

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Monday 31 July 2017 at 10.00 am**

### **Present:**

**Councillor J Rowlandson (Chairman)**

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

Councillors C Carr, M Davinson and J Shuttleworth

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

Mr D Beavis and Mr C Robinson

### **1 Apologies for absence**

Apologies for absence were received from Councillors E Bell, J Carr, J Robinson, S Robinson, O Temple and Mr D Beavis

### **2 Minutes**

The minutes of the meeting held on 28 June 2017 were confirmed as a correct record and signed by the Chairman.

### **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 2016/2017 Final Outturn for the General Fund and Collection Fund**

The Committee considered a report of the Corporate Director Resources which provided details of the final outturn for the General Fund and Collection Fund 2016/17 (for copy see file of minutes).

Councillor Shuttleworth enquired why there was a £4m overspend in Children and Young People's Services and was informed that Looked After Children contributed to this as was a demand led service. The Corporate Director of Resources further explained that the increase in looked after children and then their placement

arrangements once in the system had increased costs. This was a huge pressure for the CYP budget but was also a regional and national problem.

**Resolved:**

That the report be noted.

**5 Treasury Management Outturn 2016/2017**

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 2016/17 (for copy see file of minutes).

The Finance Manager for Revenue, Pensions and Technical reported that total borrowing totalled £34.9m, with new borrowing at £20m. Investments had come in at £5.7m, over the original budget of £1.6m due to the dividend received for Newcastle Airport Shares.

Councillor Carr queried why nothing was shown about Durham County Cricket Club and the Finance Manager for Resources and Transformation and Partnerships explained that the deal to convert the loan was signed on 30 June and therefore would be shown in the extra disclosure notes. Therefore, at 31 March 2017 the deal had not been finalised.

**Resolved:**

That the report be noted.

**6 Strategic Risk Management - Progress Report for the quarter ended 30 June 2017**

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 the period April to June 2017 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were now 23 strategic risks and highlighted the key changes of new risks, increased risks, removed risks and reduced risks. One of the two new risks highlighted what would happen if the Council were breached in a cyber-attack and could we still deliver services.

Mr Robinson asked which services would be most affected should this occur. The Risk, Insurance and Governance Manager said that when this had occurred at Lincolnshire, Social Services had been affected in terms of call-outs, visits and equipment. Mr Robinson further asked if there were specific actions in place for the at risk areas and was informed that the action plan in place covered the whole of the Council, with a number of high priority actions in place.

New to the report was a section of emerging risks and the Committee were assured that this was now included.

Referring to the emerging risk of fire safety, Councillor Carr asked if any cladding had been removed from schools or if the Fire Service undertaken checks. The Risk, Insurance and Governance Manager assured members that the Department for Communities and Local Government had already undertaken these checks and a lot of work was ongoing. Members were also informed that Assets were leading on the investigation work for the County Council buildings. The Corporate Director of Resources further added that a group had been set up, led by the Head of Planning and Assets, and including the Occupational Health & Safety Manager. The group provided regular feedback and assurances that work was progressing to the Corporate Management Team.

**Resolved:**

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

## **7 Final Accounts 2016/17 - Update Report**

The Committee considered a report of the Interim Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2017 (for copy see file of Minutes).

The Finance Manager for Resources and Transformation and Partnerships advised Members that the External Auditors had reported 1 significant issue that had delayed their opinion. It had been very disappointing for all involved in preparing the accounts earlier this year as a dry run but he was confident that they would be ready to be signed off by the statutory deadline of 30 September 2017. He went on to inform members that the error had been based on the assets valuations and created enough doubt for Mazars and the Corporate Director of Resources to request further sampling work and testing. Work was underway with Assets and the Valuers to look at 20% of all assets and meetings were taking place on a weekly basis to identify any concerns.

Mr Robinson referred to the floor areas used for valuations and was concerned that this was a failing in the Assets Register and not just a one off incident.

The Finance Manager reported that this was simple human error. A stock condition survey and flow areas were being checked together with non-financial insurance and pupil premiums.

The Corporate Director of Resources had asked for a review on what had gone wrong and why and would report back to Committee with the findings.

Members were assured that the final accounts would be brought back by the end of September for approval.

**Resolved:**

- (i) That the issues arising from the External Audit, which has prevented the completion of the Statement of Accounts process for the year ended 31

March 2017 in line with the planned dry run early closure requirements this year, be noted.

- (ii) That the Statement of Accounts for the financial year ended 31 March 2017 would be finalised and presented to the meeting on 29 September 2017 for approval, be noted

## **8 Audit Completion Report 2016/2017 - Durham County Council**

The Committee considered the Audit Completion Report of the External Auditor relating to Durham County Council for the year ended 31 March 2017 (for copy see file of Minutes).

Mr M Kirkham, Mazars introduced the report and said that the work produced had been outstanding apart from one aspect. He went on to say that the dry run this year had been a learning experience and it was very disappointing for all involved that the accounts could not be signed off early but he assured Members that work was underway to provide the assurance by the statutory deadline of the end of September. He said that officers had been very responsive to any queries and he gave a lot of credit to them for working to a much shorter timetable.

Mr J Collins, Mazars reported that work on the accounts had been substantially completed and although direct confirmation had not been received for one loan, additional assurances had been sought. He went on to report that significant risks had highlighted errors in the limited sampling of the floor areas used in valuations of some of the assets. Due to this, the accounts could not be signed off and work was underway with the Assets and Finance teams to look at further sampling. Regular meetings would be held to identify any areas of concern.

Councillor Shuttleworth expressed concern that one of the valuations had been based on an old school site and asked how this could have happened. The Corporate Director of Resources assured the Members that a full review for Assets was underway and a report would come back to Committee. He was seeking assurances for the Committee and for himself as the S151 officer.

Referring to questions about the samples used in the valuations and the certainty of previous accounts, Mr Collins explained that they were working with the Assets team to look at further sampling from this and last years accounts. This year focused mainly on Children and Adults and last year the focus was on Regeneration. Mr Kirkham added that they were mindful of the knock on effect to previous years accounts and would look into this.

Councillor Carr said that he had previously expressed concerns about the valuations of assets and said that pressure needed to be put onto that team to deliver. The Corporate Director of Resources confirmed that the auditors had been very clear about what needed to be carried out and he assured Members that a fundamental review would be carried out.

Mr Robinson referred to the loan valuation and asked if any pressure was being placed onto the bank causing the delay. The Finance Manager for Resources and Transformation and Partnerships confirmed that he would continue to put pressure

on the bank to provide the assurance required and reported that this was a wider issue affecting more than Durham County Council. Mr Collins confirmed that alternative procedures had allowed them to get the assurances required although it had been very frustrating for all involved.

**Resolved:**

That the report be noted.

**9 Audit Completion Report 2016/2017 - 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 2017 (for copy see file of Minutes).

Mr M Kirkham, Mazars introduced the report and commented that excellent responses had been received from officers together with good quality of papers.

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 no significant risks had been highlighted.

She went on to highlight an internal control deficiency in relation to IT control whereby leavers were not always deactivated in a timely manner. She did assure the Committee that there had been no impact on the Pension Fund but that the risk was there.

**Resolved:**

1. That the adjustments to the financial statements be noted.
2. That the letter of representation be approved

The Chairman placed on record their thanks to officers from the Council and Mazars for producing outstanding work on the preparation of the accounts.