

# DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Council Chamber, County Hall, Durham** on **Wednesday 30 June 2021 at 9.30 am**

**Present:**

**Councillor A Watson (Chair)**

**Members of the Committee:**

Councillors B Avery, A Jackson, M Johnson, M McGaun, R Ormerod and T Smith

**Co-opted Members:**

Mr C Robinson and Mr I Rudd

## **1 Apologies for absence**

Apologies for absence were received from Councillors Fenwick and Kellett.

## **2 Minutes**

The Minutes of the meeting held on 25 February 2021 were confirmed as a correct record and would be signed by the Chair.

## **3 Declarations of interest**

There were no declarations of interest.

## **4 Quarter 4 2020/21 Health, Safety and Wellbeing Performance Report**

The Committee received a report from the Occupational Health and Safety Manager that provided an update on health, safety and wellbeing performance for quarter four of 2020/21 (for copy see file of Minutes).

The Occupational Health and Safety Manager highlighted the key areas of the report including:

- COVID 19 Update
- Consultation/communication
- Fire Incidents
- Fire Inspections

- Enforcement Body Intervention & significant incidents
- Waste Transfer Stations
- Employee Health and Wellbeing
- Occupational Health Service
- Employee Mental Health and Wellbeing
- Potentially Violent Persons Register (PVPR)
- Corporate Health and Safety Risks

**Resolved:**

That the report be noted.

## **5 Internal Audit Progress Report Period Ended 31 March 2021**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which informed Members of the work that had been carried out by Internal Audit during the period as part of the 2020/21 Internal Audit Plan (for copy see file of Minutes).

The Audit 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 the survey response rate, progress on actions due, implemented and overdue, and the finalised audit that had been issued with a limited assurance opinion. Despite the challenges faced by all services due to the pandemic, 70% of all audits had been delivered as at 31 March 2021, with one limited assurance audit opinion delivered within the quarter.

**Resolved:**

That the report be noted.

## **6 CIPFA's Financial Resilience Index**

The Committee considered a report of the Corporate Director Resources which provided a brief overview of CIPFA's Financial Resilience Index and how Durham County Council compares to neighbouring authorities and other unitary authorities (for copy see file of Minutes).

The Finance Manager - Revenues, Pensions and Technical Accounting explained that the index highlighted where scrutiny may be required and went on to say that there were no areas of major concern for Durham, with the Council scoring well against all measures.

**Resolved:**

That the report be noted.

## **7 Compliance with CIPFA Financial Management Code**

The Committee considered a report of the Corporate Director of Resources (Interim) which provided information about the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code also sets for the first time, the standards of financial management for local authorities (for copy see file of Minutes).

The Finance Manager - Revenues, Pensions and Technical Accounting highlighted the underlying principles, the seventeen FM Code standards and the three improvement opportunities identified.

In relation to the Peer Review improvement proposals, Mr Robinson asked how this would be judged, what criteria would it be measured against and whether there would be a negative or positive outcome. The Finance Manager explained that there would be no positive or negative answer / rating given. A member of staff from the other authorities Finance Team would look at the best practice requirements and highlight any issues based on the evidence supplied to them and their own experiences of the approach taken elsewhere. It would be then up to the authority to take on board those observations. The Corporate Director of Resources (Interim) elaborated further in that the recommended best practice elements of the CIPFA Code were to have a peer review of arrangements in place. Internal Audit provided a level of independence on current practices and their review this year had been useful in giving some assurance over our arrangements but the third party external peer review, although not compulsory, was good practice and an opportunity to share ideas and learn better ways of working. The seven local authority areas of LA7 had an agreement to review each other's arrangements, providing a sector led improvement approach.

### **Resolved:**

That the report be noted.

## **8 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2021**

The Committee considered a report of the Corporate Director of Resources (Interim) regarding whether the Council should be considered as a 'going concern' organisation and whether the Council's Annual Accounts should be prepared on that basis (for copy see file of Minutes).

Mr Rudd referred to the historical position of the net assets set out in the report, which showed that these had reduced from £230 million to £30 million - largely due to technical accounting issues relating to the Pension Fund. He

asked if this depreciated further would it lead to a negative position. In response, the Finance Manager - Revenues, Pensions and Technical Accounting explained that the net assets reduced due to an increase in the pension liability which is calculated by the Pension Fund actuary, but that the way in which the pension liability has to be funded according to statute, is different to the way in which it has to be accounted for. The liabilities have increased this year due to the change in assumptions used by the actuary in estimating the figures for the accounts.

Mr Rudd suggested that a better position would be to show the reserves rather than the net assets. The Corporate Director of Resources (Interim) provided an assurance that he had no concern about the net asset position as reported and how it had changed, with nothing in the reduction that would concern him, as the section 151 officer, in terms of judging the authority as a going concern.

**Resolved:**

- (i) That the Council should be considered as a going concern.
- (ii) That the Statement of Accounts should be prepared on that basis.

## **9 Annual Review of the Effectiveness of Internal Audit 2020/21**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which provided members with the opportunity to comment of the Annual Review of the System of Internal Audit (for copy see file of Minutes).

**Resolved:**

That the findings and conclusions of the 2020/2021 review of the effectiveness of the system of Internal Audit contained within this report be noted.

## **10 Protecting the Public Purse Annual Report 2020/21**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which presented the Protecting the Public Purse Update Report for 2020/21 (for copy see file of Minutes).

The report provided an update on the following:

- The work of the Corporate Fraud Team;
- Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation;
- Reported cases of potential fraud and irregularity reported during 2020/2021;

- Proactive Counter Fraud work completed;
- Progress on the Council's participation in the National Fraud Initiative (NFI) 2020/2021;
- Fraud Reporting;
- Fraud Training;
- Covid-19 Frauds;

In response to a question from Councillor Ormerod, the Chief Internal Auditor and Corporate Fraud Manager (Interim) confirmed that the Blue Badge fraud was mainly the abuse of others using the badge.

Mr Rudd asked if the team were working with the DSS and if an employee had protection via the whistleblowing policy. The Chief Internal Auditor and Corporate Fraud Manager (Interim) confirmed that the team did work with the Department for Works and Pensions in terms of any fraud identified in relation to Housing benefit and other welfare benefits. He also confirmed that there was a level of protection for employees in the whistleblowing arrangements that were in place and communicated / promoted to staff and members.

**Resolved:**

That the contents of the report be noted.

## **11 Annual Internal Audit Opinion and Internal Audit Report 2020/21**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which provided the Chief Internal Auditor and Corporate Fund Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment and presented the Annual Internal Audit Report for 2020/21 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager (Interim) confirmed that despite the challenges faced due to the pandemic he had was satisfied that sufficient work had been undertaken by the Internal Audit Team and from assurance he had received from other means to draw a conclusion that he could give a moderate overall assurance opinion for 2020/21.

Mr C Robinson referred to the limitation on overall controls, asking if the issue was the soundness of the control structure in place or the effectiveness of officers in adhering to and operating within the controls that are in place. The Chief Internal Auditor and Corporate Fraud Manager assured him that overall the Council has effective systems of internal control in place, although working from home was more of risk it was not over exposed. Financial systems testing gave the assurances that they were operating in the way expected and therefore the issues were more to do with compliance rather than systematic issues, though some improvements can always be made.

Mr Robinson asked if there was anything that could be done to raise the level of compliance and was advised that the incidents were isolated but were actioned.

The Corporate Director of Resources (Interim) further explained that it was an ongoing challenge and that it was fundamental for the council to hold people to account and seek assurances from the internal review and that the Audit Committee had a key role to play here. The report in Part B would provide further assurance about how officers were held to account on a limited assurance review of Fuel Cards and he assured members that this was mainly about compliance in some areas and from some officers rather than a systematic underlying problem within the council.

**Resolved:**

- (i) That the content of the Annual Internal Audit Report for 2020/2021 at Appendix 2 be noted;
- (ii) That the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's internal control environment for 2020/2021 be noted.

## **12 Compliance with International Auditing Standards**

The Committee considered a report of the Chair of the Audit Committee which advised Members of a response that had been prepared relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards (for copy see file of Minutes).

**Resolved:**

That the response be noted.

## **13 Draft Annual Governance Statement 2020/21**

The Committee considered a report of the Corporate Director of Resources (Interim) which sought approval of the draft Annual Governance Statement (AGS) for 2020/21 (for copy see file of Minutes).

The Principal Risk and Governance Officer reported on the draft Annual Governance Statement to accompany the draft set of accounts, and noted that a final Annual Governance Statement would follow with the final set of accounts, adding that there would only be changes should any material issues be identified in the intervening period until the final accounts were approved. He highlighted that the governance systems were adapted during the year because of the impacts of Covid-19, including new ways of working and changes to 'business as usual' activities. This was set out in the statement.

A progress update on the significant governance improvements identified in the AGS last year were noted in the statements together with details of the governance improvements outlined for the coming year.

**Resolved:**

That the draft Annual Governance Statement to be approved.

#### **14 Draft Statement of Accounts for the year ended 31 March 2021**

The Committee considered a report of the Corporate Director of Resources (Interim) which presented the Statement of Accounts for the year ended 31 March 2021 (for copy see file of Minutes).

The Finance Manager - Revenues, Pensions and Technical Accounting reported that as a consequence of Covid-19 the deadlines associated with the draft Statement of Accounts had been extended to 31 July 2021, and the deadline for publication of its final, audited accounts was 30 September 2021. She explained the key points as set out within the report relating to the four core statements, the movement in the general reserves, earmarked reserves and the Pension Fund net assets. The draft Statement of Accounts was available for inspection by the public from 1 July 2021 until 11 August 2021 and the external audit process had already begun with no major issues raised or expected at this stage.

Accordingly, it was expected that the final statement of accounts for 2020/21 would be presented for approval at the Audit Committee meeting planned for September 2021.

The Corporate Director of Resources (Interim) placed on record his thanks to the Finance and other teams plus the Risk teams for pulling together the draft accounts and supporting statement in such a challenging time.

**Resolved:**

That the Draft Statement of Accounts for the County Council for the financial year ended 31 March 2021 be noted.

#### **15 Internal Audit Charter, Strategy and Plan 2021/22**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which submitted for approval the revised Internal Audit Strategy, Charter and Internal Audit Plan for 2021/2022 (for copy see file of Minutes). Minor changes only had been made to these documents.

**Resolved:**

(i) That the Internal Audit Strategy be approved.

- (ii) That the Internal Audit Charter be approved.
- (iii) That the Internal Audit Plan be approved.

## **16 Exclusion of the public**

### **Resolved:**

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 2 and 3 of Schedule 12A to the said Act.

## **17 Internal Audit Progress Report Period Ended 31 March 2021**

The Committee considered Appendices 6 and 7 of the report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

The Audit Manager highlighted in detail the context and findings of the review of Fuel Cards and explained the underpinning reasons for the limited assurance given in this review.

The Head of Environment and Head of Transactional Services attended to provide the Committee with an update on the actions that had been implemented following the limited assurance opinion given and to provide assurance that the actions implemented and the controls that had been strengthened would address the issues highlighted. Both gave thanks to the Internal Audit Team for their work in this area and welcomed a follow-up review within the next six months at which it was expected that the Audit Committee would receive independent assurance these matters had been addressed to.

### **Resolved:**

That the report be noted.

## **18 Protecting the Public Purse - Annual Report 2020/21**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager (Interim) which presented the Protecting the Public Purse Update Report for 2020/21 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager referred Members to the cases of potential internal fraud reported and the ongoing investigations.



**Resolved:**

That the report be noted.