

MID DEVON DISTRICT COUNCIL

MINUTES of a **MEETING** of the **AUDIT COMMITTEE** held on 10 December 2019 at 5.30 pm

Present

Councillors

R Evans (Chairman)
Mrs C Collis, B A Moore, D F Pugsley,
A Wilce, J Wright and A Wyer

Also Present

Councillor

R M Deed

Also Present

Officers

Stephen Walford (Chief Executive), David Curnow (Deputy Head of Devon Audit Partnership), Joanne Nacey (Group Manager for Financial Services), Catherine Yandle (Group Manager for Performance, Governance and Data Security) and Sarah Lees (Member Services Officer)

45. **APOLOGIES**

There were no apologies for absence.

46. **DECLARATION OF INTERESTS UNDER THE CODE OF CONDUCT**

There were no interests declared under this item.

47. **PUBLIC QUESTION TIME**

Mr Nick Quinn, a local resident stated that, he was speaking to Agenda items 6 (Performance and Risk) and 8 (Internal Audit Report):

Firstly: In the Risk Report Appendix 6 there is a risk "*SPV – 3 Rivers – Failure of the Company*", in which the current Risk Likelihood is reported as high (4). One of the impacts of this risk is the inability of 3 Rivers to service and repay the loans from MDDC. Such an inability is already being reported!

A Financial Update Report has been given to the last Cabinet meeting and to all of the PDG's, which states that the 3 Rivers is likely to overspend on the St George's Court project by around £377,000. The report also states that the company have said that they are unlikely to be able to repay the Working Capital loan of £504,000 - within the promised timeframe.

Your Accountants are proposing to impair (or write-off) all this money – noting that "*this will have a real impact on the revenue account*".

It seems very odd to me that Audit Committee should not be given information about a situation with such a high financial impact or an up to date risk report reflecting this.

My questions are: Why is the situation not being reported to Audit Committee? and why has the Risk Likelihood factor not been set higher?

Secondly: At this Committee, last year, I asked about the loan of £750,000 that was made to 3 Rivers in March 2018. I was told that the loan was open-ended but would be repaid after the sale of the properties in the St George's Court development.

My question is: In the light of the reported 3 Rivers situation, is this loan still secure or also in danger of not being repaid?

Thirdly: In the Internal Audit Report covering the Property Development Company, Governance Review - showing improvements are still required. The text identifies two areas of risk to the primary objective of the company – which is to provide additional income for the Council.

Audit did not identify the selection of projects as a risk area, but I wonder whether they should have? At the last Cabinet meeting, when responding to questions about the proposed financial impairments, the Deputy Chief Executive said "*in the first year we have taken on the St George's Court scheme, there was obviously no profit on it. To be honest, if 3 Rivers had been offered it on a commercial basis, it would not have taken it. So we are delivering a project that the Council wanted to see done, that was likely to only break-even*".

My question is: If there was never any profit in the St Georges Court development and 3 Rivers would have refused it, if they could. Why was the company's prime objective put at risk by giving it this profitless project to complete?

The Chairman informed Mr Quinn that he would receive a written response to his questions in due course (attached to the minutes).

48. **CHAIRMAN'S ANNOUNCEMENTS (00:05:05)**

The Chairman had no announcements to make.

49. **MINUTES OF THE PREVIOUS MEETING (00:05:10)**

The minutes of the meeting held on 8 October 2019 were confirmed as a true and accurate record and **SIGNED** by the Chairman.

50. **MEETING MANAGEMENT**

The Chairman stated that he would be taking item 8 'Internal Audit Progress Report' as the next item of business.

51. **INTERNAL AUDIT PROGRESS REPORT (00:05:15)**

The Committee had before it, and **NOTED**, a report * from the Head of the Audit Partnership reviewing the progress and performance of Internal Audit.

It was the overall opinion of the internal auditor that, based on work performed during 2019/20 and their experience from the current year progress and previous years' audit, their opinion was one of 'Substantial Assurance' on the adequacy and effectiveness of the authority's internal framework.

The contents of the report were outlined with discussions taking place regarding the following:

- There were no material concerns within the core audits and no issues of fraud.
- The audit of Housing Benefits had identified that there were good controls in place. Internal auditors had assisted the external auditors with the subsidy claim for the first time this year. The final outcome report was awaited.
- The audit of the debtors area had identified it as of a 'Good Standard'. There had been some minor VAT issues but staff were working on that. The review of the debtors master file had identified areas of improvement.
- The audit of the 'Main Accounting' system had identified it as being of a 'High Standard'.
- Within the audit of the 'Property Development Company – Governance Review Follow Up' they were pleased to recognise the significant steps that had been taken to improve the control framework around the highest risk areas previously identified. However, improvements were still needed around the reporting and monitoring mechanisms, particularly with regard to how these were reported to the Cabinet and ultimately Council. Key performance indicators were not sufficiently clear at the present time to recognise the returns that projects might provide. The now quarterly shareholder meeting was recognised as a positive step forward for monitoring purposes.
- The meaning of 'impairment' was explained by the Group Manager for Financial Services and the external auditor as essentially being a mechanism to recognise a provision to cover the council should the loan not be repaid in full. This did not mean that the loan was being written off. The need for the impairment would be reviewed over the life of the project. The 3 Rivers accounts would show the loan at the full repayable amount whereas the outstanding loan on the council's balance sheet would reflect the possibility that a proportion would not be repaid. The requirement to consider an impairment over the life of loans had been brought in as a result on international accounting standards, IFRS 9, which has been updated in 2019/20. This could be reversed within the accounts when repaid.
- It was confirmed that formal reporting from 3 Rivers occurred every 6 months and the shareholders meeting occurred every quarter whilst the company itself performed their own monitoring on a monthly basis. This was now in place as a result of a previous audit. It was confirmed that there was continued effort to control risk and improve the management information leading up to any decision points where risk to the council could potentially be impacted or mitigated.
- The Chairman reminded everybody present that they were welcome at any time to knock on the door of the Development Company office to ask questions (whilst understanding the commercial sensitivities involved) and also to speak to the Cabinet Member for Housing.
- The shareholders would be meeting next week to discuss the details of the internal audit report.
- Audit work had been completed on the new on-line job evaluation system. Initial findings were that the system controls and evaluation methodology were sound and should ensure consistency through what is a nationally accepted standard of assessment.
- It was noted there was still an outstanding audit recommendation in relation to the Procurement area from 2018, this was in relation to the need for a

Corporate Procurement Strategy. Discussions were ongoing with regard to the usefulness of such a strategy.

Note: * Report previously circulated; copy attached to the signed minutes.

52. **PERFORMANCE AND RISK REPORT (00:41:15)**

The Committee had before it, and **NOTED**, a report * from the Director of Corporate Affairs and Business Transformation providing Members with an update on performance against the Corporate Plan and local service targets for 2019-20 as well as providing an update on the key business risks.

The contents of the report were outlined with consideration being given to the following:

- All performance indicators would need to be reviewed in light of the new Corporate Plan when it is approved by Council.
- The only request made by PDG's since the last Audit Committee had been from the Economy PDG to see an indicator which showed any changes in the trends on empty shops year on year.
- The need for health and safety risk assessments in relation to all service areas had been brought to the attention of all Group Managers.
- The need for the Council to demonstrate that it was compliant with all GDPR requirements would need to be factored for in all business plans for the following year.
- Risks in relation to the 'SPV – 3 Rivers' – it was confirmed that the Cabinet undertook the initial decisions in relation to the first project. It was also highlighted that the architect used for this had recently won a national architectural award. The audit committee's responsibility lay with it needing to be comfortable with the level of risk.
- Review notes and where associated information needed to be shown.

Note: * Report previously circulated; copy attached to the signed minutes.

53. **PROGRESS UPDATE ON THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN (00:58:26)**

The Committee had before it, and **NOTED**, a report * from the Group Manager for Performance, Governance and Data Security providing the Committee with an update on progress made against the Annual Governance Statement 2018/19 Action Plan.

The contents of the report were briefly outlined and it was explained that action point numbers two and three had had the completion dates amended. Since the Audit Committee had approved the original dates back in July, it was requested that it approve this revision. This was **AGREED**.

Note: * Report previously circulated; copy attached to the signed minutes.

54. **EXTERNAL AUDIT PROGRESS REPORT (01:00:45)**

The Committee had before it, and **NOTED**, a report * from Grant Thornton providing it with an update on progress in delivering their responsibilities as the Council's external auditors.

The following was highlighted within the report:

- Since the last Audit Committee they had begun planning for the 2019/20 external audit and they would be issuing a detailed audit plan setting out their approach at the next Audit Committee.
- Since the last meeting they had also certified the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions.

Note: * Report previously circulated; copy attached to the signed minutes.

55. **AN UPDATE IN RELATION TO THE ADDITIONAL FEES PROPOSED BY THE EXTERNAL AUDITORS (01:03:23)**

The following update was provided from Grant Thornton:

- The external auditors were not able to set these themselves and they needed to be ratified by the PSAA.
- Additional requirements were now placed on auditors with more work being expected of them across the sector.
- It was noted that some MDDC officers had raised concerns about these additional fees but any arbitration required would need to be conducted through the PSAA.
- The additional work required by external auditors would be set out within the proposals for their planned work at the next meeting.

56. **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING (01:07:58)**

It was noted that the meeting in January was only 6 weeks away and that not all the usual reports would have the necessary data available to be published in time. Therefore it was **AGREED** that the AGS update and the Internal Audit Progress Report would not come to the next meeting but that the following would:

- Performance and Risk
- External Audit Progress Report
- External auditors audit plan for 2019/20.

It was confirmed that the formal meeting would be followed by a short training session on fraud prevention for the Committee only.

(The meeting ended at 6.41 pm)

CHAIRMAN