

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1B - County Hall, Durham on **Thursday 29 November 2018 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

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

Co-opted Members:

Mr C Robinson and Mr I Rudd

1 Apologies for absence

There were no apologies for absence.

2 Minutes

The Minutes of the meeting held on 30 September 2018 were confirmed as a correct record and were signed by the Chairman.

3 Declarations of interest

Declarations of interest were provided by Members. 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 IFRS Update - Presentation from Finance Manager, Commercial, Capital & Treasury

The Committee received a presentation from the Finance Manager – Commercial, Capital and Treasury which gave details of the introduction of 2 new accounting standards; IFRS 9 – Financial Instruments and IFRS 16 - Leases (for copy see file of Minutes).

IFRS 9 affected contracts relating to financial assets and liabilities, and equity instruments, and the Officer explained the impact the changes would have on accounting statements and the balance sheet. Three classifications would be required in future; amortised cost, Fair Value through Other Comprehensive Income

and Fair Value through Profit and Loss and these were determined by the application of 2 tests (business model test and cash flow test).

The treatment of financial liabilities and most financial assets would be largely unchanged. The key areas of change would be for investments and equity instruments, and impairment losses.

Councillor Clark referred to future losses which would be charged to revenue each year and asked what the implications would be if losses were over-estimated. The Officer informed the Member that losses were estimates and any that were over-estimated would be reviewed in the following year's accounts. The new standard required the Council to be forward looking, as opposed to charges to revenue as losses were incurred.

Mr Robinson asked at what point classifications would be determined, and was informed that this would be completed before the end of year accounts were finalised, and on an asset by asset basis.

IFRS 16 introduced a new type of asset to be shown in the balance sheet – Right of Use Assets. These were assets that were owned by others and dedicated by them or the Council to provide services to the Council and only the Council, through a contract, and that were significant in value and lasted more than a year. Members were informed of action required for the new standard which included an exercise to identify Right of Use assets and make arrangements to manage and account for those assets going forward. The Council was in a good position as it already accounted in this way for vehicles, plant and equipment under finance leases and PFI.

In response to questions from Councillor Carr, Members were informed that there would be no impact upon the leases for the Council's vehicles as they were already accounted for as if they were finance leases. The waste management contract appeared to be a service and would only be brought under the new rules if there was an identifiable asset being used.

Following a query from Mr Rudd, the Officer advised that the new standard did not require previous year balances to be presented.

Following discussion it was **Resolved:**

That the information given be noted and the Committee be kept informed of developments.

5 Transformation Overview - Presentation from Head of Transformation

The Committee received a presentation from the Head of Transformation which gave an overview of the Council's Transformation Programme (for copy see file of Minutes).

The presentation highlighted the following:

- Programme Objectives
- Work to Date
- Inspiring Change Projects to date and coming up
- Inspiring People Projects to date and coming up
- Inspiring Places Projects to date and coming up.

In conclusion the Officer advised that an integrated programme of change was underway with a renewed focus on Organisational Development implemented through cultural change and learning and development, and investment in new digital systems, including an increase in services available on-line. A programme of reviews of business processes were in the pipeline and proposals for the modernisation of Council premises and the new headquarters were underway.

Mr Robinson stated that from the Committee's perspective it was very important that the Programme could quantify what it was trying to achieve. He asked if this was a value for money exercise and how its success would be measured. Mr Robinson also noted that efficiencies identified in local government reorganisation in 2009 were not materialised and hoped that the Council would not be in a similar position at the end of the Transformation Programme. The Head of Transformation responded that austerity had affected the Council's ability to realise those efficiencies; savings required through austerity had outweighed the savings identified in the unitary bid by 10 to 1. The Programme's primary aim was to provide the best possible service to residents with the resources available. Local government had been dealing with austerity since 2011 and there had been a shift in focus towards how the Council used its resources. Each project was examined against a benefits assessment, and a key measure of success would be the achievement of a reduction in expenditure without a detrimental impact on service delivery.

Councillor Temple expressed concern that there was no reference to Derwentside and Teesdale within the projects outlined in the presentation. The Member was informed that the presentation intended to provide an overview of the Programme and assured the Member that how services were provided in the localities was being explored.

Councillor Bell noted proposals for the investment in digital systems including increased on-line services, and was assured that residents would continue to be able to access services by other channels.

Resolved:

That the information given be noted.

6 External Audit Progress Report - November 2018 - Report of External Auditor

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

Mr Collins of Mazars informed the Committee that planning of the 2018/19 audit had commenced and that the Audit Strategy Memorandum would be presented to the next meeting.

Members were informed that work on the Council's Housing Benefit Subsidy claim had now been completed and there were no issues to bring to the Committee's attention.

In terms of national publications Mr Collins referred the Committee to Mazars Annual Regulatory and Compliance Report 2017/2018.

Resolved:

That the contents of the report be noted.

7 Local Code of Corporate Governance - Report of Corporate Director of Resources

The Committee considered a report of the Corporate Director of Resources which asked the Committee to recommend to the Council the inclusion of the Local Code of Corporate Governance into the revised Constitution following an annual review (for copy see file of Minutes).

Resolved:

That the Council be recommended to include the Local Code of Corporate Governance into the revised Council Constitution.

8 Strategic Risk Management - Progress Report for the quarter ended 30 September 2018 - Report of the Corporate Director of Resources

The Committee considered a report of the Corporate Director of Resources which highlighted the strategic risks facing the Council and which gave an insight into the work carried out by the Corporate Risk Management Group between June and September 2018 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were 26 strategic risks and highlighted the key changes in the quarter. Members were informed of new risks, and in particular 2 new risks in Children and Young People's Services which related to the impact of the volatile and high-cost, demographic demands of looked after children, and secondly, the impact of increasing demand on the Dedicated Schools Grant budget for High Needs Block special educational needs services.

Mr Rudd referred to the risk 'major interruption to IT Service Delivery' and asked if the risk of cyber attack was taken into account. Members were informed that the risk schedule contained information about key risks, and the risk of cyber attack had been assessed as low because of the levels of controls in place. For information Members were informed that the electrical upgrade works would hopefully be completed the following week.

Councillor Robinson asked if work had been carried out to assess the risk of Brexit, particularly given the recent announcement regarding a proposed 'deal'. The Member was informed that this had been identified as an emerging risk and monitored at senior level but to date there had been no tangible proposals that could be risk managed. A Working Group had now been set up and the implications of Brexit would be included in future risk management reports to the Committee.

Resolved:

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

9 Internal Audit Progress Report for the quarter ended 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager

The Committee considered the report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2018 to 30 September 2018 as part of the 2018/2019 Internal Audit Plan (for copy see file of Minutes).

The Audit and Fraud Manager highlighted progress against the Plan for each Service Grouping, and informed Members of the amendments to the Plan and the unplanned audit reviews in the quarter. The report also provided a summary of progress on actions due, implemented and overdue, and finalised audits that had been issued with a limited assurance opinion. The results of a customer satisfaction survey issued during the period up to 30 September 2018 were provided.

Resolved:

That

- (i) the amendments made to the 2018/2019 Annual Internal Audit Plan be noted;
- (ii) the work undertaken by Internal Audit during the period ending 30 September 2018 be noted;
- (iii) the performance of the Internal Audit Service during the period be noted;
- (iv) the progress made by service managers in responding to the work of Internal Audit be noted.

10 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

11 Internal Audit Progress Report for the quarter ended 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manager

The Committee considered the report of the Chief Internal Auditor and Corporate Fraud Manager which presented the appendices in the Internal Audit Progress Report referred to in Part A of the Agenda (for copy see file of Minutes).

Members were advised that there were 3 audits finalised in the quarter that had been issued with a limited assurance opinion.

The Committee received an update and assurance from the Procurement Manager on outstanding actions from a follow-up audit.

Resolved:

That the content of Appendices 6 and 7 be noted, and the actions taken in respect of the overdue areas, be agreed.

12 Protecting the Public Purse - Activity Update as at 30 September 2018 - Report of Chief Internal Auditor and Corporate Fraud Manger

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity as at 30 September 2018 (for copy see file of Minutes).

Following a question, Members were advised that the value of individual insurance frauds had not been included in previous reports to the Committee, however the feasibility of providing this information at future meetings would be explored.

The Chairman advised that the Corporate Fraud Team had been put forward for a CIPFA award to reward their success. The Chairman conveyed the Committee's appreciation to the Team for the work they carried out.

Resolved:

That the recommendations contained within the report be approved.