

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Committee Room 2, County Hall, Durham** on **Friday 30 June 2023 at 9.30 am**

Present:

Councillor A Watson in the Chair

Members of the Committee:

Councillors L Fenwick (Vice-Chair), P Heaviside, B Kellett and T Smith

Co-opted Members:

Mr C Robinson and Mr I Rudd.

Apologies:

Apologies for absence were received from Councillor Angela Hanson and Councillor Douglas Oliver

Prior to commencement of formal business, the Chair advised the Committee of a proposed change to the agenda order. It was proposed that Items 9 and 10 be considered before items 7 and 8, which was agreed by the Committee.

1 Apologies

Apologies for absence were received from Councillor Angela Hanson and Councillor Douglas Oliver.

2 Minutes

The minutes of the meeting held on 23 May 2023 were agreed as a correct record and signed by the Chair.

3 Declarations of interest

There were no declarations of interest.

4 Annual Review of the System of Internal Audit 2022/23

The Committee received a report from the Corporate Director of Resources which provided Members with the opportunity to comment on the Annual Review of the System of Internal Audit (for copy see file of minutes).

Resolved:

That the findings and conclusions of the 2022/23 review of the effectiveness of the system of Internal Audit contained within the report be noted.

5 Annual Internal Audit Opinion and Internal Audit Report 2022/23

The Committee received a report of the Corporate Director of Resources which provided the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment, risk management and corporate governance arrangements and presented the Annual Internal Audit Report for 2022/23 (for copy see file of minutes).

Responding to a query from Councillor B Kellett regarding the overall assurance opinion, the Corporate Director of Resources referred to the four levels of assurance opinions that could have been issued and explained that the moderate assurance opinion showed that sound systems of internal control were in place and that this was considered to be a fair judgement in his view. A substantial rating would mean that there were no control weakness across all activities which was unrealistic for a large and complex authority. It was noted that the opinion was the professional independent opinion of the Chief Internal Auditor and Corporate Fraud Manager. It was viewed as a strong moderate assurance opinion, given that all key financial systems had been issued with substantial assurance opinions, which was a very strong and positive position to be in.

Mr C Robinson agreed that the assurance opinion was a fair representation in his opinion and that he thought it would be impossible to get a full compliance of internal controls in all areas with no weaknesses. Mr Robinson went on to say that he took assurance that the major key systems were provided with a substantial opinion and acknowledged that there were always new areas that were being development.

The Corporate Director of Resources advised that the Internal Audit Plan was over a five year period with some elements reviewed once every five years, however key systems reviews were undertaken annually. It was noted that in order to provide a substantial assurance, every aspect of council

function would have to be given substantial assurance and would have to be reviewed every year, which was unrealistic.

Mr I Rudd noted there was duplication in relation to the Annual Review of the System of Internal Audit and the Annual Internal Audit Opinion and Internal Audit report and asked if there was a statutory requirement to have the reports separate. The Corporate Director of Resources advised that there was no statutory requirement to have separate reports, however there were two separate actions and it was clearer to keep the reports separate.

In response to a comment regarding Internal Audits services to external customers and the issues with recruitment and retention, the Corporate Director of Resources advised that the service had prioritised internal audit coverage for the Council and services to Town and Parish Councils had ceased from April 2023. Support had been provided to help Town and Parish Councils procure Audit services from private sector providers. It was noted that following the recent restructure and recruitment exercises that followed, it was expected that the Internal Audit and Fraud Teams would have a full complement of staff from July 2023 - for the first time in a number of years.

Resolved:

- (i) That the content of the Annual Internal Audit Report for 2022/2023 at Appendix 2 be noted;
- (ii) That the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's governance, risk management and internal control environment for 2022/2023 be noted.

6 Protecting the Public Purse Annual Report 2022/23

The Committee received a report of the Corporate Director of Resources which provided details of the work carried out by the Corporate Fraud Team during the period 1 April 2022 to 31 March 2023 (for copy see file of minutes).

It was noted that there had been a reduction in council tax fraud cases following the implementation of a procedural change which included a continual review of Single Person Discounts. Reviews and cross checking was undertaken on a monthly basis which identified claimant errors or fraud much quicker and allowed corrective action to be implemented.

Responding to a query from Councillor B Kellett regarding the 65% increase in fraud cases, the Fraud Manager advised that the way fraud cases were accounted for had been changed and that this, plus the cost of living crises, had contributed to the increase. He added that tenancy investigations were

no longer taken into account, and that the council investigations now referenced probable fraud cases. He suggested that the increase would be temporary and would settle down next year.

Responding to queries from Mr I Rudd regarding the irregularity fraud listed on Appendix 2 and Covid related fraud, the Fraud Manager explained that the irregularity fraud related to an attempted mandate fraud that had been successfully intercepted. In relation to Covid fraud, the Fraud Manager advised that the Covid fraud cases were complex and investigations were now concluding. He explained the difficulties to locate individuals and the need to work with other authorities to help trace perpetrators as key issues. The Corporate Director of Resources added that the County Council were financially protected and that any fraud that could not be recovered would be a cost for Central Government.

Councillor T Smith welcomed the Fraud Hub pilot and asked if there were any plans to extend the project further. The Fraud Manager advised that the project was overseen by the Cabinet Office Digital Economy Act Review Board that provided data sharing powers to control debt and combat fraud against the public sector. The project was in the pilot phase until October 2023 and would then be reviewed. He added that he was involved with various forums with Northumberland, Sunderland, North Tyneside and South Tyneside who were awaiting the outcome from the pilot review.

Resolved:

That the contents of the report be noted.

7 Compliance with CIPFA Financial Management Code

The Committee received a report from the Corporate Director of Resources which provided an update against the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), which was designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability (for copy see file of minutes).

Resolved:

That the report be noted.

8 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023

The Committee considered a report from the Corporate Director of Resources 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 C Robinson referred to the technical change in relation to the decrease in the estimated future pension liability and asked if there was less liability for future claims. The Corporate Director of Resources advised that liabilities had reduced slightly due to the reduction in average life expectancy and that there had been a significant increase in the overall value of assets, however the value fluctuates and suggested that the net assets, with and without the pension fund figures, be shown separately in future. It was noted that the Council's funding requirement would be less because the value of assets had increased – largely on the back of the revised investment strategy agreed by the Pensions Committee.

Resolved:

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

9 Draft Annual Governance Statement 2022/23

The Committee considered a report of the Corporate Director of Resources which sought approval of the draft Annual Governance Statement (AGS) for 2022/23 (for copy see file of minutes).

Responding to concerns from Councillor T Smith regarding the risk of fires in empty buildings, the Corporate Director of Resources confirmed that the Council had an empty property strategy to deal with empty and surplus properties and risk assessments were part of that strategy. All incidents were recorded and included in the Health and Safety updates reported to Committee. He added that he would provide feedback to the Corporate Health and Safety Manager and Head of Corporate Property and Land regarding the level of incidence and mitigation of potential issues.

Resolved:

That the draft Annual Governance Statement be approved.

10 Draft Statement of Accounts for the year ended 31 March 2023

The Committee considered a report of the Corporate Director of Resources which presented the draft Statement of Accounts for the year ended 31 March 2023 (for copy see file of minutes).

The Chair congratulated the Finance Manager and her team on behalf of the Audit Committee for their hard work in preparing the accounts and meeting the statutory reporting deadlines. It was hoped that the external audit process

would run as smooth for the accounts to be fully signed off by 30 September 2023 in line with previous years.

The Corporate Director of Resources added that the team had worked long hours and worked very hard to prepare the accounts within the statutory deadlines, which was an enormous achievement. He referred to a recent article in the press stating that last year only 30% of authorities in the Country had their accounts signed off by the deadline. Durham was one of those authorities. It was understood that only 25% of the authorities in the North East region had prepared and published their draft 2022/23 accounts by 31 May 2023.

Members commented that the narrative and glossary of terms used in the accounts were helpful and aided a better understanding.

Responding to a query regarding any liabilities in relation to contracts with a construction company currently in administration, the Corporate Director of Resources advised that a contingent liability was included in the statement of accounts, however it was not referenced in the narrative statement as it was not considered a material financial liability for the Council as this was largely a matter for the developer and the contractor. Fortunately, the building was largely completed at the time of the administration event, which had limited the issues.

Resolved:

That the Draft Statement of Accounts for the County Council for the financial year ended 31 March 2023 be noted.

11 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 from the Council's external auditor, regarding compliance with International Auditing Standards (for copy see file of minutes).

Resolved:

- (i) That the response to the External Auditor set out at Appendix 3 of the report be agreed;
- (ii) That the Chair of the Audit Committee be authorised to formally respond on behalf of the Committee.

12 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.

13 Protecting the Public Purse - Annual Report 2022/23 - Report of the Chief Internal Auditor and Corporate Fraud Manager

The Committee received a report of the Corporate Director of Resources which presented the Protecting the Public Purse Annual Report for 2022/23 (for copy see file of minutes).

The Fraud Manager referred Members to the summary cases of potential internal corporate fraud reported and the ongoing investigations.

Resolved:

That the report be noted.