

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Friday 28 February 2014 at 11.00 am**

### **Present:**

**Councillor E Bell (Chairman)**

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

Councillors L Armstrong, C Carr, S Forster, J Hillary, O Temple, T Smith and W Stelling

### **Co-opted Members:**

Mr T Hoban and Ms K Larkin-Bramley

#### **1 Apologies for absence**

An apology for absence was received from Councillor J Rowlandson.

#### **2 Minutes of the meeting held on 28 November 2013**

The minutes of the meeting held on 28 November 2013 were agreed and signed by the Chairman as a correct record.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes) with dates set when these would be reported back to Committee. The Plan would be updated accordingly.

#### **3 Declarations of interest, if any**

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

#### **4 Oracle E-Business Suite Update, Briefing on Financial and Contract Procedure Rules**

The Committee received a presentation from the Head of Corporate Finance that gave an update on the Oracle E-Business Suite and a briefing on the Financial Procedure Rules and Contract Procedure Rules (for copy see file of Minutes).

The following points were highlighted:-

Oracle E-Business Suite:-

- Background

- Stabilisation Phase
- Development Phase
- Upgrade Phase
- The Future

Mr Hoban asked if there was a back up system and Ms Larkin-Bramley asked if so had it been tested. The Head of Corporate Finance said that there was a reciprocal arrangement in place with Sunderland City Council on disaster recovery and it had been tested.

Councillor Car referred to the handheld devices for workmen stating that it was a good idea but pointed out that there were risks involved. The Head of Corporate Finance explained that a similar system was used for Durham City Homes and Internal Audit were involved from the beginning of the process to help identify risks. He added that controls were built in and the process worked well elsewhere.

On answering a question from Councillor Hillary about the outstanding risk of authorised signatories, the Head of Corporate Finance explained that the automation of financial systems meant that ordering could be made online through Oracle and therefore signatures were not required. The Transaction and Purchasing Team were informed through Oracle if someone was trying to order from a contractor not in the system so it was more efficient at dealing with anomalies.

The Chair informed members that the Audit Committee had visited the Oracle Centre at Tanfield a few years ago and it might be beneficial to re-visit to see first-hand the improvements made. Councillor Smith advised the Committee that Scrutiny were arranging a visit to Tanfield in April and it may be beneficial to join them.

Financial Procedure Rules:-

- What they are
- Why they are important
- Responsibilities
- Content
- General Roles and Responsibilities
- Financial Planning
- Risk Management and Control of Resources
- Financial System and Procedure

Councillor Temple referred to the change of bank and asked if the process would be under review by Scrutiny. The Corporate Director, Resources informed the Committee that the contract with the Co-operative Bank would run until March 2016 but in the meantime it would take 6 months to instruct a new bank. A lot of interest had been received and so the County Council needs to ensure that they receive the best deal. He advised that a view would be taken as to what involvement Audit and/or Scrutiny would have in the process. The Head of Corporate Finance added that a colleague from Internal Audit was on the project team so that they would have an input from the start of the process.

Members were advised that some services use the flexibility of cash limits and there is an incentive to underspend and carry across to the next financial year or future years. The Committee were also advised that schools do not have individual bank accounts and any interest earned is put back into school reserves.

Contract Procedure Rules:-

- What they are
- Basic Principles
- Officer Responsibilities
- Variations and Exceptions
- Approved Lists and Framework Agreements
- Competition Requirements
- Evaluation Criteria and Standards
- Contract Management/ Monitoring

Councillor Stelling asked about the process for offering local tenders. The Head of Corporate Finance explained that one provider could not be favoured over another but the authority do hold provider days that explains how to access the tender process and the contracts available. This ensures maximum opportunities are given to all interested parties.

The Head of Corporate Finance added that approved lists are no longer used and Framework Contracts are used instead which ensure the process is transparent.

Councillor Hillary asked if there was an ethical question for all tenders to ensure the minimum wage is paid. This information would be sought and reported back to Committee. Ms Larkin-Bramley asked that it be reported back as an outstanding action.

The Chairman thanked the Head of Corporate Finance for a very interesting and informative presentation.

## **5 Agreement of Accounting Policies for Application in the 2013/14 Financial Statements**

The Committee considered an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2013/14 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance highlighted the changes to be applied in preparing the 2012/13 Statement of Accounts. He further explained the new accounting policies in relation to Business Improvement District Scheme and Voluntary Aided/Voluntary Controlled/ Foundation Schools. The External Auditor advised that they would be working closely with officers to consistently apply the policies. She added that CIPFA were likely to agree with the accounting policies and are in the process of producing guidance for local authorities.

Following a question from Councillor Lawson the Assistant Finance Manager, Corporate Finance explained that a judgement would be made on each school with advice from legal and assets taken on board.

**Resolved:-**

That the recommendations contained within the report be agreed.

**6 Final Accounts Timetable for the year ended 31 March 2014**

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2013/14 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance highlighted key dates in the working document and informed the Committee that they had been circulated to all stakeholders. He advised that the accounts had been prepared on time for the last two years and it was hoped to keep on making improvements. The Committee acknowledged that the Service had made great strides last year and congratulated the Corporate Director and his team.

**Resolved:-**

That the report be noted.

**7 Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14**

The Committee considered a report of the Corporate Director of Resources that provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code), applied to the 2013/14 accounts (for copy see file of Minutes).

The Assistant Finance Manager, Corporate Finance informed the Committee that this was a technical document and was updated annually. He advised of the changes and highlighted the section relating to Valuation of Assets and in particular the impact of the balance sheet at 31 March.

Councillor Temple said that to reduce the risk the date should be changed for valuations so that the balance sheet was as up to date as possible. The Assistant Finance Manager, Corporate Finance said that the guidelines confirm that the accounting periods commence on 1 April so in effect what is entered onto the balance sheets at 31 March is as up to date as it can be.

Councillor Smith said that as a new member she was interested in finding out about the County Council's assets and Ms Larkin-Bramley suggested that it would be helpful to receive a presentation at a future meeting. The Asset Manager said that he could provide a copy of the Corporate Asset Management Plan.

The Corporate Director, Resources referred to the Business Rate Schemes and explained how difficult it was to forecast the implications. He recognised that at

time new developments could impact on old developments. For example a recent appeal on the impact of business in Bishop Auckland was successful for the business but was applied to all businesses in the area, a situation out of the County Council's control.

**Resolved:-**

That the report be noted.

**8 External Audit Progress Report**

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).

The External Auditor referred to the Future of Local Audit and Protecting the Public Purse, both issues of which would be discussed with Internal Audit to ascertain where Durham sits and a report would come back to a future meeting.

**Resolved:-**

That the report be noted.

**9 External Audit Annual Grant Claim Report**

The Committee received a report from the External Auditor regarding grant certification for 2012/13 (for copy see file of Minutes).

The External Auditor highlighted the four areas of grant certification work that has been completed:-

- Housing and Council Tax Benefit Subsidy
- Pooling of Housing Capital Receipts Return
- NNDR
- Teacher Pensions

Councillor Temple was concerned at the errors highlighted and the areas of work where no inspection took place. The Chief Internal Auditor and Corporate Fraud Manager said that there was a wide range of samples inspected every year and gave assurances that all areas were tested.

**Resolved:-**

That the report be noted.

**10 Strategic Risk Management Progress Report for the Quarter period October to December 2013**

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 October to December 2013 (for copy see file of Minutes).

Members were informed of new risks, those that had been removed and key risks.

Councillor Temple referred to a risk that had been removed, Contamination of Material from Kerbside, but was still happening. The Risk, Insurance and Governance Manager explained that a strategic risk was added when there was an element of uncertainty but now that the risk is certain and occurring it could be dealt with at an operational level.

**Resolved:**

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

**11 Internal Audit Charter**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager regarding the revised Internal Audit Charter (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that the Charter had last been reviewed on 2011 and explained that it sets out how Internal Audit carry out their business. The Committee were informed of the main changes.

**Resolved:**

That the Internal Audit Charter be approved.

**12 Internal Audit Progress Report Quarter Ended 31 December 2013**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period October to December 2013 ( for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that there were no responses to draft reports that remained overdue. He informed the Committee that a CIPFA benchmarking exercise indicated that performance of actions due to be implemented showed an average of 70-80%. Durham was achieving way in excess of this target as 90% of actions due to be implemented had been. He concluded that at present 41% was being achieved of the 90% performance indicator target and there were no concerns to hit the full target by the end of the year.

**Resolved:**

1. The amendments made to the 2013/14 Annual Audit Plan be noted.
2. Work undertaken by Internal Audit during the quarter ended December 2013 be noted.
3. Progress made by service managers in responding to the work of Internal Audit be noted.

**13 Exclusion of the Public**

That under Section 100 A (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 paragraph 3 of Schedule 12A to the said Act.

#### **14 Internal Audit Progress Report Quarter Ended 31 December 2013**

The Committee considered Appendices 6 and 7 of the report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of audits issued in the quarter resulting in a limited assurance opinion and detailed the actions agreed by managers in response to internal audit recommendations that were overdue (for copy see file of Minutes).

**Resolved:**

That the report together with the recommendations included therein be approved.

#### **15 Overdue Audit Recommendations**

The Committee considered a verbal report of the Chief Internal Audit and Corporate Fraud Manager about overdue internal audit recommendations.

The Chief Internal Audit and Corporate Fraud Manager advised that he had spoken to all Corporate Directors and feedback was positive to achieve timescales set down by Internal Audit.

**Resolved:**

That the Chairman and Chief Internal Audit and Corporate Fraud Manager call senior managers to the Audit Committee to explain any overdue actions as and when required.

#### **16 Internal Audit Report - Asset Disposals**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the review of Asset Disposals ( for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that a moderate opinion had been given on the disposal process for land and buildings.

The Asset Manager gave assurances that the Service could deliver the 4 year disposal programme.

**Resolved:**

That the report together with the recommendations included therein be approved.