

**DURHAM COUNTY COUNCIL**

**AUDIT COMMITTEE**

**AT A MEETING** of the **AUDIT COMMITTEE** held at the County Hall, Durham on **Friday 5 December 2008** at **11.00 a.m.**

**PRESENT**

**COUNCILLOR E Bell** in the Chair

Councillors Carr, J Robinson and Temple

Non Voting – Co-opted Members  
Mr T Hoban, Ms Larkin-Bramley

Apologies for absence were received from Councillor Ord

**A1 Minutes**

The Minutes of the Meeting held on 9 September 2008 were confirmed as a correct record signed by the Chairman, subject to the addition of “Following a comprehensive discussion” to precede the resolution in Minute No A3

Referring to the work of the Corporate Risk Management Group in relation to the failure to effectively implement an equality proofed pay structure under Single Status and Job Evaluation, the Committee was informed of how the officers continue on an ongoing basis to actively address these risks, including discussions with the Unions and external solicitors to reach an agreement that will remove a large number of the claims out of the Tribunal arena with a target date for December /January.

Councillor Robinson asked if there were any details regarding outstanding claims still with District Councils and was informed that the information provided was in respect of County Council employees. However, information relating to the district councils should have been fed through the workstream. Councillor Bell suggested that the issue should come forward to this Committee via the workstream as it may well become an issue for the Committee in the future. Councillor Temple indicated that only one district council had identified this issue as a major risk.

Ms Larkin-Bramley referred back to the Minutes and suggested that with reference to resolution 2 for Minute A4. It was necessary to arrange a date for a future meeting to discuss these risk issues and that a report should be presented to the committee. There

were a number of actions brought forward from the previous meetings that had not been dealt with.

It was agreed by the Committee that the Minutes of each meeting needed to be completed and circulated to the Committee as far in advance of the next meeting as possible. This is important so that Members can be reassured that action points are being dealt with and important issues can be expedited.

It was also agreed that there should be regular mid-term meetings to examine specific issues and any action points and that these meetings should be included in the County Council diary.

## **A2 Declarations of interest**

Ms Larkin-Bramley declared an interest in relation to the Statement of Accounts as an Independent Member of the Police Authority, a Governor of Durham Johnston School, and a Member of the County Durham Probation Board and as a lecturer at New College.

## **A3 The Work of Corporate Risk Management in relation to the Quarter Period July 2008– September 2008**

The Committee considered a report of the Head of Internal Audit and Risk Management on behalf of the Corporate Risk Management Group providing the Risk Management update report (for copy see file of Minutes).

As well as good management practice, the report also positively responded to the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment.

Risks relating to Local Government Reorganisation (LGR) were being managed within the LGR Programme and were distinct from the service and corporate risks of the County Council. Management assessed the risk of failing to implement the LGR programme as low.

At the end of September 2008, the major risks being managed were:

- Legal challenges on equal pay will potentially result in a significant financial cost to the Council. Management continue on an ongoing basis to actively address this risk.
- Failure to deliver the Building Schools for the Future programme within time and budget, with minimal disruption to service delivery. Risks are managed by the project team, and key risks are highlighted monthly to the project board.

- Failure to effectively implement the proposed Waste Management Contract. Risks are managed by the project team, and key risks are highlighted to the joint Member/ Officer Waste Management Contract project board.
- Failure to support well-being of workforce. Management continually monitor trends closely to establish if our strategies and interventions support reductions in absence.
- Failure to achieve successful implementation of new Financial Systems. The Oracle system has now gone live, and this risk will reduce considerably in likelihood if no significant problems occur in the post implementation period.

Whilst cost of fuel and energy is currently reducing, the volatility of the market remains and therefore this remains as a high risk for the foreseeable future.

The Committee also noted an emerging risk in the quarter July to September 2008, as the implications for local authorities of the current global financial crisis. There are no significant risks at present to the Council resulting from this, but Management continue to monitor the situation to identify and manage any risks as they arise.

The level of risk surrounding treasury management had also been re-examined. Based on the current policy in place, and the system of controls to ensure the policy is complied with, management assessed that the risk is still within an acceptable level.

Members expressed their concern at the lack of detail in the report and in relation to the information included in Appendix 3. Their main concern was how robust the controls are in identifying and dealing with the risks facing the County Council. They are particularly concerned about the main risks that will carry over from the District Councils to the County Council on vesting day.

Referring to Appendix 2, one of the key roles of the Audit Committee is to monitor the effective development and operation of risk management and overall corporate governance in the Authority. Whilst the Audit Committee is in place it now needs to determine how to carry out this role.

The Committee discussed issues relating to the loss of staffing in District Councils and the need for the new authority to have in place the details of the staff they would require after vesting day to resource the new Council. The Head of Internal Audit replied that these decisions would be made once the Heads of Service were in place and were able to determine their staffing needs

The Committee agreed that an officer report should be produced for the interim meeting in January and that this agenda would include:

- A workshop of risk management
- A report giving details on how much a risk the retirement of District Council staff will be for the new authority on vesting day

Other key elements of training required centred around the development of action plans, training around the statement of accounts and action points from the training day. Training on where the Audit Committee sits in relation to the Pension Fund Committee was also required.

The Head of Internal Audit agreed that in the light of observations from Members that both a Corporate Risk register and a Service Risk register should be made available. These ought to clearly identify the risk and detail the measures put in place to combat the risks and the committee be kept informed of the current position relating to the risks so that planning to combat the risk can be done at the earliest opportunity.

The committee also discussed the need for the County Council to be able to respond to the change in economic circumstances and the change on world market conditions.

**Resolved:**

- 1 That the Report be noted
2. That training events and additional meetings of the Audit Committee be held between the quarterly Audit Committee meetings and these be included in the County Council Diary.
- 3 A meeting be arranged in January to provide the committee with training on risk management.
4. The Corporate Risk Register and a service Risk register be made available to Members

**A4 Internal Audit interim progress report**

The Committee considered a report of the Head of Internal Audit and Risk Management (for copy see file of Minutes) about the work undertaken by Internal Audit between 01 April 2008 and 30 September 2008 and providing detail on the progress made against the annual audit plan for the financial year 2008/09.

Thus far 96 of the 259 Internal Audit assignments scheduled for the year have been progressed with managers to reporting stage during the six month period under review. Work on a further 39 areas has started.

Internal Audit have also confirmed that 831 of the 1,187 recommendations accepted by managers within 2007/08 have been updated with a total of 772 recommendations implemented and 59 revised and re-issued

Councillor Robinson suggested that the reports should include action dates which must be achieved and if the Service fails to achieve they must attend the next Audit Committee and explain why they have failed to do so or produce a report to that effect. In addition, it was suggested that five groups that rejected the recommendations should

also explain personally or produce a report to the Audit Committee explaining their reasons. Councillor Robinson said that they must change the mind set of people whereby, if they do not follow the recommendations, then they must demonstrate their reasons. The Head of Internal Audit responded that arrangements are in place so that if necessary they refer issues to Chief Officers for action.

The Head of Internal Audit informed the Committee that the District Councils had agreed to complete their Annual Governance reports by 31 March 2009 and not 30 June 2009 as previously expected.

The Head of Internal Audit reported that the new Oracle system will not be compatible with legacy District Council systems by vesting day. However, he informed the Committee that Oracle was developing well and to a tighter timetable than is traditionally the case but will not be in a position to make the jump on 31<sup>st</sup> March 2009, so a plan B he is needed. Councillor Temple indicated that this was risk 5 on the register and recorded as a moderate risk. Ms Larkin-Bramley was concerned that there may be a problem with the integration of the financial systems.

With reference to the IT systems, the Head of Internal Audit reported that significant steps had been made and there was some finalisation to be done. Policies and procedures were in place relating to IT security. Mr Hoban referred to the Governance report that contained six recommendations. The Head of Internal Audit replied that 2 relating to the payroll had be taken up and some on accounting would be acted upon and these would be part of the internal Auditors report.

**Resolved:**

That the recommendations in the Report be agreed.

**A5 External Auditors Progress Report**

The Committee considered the External Auditor's Progress Report presented by Catherine Banks (for copy see file of Minutes)

**Resolved:**

That the report be received.

**A6 Treasury Management**

The Committee considered a report by the County Treasurer on Treasury Management concerning local authority short term lending and borrowing (for copy see file of Minutes)

The County Treasurer informed the Meeting that Durham County Council had no money invested with Icelandic Banks and were not affected by this aspect of the Global Financial crisis. Durham County Council currently manages its treasury strategy in-

house. Councillor Temple expressed his satisfaction with the report and suggested that the conservative view we have taken may be best practice for the new authority.

The current policy which is kept under continual review is to generally borrow long term and lend short term. This equates to lending being for 364 days maximum and barrowing over 10 years. However this policy does create a risk in that we are unable to change positions quickly due to the penalties incurred.

**Resolved:**

That the report be noted