

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 2 - County Hall, Durham on **Tuesday 31 July 2018 at 10.00 am**

### **Present:**

**Councillor E Bell (Chairman)**

### **Members of the Committee:**

Councillors J Rowlandson (Vice-Chairman), J Carr, J Clark, J Robinson, J Shuttleworth and O Temple

### **1 Apologies for absence**

Apologies for absence were received from Councillors C Carr, S Robinson, Mr C Robinson and Mr I Rudd

### **2 Minutes**

The minutes of the meeting held on 29 June 2018 were confirmed as a correct record and signed by the Chairman.

Councillor Temple was advised that information on local public account committees would be reported back to Committee when finalised.

The Finance Manager – Strategic Finance referred to Item 9 of the minutes on pages 5 and 6 and reported that the Statement of Accounts were for the year ended 2018 and not 2017.

With reference again to Item 9 the Finance Manager – Strategic Finance reported to Councillor Temple that the government's revaluation of business rates in April 2017 had had an impact on income and this was shown in the business collections rates. She confirmed that money was received via the S31 grant funding and top up payments.

### **3 Declarations of interest**

Declarations of interest were provided by Members of the Committee. A general declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillors and bodies such as the Fire Authority.

#### **4 2017/2018 Final Outturn for the General Fund and Collection Fund**

The Committee considered a report of the Corporate Director of Resources which provided details of the final outturn for the General Fund and Collection Fund 2017/18 (for copy see file of minutes).

The Corporate Director of Resources reported that there were budget pressures in Children and Young People's services and the Council would be lobbying the government as this was a national issue.

The Committee were informed that the Council was in a positive position despite significant pressures and were delivering on savings.

Councillor Shuttleworth asked for a breakdown of land sales and the Corporate Director of Resources would look into this for him.

**Resolved:**

That the report be noted.

#### **5 Treasury Management Outturn 2017/2018**

The Committee considered a report of the Corporate Director Resources which provided details of the Annual Treasury Management Review and final outturn on treasury management activities for 2017/18 (for copy see file of minutes).

The Corporate Director of Resources reported that the total net debt was at £119m with total borrowing at £290m. To take advantage of the low interest rates £35m had been taken out in new loans. Investments had been made in line with the CIPFA code of practice and balances had been managed well. The Committee were informed that commercial opportunities were being explored.

Councillor referred to the investments not being longer than 364 days and as the Council had reserves in excess of £200k would we not be in a position to take the higher rate options on investments by looking for a longer term. The Corporate Director of Resources assured the Committee that he was looking at this as an option but there needed to be some certainty before taking those kind of risks.

With regards to the vehicle lease Councillor Robinson raised concerns about the amount of money being spent on this area. The Corporate Director of Resources explained that this was the most cost effective option for the size of the fleet required.

In response to a further question from Councillor Robinson about risks on companies such as Carillion, he was advised that there was nothing to report in relation to other major construction companies at this time however the market was being monitored at all times.

**Resolved:**

That the report be noted.

## **6 Audit Completion Report 2017/2018 - Durham County Council**

The Committee considered a report of the External Auditor which asked Members to note the contents of the External Auditor report on the audit of the statement of accounts for the County Council for the year ended 31 March 2018 (for copy see file of Minutes).

Mr M Kirkham, Mazars introduced the report and was pleased that all deadlines on the conclusion of the accounts with the statutory two month earlier close down had been met. The accounting standards were still at the high standard despite the earlier deadline and he acknowledged the achievements made by management and officers.

Mr Collins, Mazars highlighted the audit work carried out in relation to the completion of the accounts. He advised that assurances had been received regarding the significant risks. Information regarding property valuations has been challenged and work was ongoing with the Assets team and the assumptions used. With reference to the internal control recommendations Mr Collins highlighted that some leavers still had system access however checks had confirmed that the networks or business critical systems had not been accessed. He reported on the unadjusted misstatements and adjusted misstatements.

Referring to the valuation of assets Councillor Shuttleworth enquired as to the value of the Laurel Building at Bishop Auckland as he was aware a lot of money had been spent on this and it was standing empty. He asked how this was valued. The Head of Planning and Assets confirmed that this was a listed building and therefore a different market was required. He confirmed that it did have an asset value together with the land around it. He report back at a later date with progress. Councillor Shuttleworth requested an update on costs from 2013 onwards.

The Chairman said that he was disappointed that the significant risk for the accounts not to be closed off early last year was due to planning and asset services as the floor space had not been correctly assessed or missed. He was assured that Internal Audit had been involved and had carried out further work with the service to ensure this did not occur in the future and that this was a credit to all those that had worked hard. He referred to the significant risks highlighted within this report about the valuation of property and was again disappointed that this had not been picked up by management. He said that this was not an isolated incident and referred to the Windlestone Hall issue and the weaknesses that had been highlighted following that investigation about the service. He stated that the Committee would expect assurances going forward and would be monitoring the situation.

The Head of Planning and Assets accepted that the Committee required assurances and he advised that the service were working very closely with Internal and External Audit. With regards to the management side he informed the Committee that they would be undertaking a Corporate Review of all Assets with the assistance of CIPFA who had carried a review on best practice and the best way forward. The review would assist in understanding what assets we held and why. A report would be prepared in the next few months and changes would be

implemented by 1 April 2019. A new structure would be in place by then with new ways of working and a new culture in place.

He went on to explain that with regards to last years accounts the service had worked very hard with the Audit team to implement all of the recommendations and had made a number of strategic changes.

Referring to this years accounts he explained that the issue was raised in February/ March after the assets were re-valued. Durham had a large portfolio and the change following the re-assessment was plus 13%. This issue was not unique to Durham and many other Councils had contacted Durham asking how they were dealing with the changes. He was also disappointed but assured the Committee that the service were working with CIPFA and Internal and External Audit and he was happy to come back in respect to the changes being introduced within the service.

The Chairman said that focus should be on Durham County Council and how we could resolve issues. He sought assurances that this would stop occurring and expected to see improvements on how it would be corrected. He accepted the assurances given today but said that he would expect future updates to Committee.

In respect to Windlestone Hall Councillor Shuttleworth said that this was raised back in 2012 when the service was not working as it should be. He would have expected it to be running smoothly by now.

Councillor Temple asked when the query was first raised by External Audit. Mr Collins responded that following a report by Gerald Eves, Independent Valuer, there were two stages. The first stage was reported in March/ April time when the initial queries had been raised and then again in early June. Councillor Temple commented that the team therefore had from March to June to work on this and correct it before the accounts were finalised and he was concerned about this.

**Resolved:**

That the information contained in the report, including the summary of misstatements detailed in section 4 of the report, be noted.

**7 Audit Completion Report 2017/2018 - Pension Fund**

The Committee considered the Audit Completion Report of the External Auditor relating to Durham County Council Pension Fund for the year ended 31 March 2018 (for copy see file of Minutes).

Mr M Kirkham, Mazars introduced the report and commented that officers were working to very high standards on the production of these accounts.

Ms S Liddle, Mazars presented the report to the Committee and circulated a letter for the information of the Committee which provided an update on outstanding matters and conclusions reached on the audit since the report was circulated (for copy see file of Minutes). She advised that there had been very little change in material circumstances, 1 unadjusted misstatement relating to a timing issue in

market value and investments, and 1 adjusted misstatement about management expenses

Councillor Shuttleworth referred to the recommendation to strengthen internal controls and was advised that Internal Audit would be picking up this.

**Resolved:**

- (i) That the adjustments to the financial statements be noted.
- (ii) That the letter of representation be approved

**8 Governance Statement for the year April 2017 to March 2018**

The Committee considered a report of the Corporate Director of Resources which sought approval of the final Annual Governance Statement (AGS) to be published as part of the Council's audited Statement of Accounts 2017/2018 (for copy see file of Minutes).

**Resolved:**

That the final AGS included at Appendix 2 of the report, be approved.

**9 Statement of Accounts for the year ended 31 March 2018**

The Committee considered a report of the Corporate Director of Resources which sought approval of the Statement of Accounts for the Council for the financial year ended 31 March 2018 (for copy see file of Minutes).

The Finance Manager – Strategic Finance reported that this was the second stage of the process that included the Pension Fund accounts. A small number of changes had been made since the June 2018 meeting and the significant errors had been reported by Mazars however the outturn position as reported when presenting the draft accounts had remained the same.

The Chairman congratulated the team for preparing the accounts in a timely manner.

**Resolved:**

That the Statement of Accounts for the Council for the financial year ended 31 March 2018, be approved.

**10 Strategic Risk Management - Progress Report for 2018/19: Review 1 January 2018 - 31 May 2018**

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were no new risks and he highlighted the reduced risk of educational provision.

Councillor Temple commented that the County Durham Plan was not featured and thought that this would be a bigger risk this time. The Risk, Insurance and Governance Manager assured the Committee that this was in the process of being assessed.

Referring to the reduced risk Councillor Robinson said that all schools were worried about the school funding formula. The Risk, Insurance and Governance Manager confirmed that this was being discussed and the Corporate Director of Resources added that the Council would be lobbying the government on this issue following the school summer break. He said that this was more to do with resourcing and the future funding for schools.

**Resolved:**

That the report provides assurance that strategic risks were being effectively managed within the risk management framework across the Council.

**11 Fraud Response Plan**

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that sought to review and approve the revised Anti Money Laundering Policy (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager confirmed that the policy was reviewed annually and brought to committee to highlight any changes.

**Resolved:**

That the revised Anti Money Laundering Policy be approved.

**12 Anti-Money Laundering Policy**

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that provided an update on changes to the Anti Money Laundering Policy (for copy see file of Minutes).

The Chairman thanked the team for their achievements of claiming back £3m from fraudulent gains.

**Resolved:**

That the contents of the report be noted, and the policy be approved.

**13 Work of the Audit Committee September 2017 to August 2018**

The Committee considered report of the Audit Committee which covered the period September 2017 to August 2018 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

**Resolved:**

That the draft report be agreed and reported to the meeting of the County Council being held on 19 September 2018.