards the key improvement area of use of vibration tools, whether there would be any financial implications; it was confirmed that a financial penalty is possible and the Council is awaiting the Health and Safety Executive to revert;
- c) in relation to point b) the level of involvement of the unions in the monitoring of actions relating to the vibration issue and whether the unions were satisfied with the process being following; [post meeting note: briefing circulated to committee members confirming union engagement through management of the issue].

Action: Julie Hosking (Corporate Risk Advisor) to confirm to the Committee the level of union involvement with the vibration health and safety issue.

The Committee:

1. **noted** the processes adopted for the production of the 2018/19 Annual Governance Statement.
2. **endorsed** the adequacy and effectiveness of the system of internal audit.
3. **approved** the Annual Governance Statement, alongside the Statement of Accounts, prior to signature by the Leader, Chief Executive and Service Director for Finance (S.151 Officer).

26. **Operational Risk & Opportunity Management Update Report**

Julie Hosking (Corporate Risk Advisor) introduced this report and highlighted the following points:

- a) the operational risk process

- b) the three highlighted red operational risks, alongside the recent audit opinion on risk management;
- c) that the next operational risk update would be considered by the Committee in December 2019.

Members discussed the approach to scoring risks and the Council's approach to risk appetite.

Action: Julie Hosking to provide a briefing note to the Committee on the Council's approach to risk appetite.

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

## 27. **Annual Report on Treasury Management Activities for 2018/19**

Chris Flower (Finance Business Partner) introduced this report and highlighted the following points:

- a) report covered the treasury management activities for financial year 2018/19 including the final position on the statutory Prudential Indicators.
- b) uncertainty in the financial markets due to Brexit
- c) increasing loan interest rates

The Committee:

- **noted** the Treasury Management Annual Report 2018/19; and

Per the Constitution (Part H, Financial Regulations, Section 19.1), **referred** the Treasury Management Annual Report 2018/19 to Full Council for noting.

## 28. **2018/19 Internal Audit Annual Report**

Brenda Davis (Internal Audit Manager) introduced this report and highlighted the following points:

- a) the internal audit plan for 2018/19 had been approved by the committee in March 2018 and the report detailed the audit coverage and activity against that plan;
- b) the audit outcomes informed the Annual Governance Statement;
- c) based on work undertaken in 2018/19 and previous work, the Head of Internal Audit's opinion was one of substantial assurance;
- d) risk management had become much more closely aligned to the Councils performance management, strengthening decision-making;
- e) as a direct result of the improved alignment of risk and performance, service and strategic directors had requested more complex internal audit work to be undertaken to help better understand issues and seek assurance;
- f) internal audit had focused on effectiveness of governance arrangements with contracts such as with Livewell Southwest regarding adult social care, and arrangements with Plymouth Energy Community.

The Committee **noted** that, based on work performed during 2018/19 and previous years' audit, the Head of Internal Audit's opinion was of "Substantial Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

29. **2018/19 Counter Fraud Annual Report**

Ken Johnson (Counter Fraud Services Manager) introduced this report and highlighted the following points:

- a) the risk of fraud was higher than ever before due to the broader national economic position;
- b) the notable achievements of the Counter Fraud team, included savings generated to the Council of approximately £1.4m through their work

The Committee thanked Ken Johnson for his and his team's hard work.

Action: Ken Johnson to brief the political groups on the work of the Counter Fraud team.

The Committee **noted** the 2018/19 Counter Fraud Annual Report

30. **Independent Members Recruitment Update (Verbal)**

Siân Millard, Oversight and Governance Manager, provided a verbal update on progress on recruitment for new independent members of Audit and Governance Committee and highlighted the following points:

- a) Per the Constitution, the Committee can have up to three independent members in its membership and quorum requires at least one independent member
- b) the two existing members are both long serving, and Mr Clarke had notified the Council of his intention to step-down at the end of his term of office in September 2019;
- c) a recruitment process was therefore underway for up to two additional independent members;
- d) following an extensive approach to advert two national recruitment websites, social media platforms and direct approaches, one application had been received;
- e) a panel comprising the Committee Chair, Vice-Chair and service Director for Finance would meet the candidate and make a recommendation for appointment to Council

Members discussed the relevance of professional qualifications to the recruitment process and the value that independent members bring in terms of different perspectives to the process of challenge.

The Committee **noted** the update provided on independent member recruitment and that the Panel would make a recommendation on appointment to Council.

31. **Awarding of contracts**

Councillors Tony Carson and Pete Smith let the room for this item due to declared DPs.

Linda Torney, Monitoring Officer, introduced the report and highlighted the following points:

- a) Cabinet had asked the Committee to provide some advice on its views on whether the Council should always take a consistent approach to tendering for services and announcing who has been successful in those bids;

- b) at present, the decision on approach was taken on a case-by-case basis;
- c) the problems that are sometimes encountered when awarding contracts at Cabinet, particularly in relation to live webcasts; and
- d) the options available thereof as set out in the report and the potential benefits and implications of each option.

The Committee discussed:

- a) whether the issue could be dealt with by putting in a range rather than the specific budget, that specific budgets should be advertised on a case-by-case basis and that officers should be trusted to make that determination in this regard;
- b) the courtesy and respect that should be extended to contractors if they are an existing provider and have been unsuccessful at re-tender;
- c) the option of providing guidance and principles as opposed to rigidity;
- d) the factors that might influence a decision to announce a contract award at Cabinet (e.g. scale and impact on the city)
- e) the need for the Committee to more fully consider the options set out in the report.

The Committee **agreed** to refer the report to its informal subgroup of elected-members for further consideration.

### 32. **Member Development Annual Report**

Councillor Pete Smith had declared a DPI and left the room for this item.

Siân Millard, Oversight and Governance Manager, introduced this item and highlighted the following points:

- a) member development comprises both internal and external training, web-based e-learning, briefings and written texts
- b) during 2018/19, 12 face-to-face training events were held
- c) the budget for member development was £2,000, of which £1,279 had been spent in 2018/19
- d) a refreshed induction for New Councillors had been introduced in 2018 with positive feedback, and the same model used for 2019
- e) the current position on training for 2019/20

Members discussed the training available to members of Audit and Governance Committee and the importance of the Committee as a body that should not be political

Members **noted** the 2018/19 Annual Report on Member Development.

### 33. **Work Programme**

The Committee was not quorate for this agenda item as both independent members had left the room.

Members discussed:

- the importance of having clarity on the work programme and content therefore to facilitate time for good questioning by Committee members;

- the value of a specific briefing session on the Annual Accounts prior to the first Committee meeting of the municipal year to allow more time to digest the documentation

The Committee **noted** the work programme and no amendments were proposed.